

**The Relationship between the Earned Income Tax Credit and Wealth
Inequalities among Washington Latinos**

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Introduction

There is no question about it: America's economy is in danger. Newspaper articles, journals, and our own empty pockets remind us just how much our nation is suffering. Most everyone is feeling the ever-decreasing availability of wealth permeating the nation, and some have been feeling it for decades now. Legislators, presidents, and citizens are all discussing how to best heal the nation's economy, some even claiming that addressing the economic downturn is nothing short of a matter of national security (Delamaide 2008). As new measures are being recommended and old measures are being revised, one can only ask, "Who will they affect? How can the nation be healed, and at who's expense?"

Numerous economic indicators suggest that Latinos are America's most vulnerable residents (Chiswick & Hurst 2000, 176-192). Thus my research analyzes the economic affects of America's laws on its Latino population. In light of Washington's new state Earned Income Tax Credit, I am providing a critique of the affects of Washington's tax system on its Latino population. My research answers the questions: How does Washington's tax structure contribute to or ameliorate Latinos high poverty rate? What is the role of the federal Earned Income Tax Credit (EITC)¹ on the economic mobility of Washington Latinos and how available is the EITC for Latinos?

At stake in my research is the economic mobility of millions of Latinos living in Washington. The state EITC, called the Working Families' Credit, is also at stake, as my research can provide law-makers with an understanding of what economic issues need to be addressed to insure fairness for everyone. As Latinos are now the biggest and fastest-growing minority in Washington, it is essential that their economic needs be met. Washington's economy is dependent upon Latino workers (Chiswick & Hurst 2000, 175-192). The economy stands to gain from a financially stronger population of Latinos. Thus, the economic well-being of the state is at stake as the gap between the median income for whites and Latinos continually grows farther apart. Moreover, the tax structures I will be addressing affect everyone, not just Latinos, and many of my findings are relevant to low-income earners of any ethnicity.

Methods

My methods have included surveying 51 Latinos living in low-income neighborhoods, and conducting interviews of low-income earning Latinos. I have also attended meetings of Walla Walla's new Asset-Building Coalition, designed to address the economic needs of Walla Walla's poorest residents. I have spoke with tax fairness experts as well local tax preparers in Walla Walla. Finally, I have collected and analyzed data already available through the census, IRS, and previous studies.

Community Partner

My research has been in collaboration with my community partner, Ben Secord, Organizer with the Tax Fairness Coalition. He has provided me valuable knowledge of the various tax measures I have studied, as well as direction and organizational support. His

knowledge base of the tax structure as well as his work understanding and promoting tax fairness has been an extremely beneficial asset, of which I am very grateful.

Findings and Recommendations

Through analysis of survey results and interviews with various people, I have identified a problem: Latinos are largely unaware of the EITC, and thus disproportionately less likely to claim it. I have also found numerous qualification restrictions of the EITC that could disproportionately disqualify Latinos, though they are most likely to be eligible for it based solely on income level and number of dependents. This is especially detrimental as the regressivity of Washington's tax structure hurts Latinos more than non-Latinos.

I recommend that these policies be reassessed. The EITC can easily be made more accessible to Latinos by altering the restrictions that disproportionately disqualify Latinos for the EITC. Washington should fund the WFC, and it should be made more accessible to Latinos to help offset the effects of the regressive tax structure. Outreach about the EITC needs to specifically target Latinos. The IRS needs to provide Spanish speakers at their Volunteer Income Tax Assistance (VITA) sites where necessary. Finally, the effects of Washington's specific regressive taxes on Latinos needs to be further researched. **Refer to last section to update these**

Definitions

1. EITC
2. WFC
3. Wealth and Income
4. Latino and Hispanic
5. Progressive, Regressive, and Proportional taxes
6. Measuring Poverty

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a federal tax credit available to families and individuals who make below a certain income. It has been an extremely successful measure in lifting people out of poverty (Brookings Institution 2006). It gives work incentives by raising the amount returned according to how much income a person makes, as well as how many dependents they have.

Working Family's Credit

The Working Family's Credit (WFC) is a state version of the EITC. It has already been passed in Washington, but funding has yet to be approved.

Wealth and Income

Wealth is the measure of a person's total assets, including stock, houses, cars, and total capital owned. Income is only a measure of how much a person makes before taxes. Though wealth is a better indicator of a person's financial situation, I will focus on income throughout this paper because the EITC is largely awarded in proportion to income. It is also easier to measure income than wealth, so income is a more efficient method for me to use. However, when necessary and where statistics are available, I will focus on measuring and comparing wealth.

Latino and Hispanic

The history behind the terms "Latino" and "Hispanic" is long and rich, and the use of one term over the other can be of great importance to some. My paper primarily refers to people of Mexican ethnicity, thus I usually use the term "Latino". However, much of my research is based off of data already collected from the census and other researchers who have used the term "Hispanic." Too avoid confusion and inconsistency, I will refer to people of Mexican, South, or Central American ethnicity as Hispanic when I am analyzing already-present data. In a survey I ask people with what ethnicity they identify themselves¹. Because I wanted to be able to compare my survey with census data, I offered the term "Hispanic" instead of "Latino", thus when I am discussing my survey, I will use the term Hispanic. When there is only data available on nationality, I will use "Mexican Americans" because the majority of Latinos in Washington are Mexican Americans.

