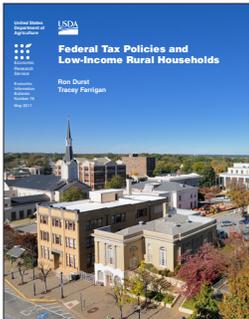


ERS *Report Summary*

Economic Research Service

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This is a summary
of an ERS report.

Find the full report at
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and rural America.

Federal Tax Policies and Low-Income Rural Households

Ron Durst and Tracey Farrigan

What Is the Issue?

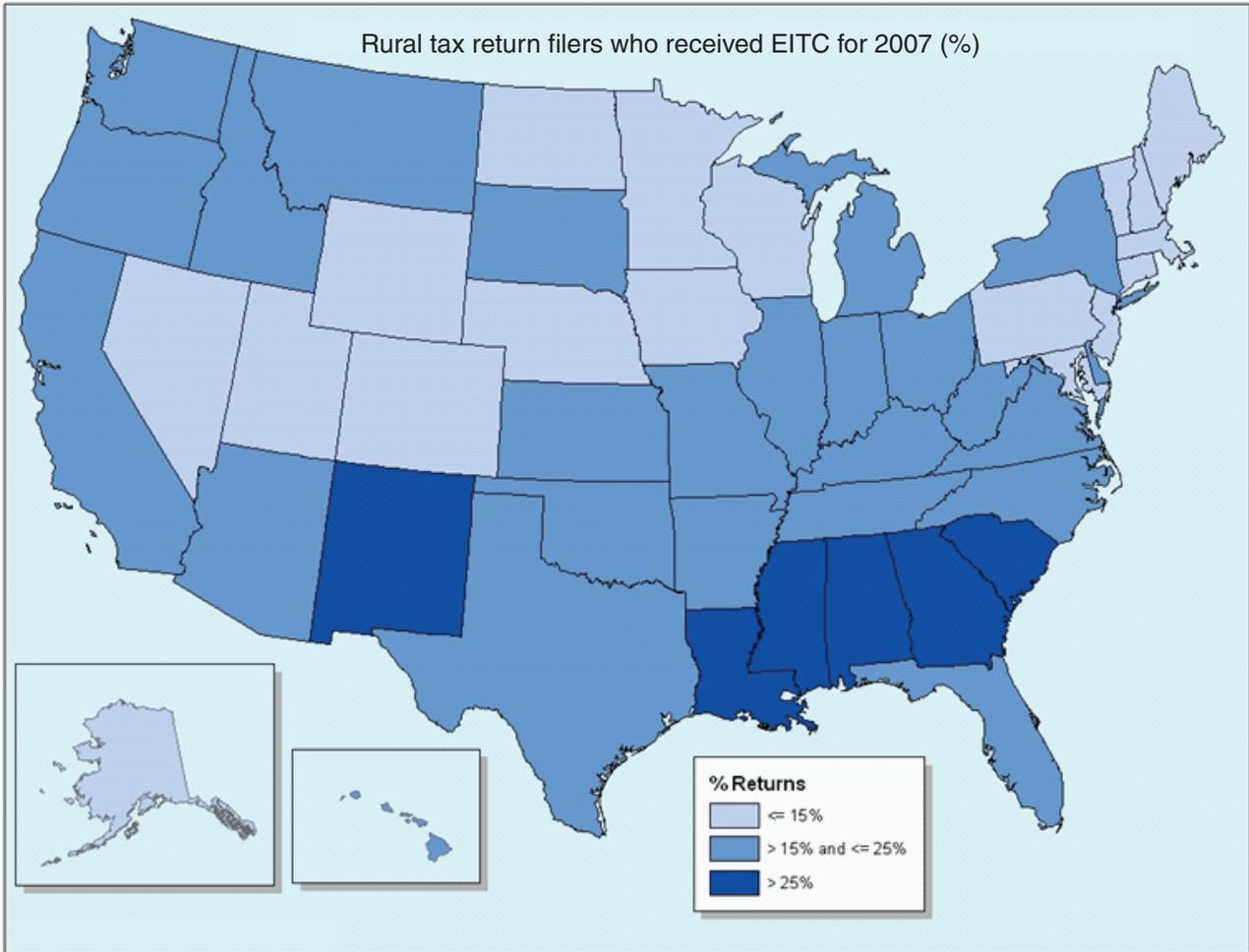
Tax credits provided to low- and moderate-income households have grown over the last several decades and now provide a significant boost to the after-tax incomes of taxpayers receiving these credits. This growth has primarily involved enactment of new income tax credits and the expansion of existing ones, especially refundable tax credits (which allow a rebate to the taxpayer of any balance after the credit is applied against the tax owed to the IRS). Two refundable tax credits in particular—the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC)—have reduced rural poverty and boosted income for low- and middle-income rural households. These and other tax policies, however, could be affected by tax reform or be allowed to expire, since some provisions are only temporary. This report examines the effects of current tax provisions targeting low- and moderate-income households in rural America—focusing on the EITC and the CTC—and compares them with traditional income support programs.

What Did the Study Find?

- Over the last two decades, income tax credits targeted to low-income households have markedly increased. In 1990, the EITC provided \$4.4 billion in payments to low-income households; in 2008, the total amount provided by the EITC and the CTC exceeded \$64.7 billion.
- In 2008, rural taxpayers reported an average adjusted gross income (AGI) of \$43,616 compared with \$60,841 for urban taxpayers. The poverty rate was also significantly higher in rural areas (15.1 percent) than in urban areas (12.9 percent).
- Overall, in 2008, one of every three rural taxpayers received benefits from either the EITC or the CTC. These two refundable tax credit programs provided a total of \$20.6 billion to rural taxpayers. Of this, \$13.7 billion (about two-thirds of the total benefit) exceeded individual taxpayer liabilities and was refunded. These two tax credits provided a 13-percent increase in income, on average, to those receiving one or both of the credits.
- A larger share of eligible households receive the EITC compared with other Federal low-income support program payments, and EITC and other tax-based benefits represent an increasing share of low-income support funding. However, compared with traditional income-support programs, a greater share of the EITC benefits go to low-income households that are above the poverty level.

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Earned Income Tax Credit (EITC) receipts, percent of filers



Source: Economic Research Service using data from Brookings Institution EITC series.

How Was the Study Conducted?

This report uses both published and special tabulation data obtained from the Internal Revenue Service (IRS) to evaluate the growth of the EITC, CTC, and other tax credits supporting a variety of social policy objectives. The effect of these policies on rural taxpayers' income and on rural poverty was determined by using a zip code approximation of the 2006 Rural-Urban Commuting Area Codes (to identify rural taxpayers) and matching the zip code data with IRS tax data.