

Do Free Tax Preparation Sites Increase Welfare Recipients' Utilization of State Earned Income Credits?

This short subject summarizes the results of a study by Hirasuna and Stinson (2005) in *State Tax Notes*. In the study, they find that the availability of free tax preparation sites, particularly when they are concentrated in neighborhoods with high poverty rates, may contribute to increased receipt of Minnesota's earned income tax credit, the Working Family Credit.

Earned income tax credits and welfare recipients

Federal and state earned income tax credits supplement the earnings of low-income individuals, including families on welfare. The tax credits provide an incentive to work by lowering the amount of income taxes owed and, in some cases, by providing a refund check back to the parents. To be eligible, households must satisfy earnings and unearned income qualifying limits. In addition, households must file a federal return to claim the federal earned income tax credit and a Minnesota tax return to claim Minnesota's earned income tax credit, the Working Family Credit (WFC).

How free tax preparation sites might help

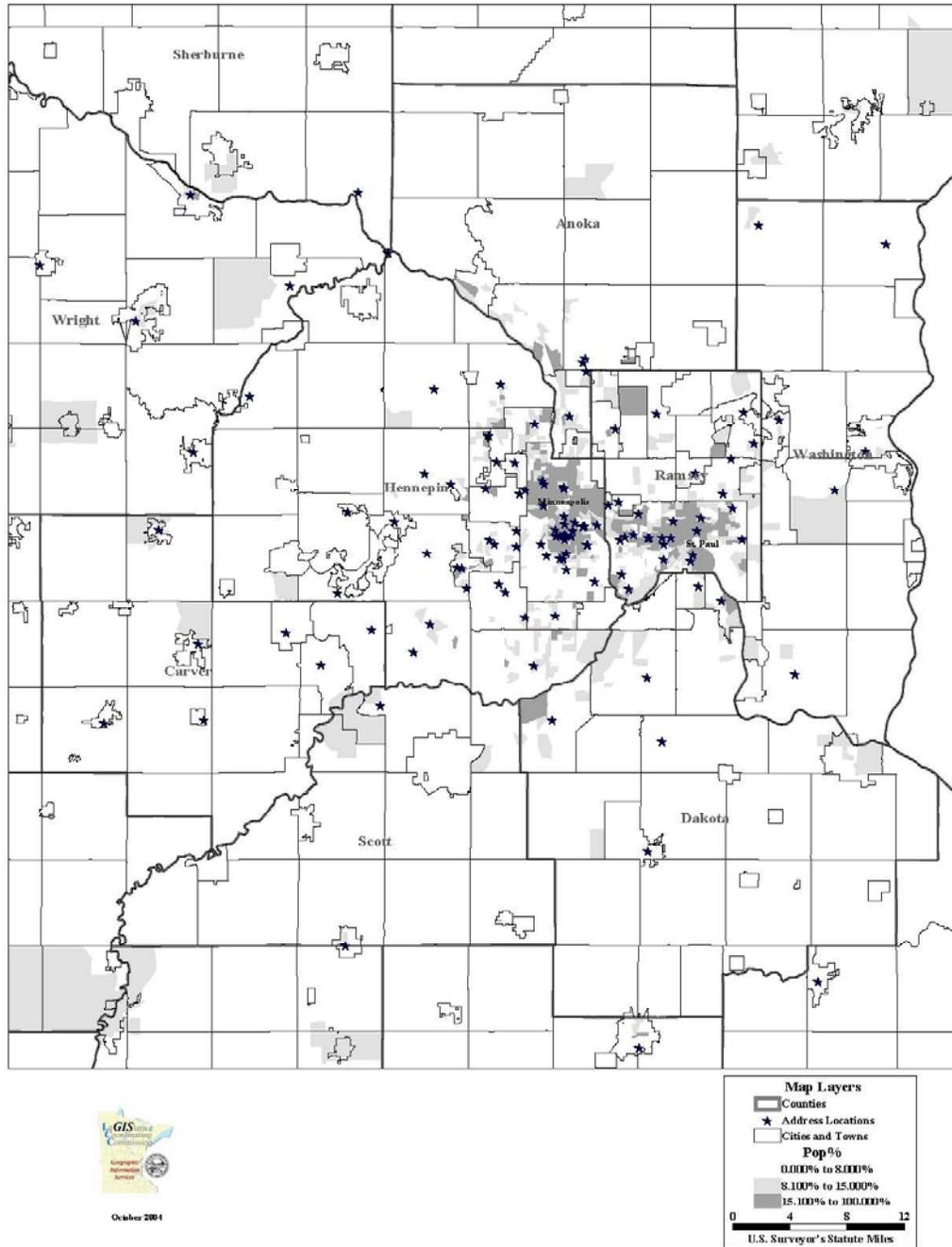
To receive the WFC and the federal earned income tax credit, individuals must file a tax return, a sometimes difficult and time-consuming task. Taxpayers can receive assistance in filling out tax forms by visiting a free tax preparation site. Free tax preparation sites prepare tax returns at no cost to taxpayers who bring in their W-2 and other necessary forms. These sites can help parents and individuals claim earned income and other tax credits. The 2005 Legislature appropriated \$250,000 for fiscal years 2006 and 2007 (\$125,000 for each year) and added the appropriation to the base budget for future years.

Effects of the availability of free tax preparation sites on utilization of state credits

The researchers' findings indicate that an increase in the number of sites and the number of sites per capita noticeably increases the probability of filing an income tax return and of receiving the credit where free tax preparation sites are most concentrated in Hennepin and Ramsey counties. Proximity to areas with high poverty rates showed a particularly high correlation with higher utilization rates. However, an increase in sites within suburban counties decreases the probability a household head files an income tax return and receives the state earned income credit. Here, there may be little correlation because of a wider geographic dispersion of welfare recipients. Also, there are relatively few free tax preparation sites in these areas, thereby increasing the distance an individual must travel to the site.

Location of free tax preparation sites

The following map lists the location of free tax preparation sites in the Minneapolis-St. Paul metropolitan area (in 1999). These sites are for AccountAbility Minnesota and AARP, which make up the majority of free tax preparation sites within the state. The map shows that most sites are located in neighborhoods with higher poverty rates.



Policy implications Policymakers can better determine whether these types of sites contribute in any significant degree to the financial well-being of low-income families.

For more information: Contact legislative analyst Donald Hirasuna at 651-296-8038. This short subject was written by research assistant Abigail Johnson and based on the article “Do State Tax Preparation Sites Increase Use of State Earned Income Credits?” by Donald Hirasuna and Thomas Stinson, *State Tax Notes*, volume 35, number 6 (Feb. 7, 2005).

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