Progressive, Regressive, and Proportional Tax Structures

A progressive tax structure is one where people with higher incomes spend a larger portion of their income on taxes than people with lower incomes. A proportional tax structure is one in which everyone spends the same amount of their income on taxes, regardless of income. A regressive tax structure means people with the lowest incomes will spend the most amount of their income on taxes, while people with the highest incomes will spend the least amount of money.

Scholarly Literature Discussion

I am certainly not the first to attempt to unravel the relationship between the economy, Latinos, and the government. To understand the financial circumstances that influence Latinos living in America, I have conducted research on the effects of historical inequalities and injustices. A critique of varying concepts of tax fairness has led me to question the effects of taxes on Latinos' financial wellbeing. I read critiques of the effectiveness of the EITC as a method of combating poverty, and I grounded my research with a look at what measures have shaped Washington's own tax policies.

1. Historical Factors Affecting Latinos' Socioeconomic Status
2. Tax Fairness

¹ See Appendix A

3. Political Considerations behind Taxation Policies
4. Factors Affecting the Success of the EITC
5. Factors Affecting Latinos' Likelyhood of Being Politically Involved

Historical Factors Affecting Latinos' Socioeconomic Status

I have looked at the institutionalization of economic discrimination in the past and present to understand how a regressive tax structure is especially harmful, and possibly even discriminatory against Latinos.

Morales and Bonilla use Critical Race Theory to argue that the people in control pass policies specifically to keep minorities without power. They give several examples of ways Latinos are intentionally kept poor, and explain how that has been in the government's (and the elites ruling the government's) interest. They cite prior research proving that Latinos don't have equal distribution of resources, are discriminated against in the housing market, and are the most exposed ethnic group to the severest job hazards (Morales and Bonilla 1993, 227).

Scholars cite many reasons why, when a regressive tax structure favors those with high income, the system is usually most economically detrimental for racial minorities. In a study analyzing the effects of racial diversity on taxation policies, Hero compares the level of regressivity of tax structures of states with varying levels of diversity. He concludes that race is not a big indicator of how regressive a tax structure will be, but it is an indicator of the extent to which a tax structure will affect a population. He says, "Minorities are almost certainly disproportionately affected by whatever level of regressivity that occurs within state tax systems because minorities, especially blacks and Latinos, are on average financially less well off than the general population" (Hero 1998, 111-112).

Morales and Bonilla attribute the disenfranchisement of Latinos to a systematic inequality within the economic system. They trace trends in labor supply, wage control, and political will during the past four decades to prove that Latinos have become scapegoats that bear the brunt of economic turmoil in the U.S. They attribute Latinos' poor compensation in the U.S. labor market less to specific instances of racism on an individual level, and more to structural inequalities pertaining to the federal government's role in the regulation of the labor market. They make a compelling argument that, as wealth becomes more concentrated in the hands of a few, Latinos will continue to earn significantly smaller incomes, that they are the most vulnerable group in times of economic turmoil, and that the gap in wealth between them and their white peers will never close without addressing the factors that attribute to their systematic discrimination (Morales and Bonilla 1993, 17-27).

Baker and Boushey cite a decline in employer-provided health insurance, education inequalities, a rise in the incarceration of Latinos and Blacks, failure of wages to keep up with the growth of the economy, housing prices, and the rising costs of health care as major reasons why Latinos are falling so far behind as wealth becomes increasingly concentrated (Baker and Boushey 2008, 282-283). They look at recent trends to prove that Latinos are less likely to achieve economic equality than whites. For example, as employers of low-

income earners discontinuing paying the costs of health care at health care costs are rising, those making the least amount money must bear another financial burden that will further set them back. Thus many factors contribute to the economic disparities between whites and Latinos (Baker and Boushey 2008, 279-305).

