

**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Tax Credit Opportunities for  
Low-Income Virginia Families**

**Staff Briefing  
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December 12, 2005**

# Presentation Outline

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- **Tax Credits Available to Low-Income Families**
- **Many Eligible Social Services Clients Appear Not to Claim Tax Credits in Virginia**
- **Tax Credits Could Help Low-Income Families Advance Closer to Self-Sufficiency**
- **Focus and Scope of Tax Credit Outreach Efforts Could Be Improved**

# Major Tax Credits Available to Low-Income Families in Virginia

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- **Federal Earned Income Tax Credit (EITC)**
  - Rewards low-income working families
  - Refunds up to \$4,300 per family
  
- **Federal Child Tax Credit**
  - Up to \$1,000 per child
  
- **Federal Child and Dependent Care Tax Credit**
  - Up to 35 percent of child or dependent care costs
  
- **Virginia Credit for Low-Income Individuals (CLI)**
  - Up to \$300 per individual in families with incomes below the federal poverty line

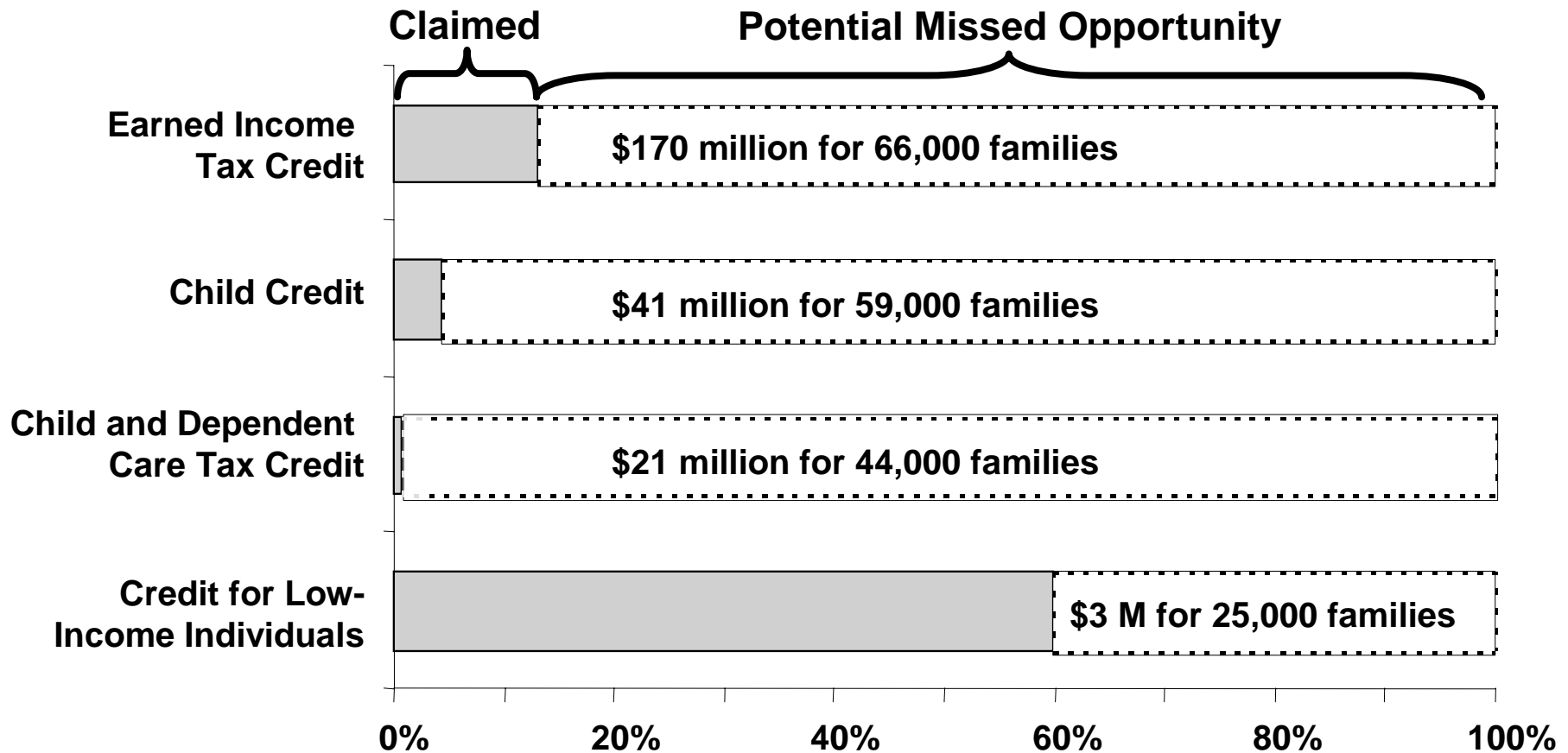
# Many Eligible Families Do Not Take Advantage of Tax Credits