Lui et. al. discuss the historical factors that have led to Latino disenfranchisement. They elaborate on other ethnicities, but I will focus only on Mexican Americans as that is overwhelmingly the primary Latino ethnicity in Washington. Latinos have faced enormous institutionalized discrimination through the Treaty of Guadalupe, which essentially disenfranchised Latinos by claiming their land and denying them citizenship in the United States, the Bracero Program and the ensuing "Operation Wetback," which created a program for Mexicans to come to work, then encouraged a political atmosphere where Latinos' existence in the United States was criminalized and negatively politicized to a point where U.S. Immigration and Naturalization Service (INS) officials stopped Mexican-looking individuals and deported those without papers. Social policies, such as the Welfare Reform Act of 1996 which denied immigrants access to several public assistance programs, and the banning of bilingual education classes in California, have all led to the creation of a migrant labor-based underclass of Mexican-Americans (Lui, et al 2006, 141-146). Latinos have historically been barred from obtaining quality education, and this legacy is still present in America today, as Latinos are significantly less likely to obtain higher educations than non-Latinos (Lui 2006, 156-157). By contrast, whites in America have had economic boosts that have been unavailable to Hispanics. They have benefited from measures such as free slave labor in pre-Civil War America, cheap land seized from Native Americans and Mexicans through various Homestead Acts, and Roosevelt's New Deal, which offered public work jobs primarily to whites as Hispanics were being laid off and fired at disproportionately high rates, extensive unionization to which people of color were denied, and a Social Security plan that did not extend to domestic and agricultural workers (and thus many Latinos) (Lui et al 2006, 236-44, 252). While European immigrants frequently faced discrimination when they came to the U.S., they were usually able to successfully integrate in at least three generations, and today it is hard to distinguish, for example, between third or fourth generation Irish Americans and Russian Americans based solely on occupation or income level. In contrast, Hispanics have had a visible presence in the United States since before the Mexican-American war, longer than most European Americans. Today they are the largest minority in the United States, and yet they are still dramatically behind whites in terms of income and assets.

Even now there are cultural differences that restrict Latinos from gaining wealth. For example, Latinos are more likely than whites to have to provide care and financial support for elderly parents, whereas whites are more likely to inherit wealth from their relatives (Lui, et al. 2006 249-266). Johnson continues this list of ways in which whites are privileged in economic, educational, and social realms. Among other privileges, whites are more likely to get loan applications approved for more money, will have access to higher quality goods for less money because of residential segregation, can assume that most governmental officials are of their race, and don't have to fight social stigmas to succeed (Johnson 2001, 27-30). He uses this list to argue that privilege is virtually always happening. He further explains that privilege means people feel entitled to the benefits of others because that is how they have

internalized the roles of themselves and the people of which they are taking advantage (Johnson 2001, 97-101).

While many Latinos and other people of color are being affected by the unequal distribution of governmental resources, a select few white people are continuing to amass large amounts of money by avoiding policies implemented precisely to keep them from gaining such an extreme advantages. Thompson argues that a large wealth gap between the rich and poor exists largely because wealthy CEOs and hedge-fund managers avoid paying taxes by exploiting loopholes in the laws. Their wealth is largely unregulated as unions are becoming less frequent, wages are stagnating for low-skilled workers, and CEO and hedge-fund wages continue to soar (Thompson 2008, 20-26)

Housing segregation is a huge source of economic inequality that has and continues to cripple Latinos' access to quality education, high-paying jobs, and cheaper goods. Sowell looks at how the government has institutionalized racism. He names availability of governmental services, such as garbage collection, schools, police services, and civil jobs, as potential methods of including or excluding racial groups because the resources allocated for such services are restricted by where a person lives. Someone living in a low-income neighborhood will not have as much access to these services as someone living in a more affluent neighborhood (Sowell 1975, 189-191). He continues by arguing that the housing market is largely limited for people of color. He claims they do not have the same opportunities to buy or rent quality housing and that they must pay higher prices and buy their houses on different terms than whites. Sowell points to a study where a Black person was followed with a camera and faced these difficulties that a white person of similar education, experience, and age, didn't have to face, to prove that people of color are more likely to be distrusted based solely on their race (Sowell 1975, 159-164).

Kleit elaborates on the effects of housing discrimination, arguing that most job opportunities are found through social networks. He uses previous surveys that have discerned there is usually little racial diversity within neighborhoods, so social groups usually consist of people of the same race. Racial and ethnic minorities, who are much less likely to have jobs that pay well, are disadvantaged when they depend on their neighbors for job opportunities (Kleit 2008, 241-246). Lui et al. point out that a house is one of the biggest and most important assets a person gains in his or her lifetime. Using statistics that show the worth of Latino housing, they claim that because Latinos are less likely to have quality housing, and because the housing in a primarily Latino neighborhoods gain less in value than houses in white neighborhoods, Latinos are losing out on a huge and important asset. When a Latino goes to retire and sell his or her house, he or she will have accumulated relatively little wealth, assuming that he or she was even able to purchase a house in the first place (Lui 2006, 169-170).

These inequalities have decidedly impacted how much wealth Latinos have today. As the economy worsens, Latinos are among the first and the hardest to be impacted. As wealth continues to be concentrated in the hands of a few white elites, Latinos continue to fall behind.

Tax Fairness

The authors who discuss institutionalized discrimination in some ways conflict with each other in that they rely on varying methods of economic and tax fairness. For example, questions of the value of a meritocracy, versus the benefits of a plutocracy arise as each author suggests how minorities in general and Latinos specifically are affected by various U.S. policies. I found a need for a usable, comprehensive method of judging economic and tax fairness.

Isbister enumerates several theories on economic justice. He analyzes the capitalist system, welfare, and various tax structures from a philosophical standpoint. He claims that a just economic system should include efficiency, equality, and freedom, and that some of these traits are not always perfectly compatible with each other. For example, in a state of perfect equality everyone would earn the same amount of money. But limiting how much a person makes may conflict with a person's freedom to earn money. Furthermore, it would conflict with the efficiency of the capitalist system in the U.S. that encourages hard work and innovation through wage control. Thus sometimes freedom and equality may work against each other, though he also claims that they can work together. Isbister suggests that capitalism does not offer perfect efficiency, equality, or freedom, and is thus at least somewhat unjust (Isbister 2001, 5-26).

Using Isbister's ideas of a fair economy, I have read varying accounts of what a proper tax structure would be. The purpose of the state's tax structure is to generate revenue for the state, which is then used for education, transportation, protection, social programs, recreation, and other expenses. When a state is facing budget deficits, it must decide to either generate more revenue from taxes or other methods, or to cut back on existing expenditures. Various authors provide accounts of what is a fair solution to the problem of a budget deficit.

Musgrave argues that the income tax is the most effective way of maintaining or obtaining a fair and equitable tax structure while still meeting the financial needs of the government because it taxes people based on how much they earn. Thus a person with a small income will pay less of his or her income in taxes (Musgrave 2002, 17). The income tax accounts for approximately one-third of most states' taxes. Some critics argue that the income tax is detrimental to growth of the economy, but these arguments do not hold up as states with a higher income tax actually experience greater economic growth (Institute for Taxation and Economic Policy 1999). However it has garnered wide public acceptance in most states due at least in part to its progressiveness. Because most people view tax fairness in terms of progressiveness, the state income tax has received more support than most other taxes and it is one of the hardest to repeal in states that already have it (Brunori 2002, 93-95).

Brunori claims that both major political parties accept the unfairness of the regressivity of the sales tax. To counter this regressivity, many states, including Washington, exempt items they deem necessary to survival, such as food, from the sales tax. However, because this exemption is made to everyone (the rich as well as the poor), it often means that the taxes on

other items are even higher, and some argue that this makes the tax structure even more regressive (Brunori 2001, 76-77). This means that while people with high incomes are able to save and accumulate more wealth, people earning low incomes are spending a bigger portion of it on taxes.

The property tax has also garnered a lot of support, though not without much contention in most states, including Washington. Using analyses of support for and against the tax, Youngman argues that its advantages are its longevity, “transparent and visible structure, unique suitability to independent local finance, a fixed base, and a contribution to an established system of property rights” (Youngman 2002, 223). Arguments against it stem from its non-uniformity, taxation of assets, and administration difficulties (Youngman 2002, 225). There is a separate debate surrounding the property tax’s role in funding local schools related to my discussion of housing segregation inequalities above. A person who is from a lower income neighborhood will go to a school funded with less money, so there are some impoverished school districts without adequate resources (Youngman 2002, 241).

Political Consideration behind Taxation Policies

“Progress occurs at a pace acceptable to those in power.”

- Limbert and Bullock

If changing taxation policies was simply a matter of identifying the most fair and just system, we would probably have a very different tax system. Unfortunately, the decision to implement or repeal taxes is strongly influenced by the political implications for the legislators involved. This means that for any changes in the tax system to occur, there must be an appropriate political climate to support it. Thus I have reviewed literature that analyzes what factors influence how a taxation or economic policy will be perceived by the public and by legislators.

David Brunori argues that, while a progressive tax structure is essential in maintaining fairness, the political climate of a state can offer deter it from implementing such a system. The common belief is that if taxes are raised progressively to what he believes would be a universal understanding of fairness, big corporations may be deterred from investing in a state, and move to a state with a lower income tax. Meanwhile, people with less money will have more incentive to move to the states with more progressive tax structures, so the state will lose revenue (Brunori 2002, 195-197). However, Brunori’s surveys and interviews indicate that primary motivations for moving are not purely financial. There are usually much bigger psychological factors, such as closeness to family and comfort with a way of life (Brunori 2002, 210).

Roberts provides a history of the income tax in Washington, looking at how the political climate has prevented the implementation of the income tax. Largely due to the business-dominated state senate, who would have been hit the hardest with a progressive income tax at times when it was suggested, the income tax has been fought down. In 1933,

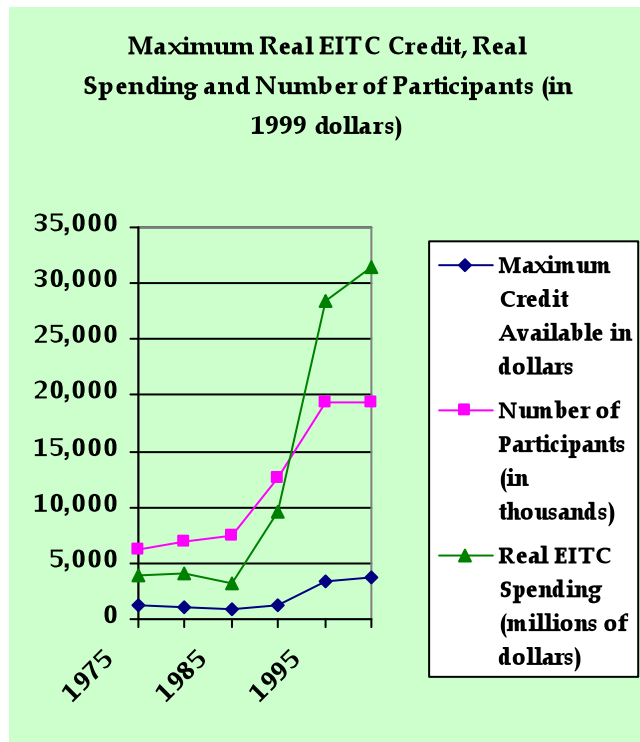
an income tax was supported, only to be declared unconstitutional before it was ever enacted, thus the state income tax has had little success in Washington (Roberts 2002, 5, 78-83).