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- Majority of social services families appear to be eligible for federal and State tax credits, but many do not claim them
  
- Of the families who appear to be eligible:
  - 13 percent claimed the Earned Income Tax Credit
  - 6 percent claimed the Child Tax Credit
  - 1 percent claimed the Child and Dependent Care Tax Credit
  - 60 percent claimed the Credit for Low-Income Individuals

# Potential Tax Credit Opportunity for Families Receiving DSS Benefits (2005 Estimate)



# Tax Credits Could Help Low-Income Families Advance Closer to Self-Sufficiency

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- **If eligible social services clients claimed tax credits:**
  - **Average financial resources would increase by \$2,300 per year, a 20 percent increase over their current income**
  - **Proportion of more financially independent families would increase by nearly ten percentage points, to 68 percent**
  - **Income of more families would exceed the federal poverty line (+ 7 percent) and the Self-Sufficiency Standard (+ 4 percent)**

# Impact of Tax Credits on Average Annual Resources of Social Services Clients

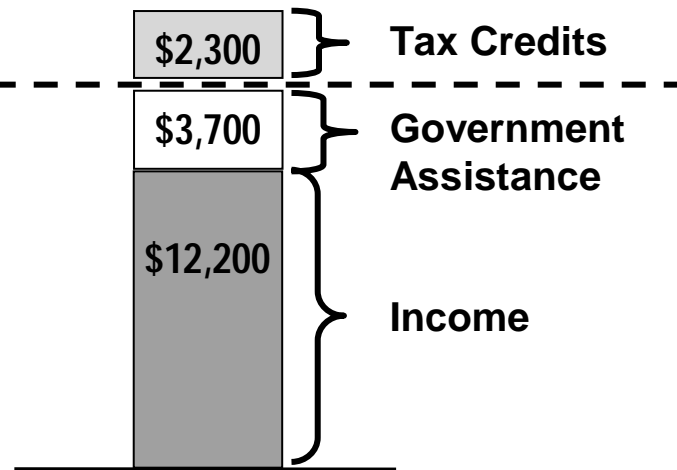
## All Families

*Self-Sufficiency Standard (Average)*

\$26,000 - - - - -

*Federal Poverty Line (Average)*

\$16,000 - - - - -



Sept 2004

# **Focus and Scope of Tax Credit Outreach Efforts Could Be Increased**

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- **Significant statewide outreach campaign was led by the Virginia social services system in 2004**
  
- **Some factors limited efficiency and effectiveness:**
  - **Lack of information to focus efforts on clients who had not previously claimed tax credits**
  - **No follow-ups with clients**
  - **Staff with limited knowledge about community outreach**
  - **Limited access to free or discounted tax preparation services**

# Two-Pronged Approach for Increasing Tax Credit Utilization

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- **Systematically identify and contact clients who have not claimed the EITC**
  - Identify clients based on Department of Taxation data
- **Link clients with tax preparation tools**

# Recommendations

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- **The Virginia General Assembly may wish to consider amending the *Code of Virginia* to require the Virginia Department of Taxation to obtain from taxpayers who file a Virginia individual income tax return the following information: (1) whether they claimed the federal Earned Income Tax Credit, and (2) the amount claimed.**
- **The Virginia General Assembly may wish to consider amending §58.1-3 of the *Code of Virginia* to expand the authority of the Tax Commissioner to share with the Virginia Department of Social Services information about its clients' filing status, number and type of dependents, and whether they have claimed the federal Earned Income Tax Credit.**

# **Two-Pronged Approach for Increasing Tax Credit Utilization (Continued)**

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- **Systematically identify and contact clients who have not claimed the EITC**
  
- **Link clients with tax preparation tools**
  - **Dedicate existing State DSS staff with appropriate skillset**
  - **Increase availability of free tax preparation services by initiating statewide effort to recruit volunteers**
  - **Forge partnerships with professional tax preparers in areas where free sites cannot readily be established**

# Recommendation

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- **The Secretary of Health and Human Resources and the Virginia Department of Social Services should continue to make Earned Income Tax Credit outreach an agency priority. The State Department of Social Services should allocate existing State staff as needed to make the necessary contacts with families who may be eligible for the federal tax credit and to recruit volunteers who can provide tax preparation support to those filers seeking to claim the credit. The Department of Social Services should develop and present a plan for conducting this outreach to the House Appropriations Committee and the Senate Finance Committee by September 1, 2006, and begin outreach efforts for the 2006 tax year.**