As noted above, a lack of income tax necessitates a heavier sales tax to generate sufficient revenue for the state. The nature of the sales tax means that a low-income earner pays a larger percentage of his or her income in taxes than a high-income earner. This means that poor people in states with regressive tax structures will have a harder time escaping poverty, which necessitates governmental benefits such as welfare or tax cuts to offset the regressivity of the taxes.

However, the general public has, for a long time, considered welfare to be a tool for people who do not work. Limbert and Bullock analyze the popularity of welfare in the past, and which policies and methods were best able to garnish support to conclude that the public perceives of welfare recipients as lazy and predominantly racial minorities. By analyzing political trends and senate speeches, they claim the negative stereotype of welfare recipients plays are exactly the perceptions elite capitalists, who stand to lose money from stronger welfare programs, want people to adopt. They argue because the public accepts these perceptions, it is easier for the wealthy to maintain their power (Limbert and Bullock 259-263, 2005).

The Earned Income Tax Credit (EITC) was implemented in part due to negative stigmas surrounding welfare. Welfare recipients were and still are perceived as lazy and predominately racial minorities. The EITC was implemented to help relieve the pressure of taxes on low-income earners while avoiding the stigmas surrounding welfare. Howard suggests that the EITC was implemented as somewhat of a compromise between the two political parties. Democrats wanted everyone to have livable wages, but they also wanted to avoid the stigma of being too quick to hand out money to low-income earners. Likewise, Republicans wanted to pull money away from the Welfare program (a system they suggested encouraged people not to work), but were trying to avoid the appearance of being too quick to ignore the plights of the poor. Thus, the EITC was originally a political tool for both Republicans and the Democrats. Since then, it has seen dramatic expansion, almost always at least in part due to the political benefits it bestows upon either party (Howard 1997, 141-145, 150-160).

Figure 1



Source: Author's interpretation of 1998 Green Book, and general IRS Statistics of Income data on individuals available at http://www.irs.ustreas.gov/prod/tax_stats/soi/ind_gss.html. The data reflect claims (allowed through math error processing) and do not reflect subsequent IRS enforcement actions after math error processing.

The EITC was enacted in 1975, and has been significantly expanded in 1978, 1986, 1990, 1993, and 2001 to give a greater amount of money to more people. The EITC was frequently expanded because, as an anti-poverty measure that is widely seen to be effective measure in raising the amount of people in the workforce, it has been an effective compromise between Democrats and Republicans seeking to reduce the amount of poverty. Indeed most scholars agree that the EITC is one of the most effect methods of reducing poverty (Hotz & Scholtz 2002, 140-160).

The Effects of the EITC and the WFC

With the political considerations of public appearance to worry about, as well as the ever-present demands to fight poverty, enormous efforts have been expended in making the EITC an effective and socially acceptable system. But given these considerations, there are many debates about how effective the EITC has been. Many contend that it is a valuable system that helps many, increases participation in the work force, and helps to ease the transition out of poverty with its generous phase-out range. Still others focus on the EITC's effects on the social structure of America's poorest citizens by looking at the EITC's complex eligibility requirements. Proponents from most schools of thought agree that the EITC has wide-reaching and dramatic effects on its recipients.

Though some contend that the EITC encourages poor people to have children by providing financial incentives, Dorothy Brown refutes this by emphasizing that the EITC does not increase benefits past the second child² (Brown 2005, 766-773). By looking at the EITC benefits and comparing the amount of children average EITC claimants have with average Child Tax Credit (CTC) claimers, Brown concludes that the EITC offers much less of a financial incentive than the CTC and that the difference in the cost of raising one child versus two children is much more than the difference between what a family with one child versus two children will receive in tax benefits from the EITC.

In an attempt to explain the causes behind an increase of single mothers in the workforce, Meyer and Rosenbaum analyze various policies and changes in the welfare program between 1984 and 1996. By looking at IRS *Statistics of Income* and a report from the U.S. House Committee on Ways and Means 1996, they conclude that single parents receive the most EITC dollars. They analyzed statistics from the IRS to deduce that the amount single mothers were paying in taxes decreased as their participation in the workforce increased. If the decrease in paying taxes is attributed to the claiming of the EITC, suggesting that the EITC was a large (indeed the largest) contributor to the integration of single mothers in the workforce (Meyer and Rosenbaum 2001, 70-80)

Figure 1

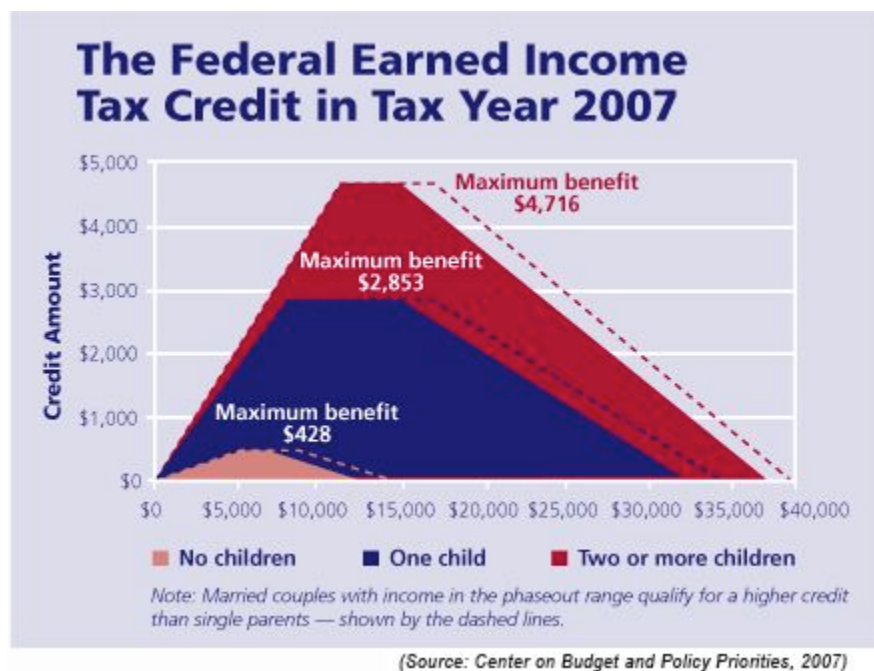


Figure 2 shows the amount of money an individual or a family must make in order to be eligible for the EITC.

Essentially a tax credit for people with low incomes and dependents, the EITC is structured such that people with a higher income are eligible to receive a larger tax credit. It has significantly helped people out of poverty, injecting resources into local economies (Brookings Institution 2006). In 2004, 12.7% of Washington residents claimed the EITC

² For full EITC requirements see page 25

(Brookings Institution, 2004). Because it is necessary to file a tax return in order to claim the EITC, and many low-income workers would otherwise be exempt from doing so, a huge amount of extremely low-income workers that could be eligible for it simply are not claiming it. Estimates suggest one-third of EITC eligible citizens do not know what the EITC is, and this number is dramatically higher within Latino communities, though scholars are unsure exactly what the number is (Smeeding, Phillips, and O'Conner 2001). In 1996, 20.7% of Latinos were eligible to claim the EITC, compared to 50.8%. The poverty rate for Latinos has gotten worse in recent years, yet only 15% of Latino low-income parents reported receiving the federal EITC in 2002 (Brookings Institution 2006). It is obvious that Latinos are significantly less likely to claim the EITC, even though they are more likely to be living below the poverty line, and the goal of the EITC is to lift people out of the poverty line. This could be for many reasons. Table 1 suggests there is a strong correlation between citizenship status, English language skills, race, and knowledge of the EITC; and who receives the EITC.

David T. Ellwood examines the effects of the EITC on the occurrence of marriages. He analyzes both the possible marriage benefits and the marriage penalties that are incurred by EITC recipients who marry by comparing the amount of EITC available for both singles and couples at any given income level. While there are definite marriage benefits, marked by an increase in EITC when two people marry, the benefits only occur when the two people have almost identical incomes. Most couples instead face a marriage penalty, or a decrease in EITC available when two people marry (Ellwood 2005, 123).

Furthermore, Dickert-Conlin suggests the marriage penalty probably has an effect on how many people get and stay married. Dickert-Conlin follows divorced EITC recipients and finds that divorces are more likely to occur within the range of EITC recipients under the marriage penalty, which implies that the marriage penalty does have an effect on whether or not people divorce (Dickert-Conlin 1999).

Smeeding, Phillips, and O'Conner provide a study of how people use the money from the EITC. They found through surveys and interviews of 60 families who received the EITC in 1999 that the most common anticipated use of the EITC is for economic- and social-mobility purposes, such as moving, saving, buying a car, or paying tuition or other school expenses. As these are all investments that generally encourage upwards economic mobility, the EITC can be seen as a mechanism for improving economic mobility (Smeeding 2005 310-314).

However, Phillips argues that the effectiveness of the EITC is largely hindered by a lack of awareness of it. In a comprehensive study analyzing the availability of the EITC, Phillips finds Hispanics are significantly less likely to know about the EITC than any other race. She summarizes data available from the Urban Institute calculations of the 1999 National Survey of America's Families (see Table 1) to conclude that fewer than one in three low-income Hispanic parents knows about the EITC, significantly less than non-Hispanics. She analyzes data from a similar survey, proving the very poor are also unlikely to know about the EITC, as are current Food Stamp and welfare participants. Thus, the EITC is currently benefiting mostly whites and non-Latinos (Phillips 2001, 423-24).

Table 1. Low-Income Parents (Income below 200 Percent of FPL) Who Heard of and Who Ever Received the EITC by Ethnicity, Citizenship, and Interview Language, 1999			
	Heard of the EITC (%)	Ever Received the EITC (of Parents Who have heard of the EITC) (%)	Ever Received the EITC (All Parents) (%)
Native Born U.S. Citizen	73.2%	69.4%	50.5%
Non-Hispanic	75.7%	69.3%	52.2%
Hispanic	53.2%	69.4%	36.5%
Not a U.S. Citizen	21.6	42.8	9.1
Non-Hispanic	47.2	63.3	29.7
Hispanic	16.5	31.3	5.1
Naturalized U.S. Citizen	37.9	61.3	22.9
Non-Hispanic	48.5	63.1	30.1
Hispanic	29.6	59.1	17.3
Spanish Interview	15.4%	26.1%	3.9%
Source: Urban Institute calculations of the 1999 National Survey of America's Families			

Brooks et al. analyze the Association of Community Organizations for Reform Now (ACORN)'s method of informing people of the EITC. ACORN noticed that a huge

percentage of people who qualify for the EITC do not claim it. They went door-to-door, informing people of the EITC, and established free Volunteer Income Tax Assistance (VITA) sites to encourage people to claim the EITC. By comparing statistics of how many people claimed the EITC in the neighborhood before and after their outreach efforts, they conclude that indeed, this method generated a substantial amount of new EITC claimers (Brooks et al. 2006, 755).

Factors Affecting Latinos' Likelihood of being Politically Involved

The factors affecting involvement of Latinos in the political arena is significant because a person who is more civically involved is probably more likely to know about the EITC or other governmental benefits. Thus I have researched how factors such as family, education, and age for example contribute to political involvement.

By analyzing registration status and turnout rate of Latinos in relation to demographic statistics such as age, marital status, and levels of income, Jackson was able to prove high education-holders, higher levels of income-earners, females, older citizens, nonmovers, homeowners, and those who are employed correlate with a higher voter turnout rate. He argues that families with these trends are more likely to be civically involved (Jackson 2003, 344-360). Furthermore, Stokes proves through the Latinos National Political Survey that there is a correlation between factors such as self-identifying as being discriminated against, and being politically or civically active. Latinos who engage in what she calls "group consciousness", which happens when members of a particular group recognize they are being discriminated against, are most likely to engage in political participation (Stokes 2003, 363-370).

Summary

A look at the historical inequalities surrounding the economic mobility of different racial and ethnic groups affirms the necessity of analyzing how policies today will specifically affect Latinos. Largely due to these historical inequalities, Latinos are financially lagging behind whites and other races. Thus there is an imperative that today's policies address Latinos' unique economic background to avoid repeating the mistakes of perpetuating financial inequality, and to provide assistance to Latinos who have been suffering from generational poverty largely due to these institutionalized inequalities. This begs the question, "How can we understand fairness, and how do we best achieve fairness for Latinos?" At its most basic level, a fair economic system would balance equality, freedom, and efficiency for everyone, which means that the wealth and income inequality between Latinos and other races would be addressed. This becomes especially important if, as suggested above, Latinos face inequality due to historical institutionalized inequalities rather than due to their own merits or lack thereof. Thus it is crucial that politicians and policy-makers address this inequality to provide a more fair economy, however, history shows us that policy-makers often make decisions at least in part to appease a wide scope of people. The EITC has continuously proven to be a popular and politically safe method of combating poverty, especially as welfare becomes increasingly unpopular. However, the benefits of the EITC are questionable as its ability to reduce poverty is contingent upon how aware people

are of it. Studies show that Latinos, who statistically stand to benefit from it the most, are the least likely to know about it. Equally important are the effects of the eligibility requirements of the EITC, which imply that factors such as marriage and location affect who receives the EITC.

It has become evident that the economic structure needs to be fairer to meet the needs of people living in poverty, especially Latinos, as they have been consistently denied economic success. I'm especially interested in how this is happening in Washington State, where Latinos, especially Mexican Americans, have been excluded from various measures of obtaining economic security. Thus, my research is seeking to answer the question: How do Latinos' interactions with the Washington's tax structure affect Latinos' economic position? What is the role of the EITC on economic mobility of Washington Latinos and how will the Working Families' Credit address Latinos' economic needs?

Methods

As prior research shows, the systematic inequalities between Latinos and other racial and ethnic groups can hardly be considered fair. Despite the EITC's reputation for effectively combating poverty, it cannot help all groups equally if Latinos are disproportionately unaware of it. Thus my research attempts to discern whether the low level of Latino awareness of the EITC holds true for Latinos in Washington state, and how other taxation policies in the state promote or inhibit economic equality. I have collected statewide and local data concerning poverty among Latinos. Interviews with tax fairness advocates and experts contextualize theories of equality by providing local perspective, while interviews with low-income Latinos shed light on how the EITC impacts them. These interviews, coupled with surveys administered to low-income Latinos illustrate the factors affecting whether or not local Latinos claim the EITC. To gain a perspective of how local Walla Walla residents perceive tax fairness, I partook in participant observation groups consisting of local community members interested in promoting asset building through increasing awareness of the EITC. A background in the history of Washington tax reform, which has of yet been unable to achieve tax fairness, has prompted me to analyze the Working Families' Credit (WFC). I contextualized these issues with an analysis of Washington's current tax policies with respect to its Latino population.

As the state with a relatively large Latinos population and the most regressive tax structure in the country, Washington is ideal for researching how a regressive tax structure affects Latinos' economic mobility (ITEP 2003). Walla Walla is where I have the most personal contacts with Latino organizations that were willing to work with me and the county has one of the highest percentages of Latinos in the south-eastern part of Washington. The area's vast agricultural industry tends to attract Latino farm workers, ideal for my study of economic mobility. It would have been beneficial to compare Walla Walla to other locations with either a larger percentage of Latinos or low-income whites to analyze significant differences; however, due to the scope of this project, I have focused my research primarily on Walla Walla, Washington.

1. Latino Poverty in Washington and in Walla Walla

2. Perceptions of Fairness in Washington
3. The Extent to Which Latinos' Benefit from the EITC
4. Other Governmental Benefits Claimed by Latinos

Latino Poverty in Washington and in Walla Walla:

The United States Census, the Internal Revenue System (IRS), and Washington's Department of Revenue have published various statistics measuring wealth both in Washington and in Walla Walla. This information is important because the poorest are the most affected by a regressive tax structure (Hero 1998, 111-112). Thus by determining Latinos' poverty rate, I can better evaluate the justness of their access to the EITC and other governmental benefits, as well as discern if they are paying an equitable amount of their income in taxes. Most of my information is from the 2000 census, though I have used more recent statistics when available.

Perceptions of Fairness in Washington

While prior research provides varying theories of tax fairness, little research has been done that contextualizes these theories with respect to Washington's specific tax structure, or to critique whether the tax structure is fair specifically for Latinos. Thus I used interviews with tax fairness advocates and experts, as well as information from Washington's Department of Revenue to provide such an analysis. Knowledge of the tax structure is essential to understand and analyze how fair it is. The Institute on Taxation & Economic Policy compiles data relating to taxes, and the United States Internal Revenue System (IRS) publishes and keeps records of official information relating to taxes. These organizations have provided me with a statistical background through which I have grounded my research. I have supplemented these facts with interviews with Marilyn Watkins, Director of the Economic Opportunity Institute, and Gilberto Mendoza, Economic Chair of the Hispanic/Latino Legislation Organization (HLLO), who have generously provided me with explanations for how Latinos may be adversely affected by Washington's regressive tax structure.

Finally, I conducted Participant Observation studies with Walla Walla's new Asset-Building Coalition meetings. The actions to which they give priority is telling of what they believe is fair and who they believe can best benefit from actions designed to promote asset-building.

The Extent to Which Latinos' Benefit from the EITC

The National Survey of Families (NSF) provides specific information relating to the EITC and race. I have used their survey results, and have supplemented these results with my own survey focused specifically on Walla Walla. I conducted 51 surveys targeting low-income Latinos to learn the extent to which Latinos benefit financially from programs aimed at helping people out of poverty. I specifically focused on EITC awareness, use of governmental tax-filing services, and the availability of benefits such as welfare, medical coupons, and free/reduced lunch for school-aged children.

A survey is the most effective way of measuring a large trend among a population. Surveys are also beneficial because they efficiently enable me to analyze a relationship between two or more sets of data.

Limitations:

My surveys provide a reliable understanding of Latinos' knowledge of the EITC, but not necessarily a good understanding of how many of them collect it. Most of my respondents claimed they did not know what the EITC was, and thus did not receive it. However, a large portion of Latinos in Walla Walla get their taxes filed for them through a tax preparation service or through friends, and thus do not know whether or not they collect the credit. Thus it is possible that a much larger portion of Latinos collect the EITC than what my surveys show.

There were a few instances in which Latinos filled out my survey with only a limited ability to read, and thus relied on help from surrounding family members or friends to understand my survey. While they may have faced little difficulty in answering questions about marital status and ethnicity, questions about their income and knowledge of the EITC may have been difficult to answer.

In a few instances, I went door-to-door to collect surveys. Those people visibly distrusted me, as my survey asks personal questions about income and taxation. They may have believed that I was representing the IRS or other governmental institutions, and were uncomfortable giving me information.

In situations where I administered my survey to large groups of congregating Latinos, a few of the respondents discussed the questions with each other, which may have influenced their answers.

Most of my survey respondents represented separate households. However, a portion of my surveys were completed at Garrison Night School's ESL classes, where many couples attended the classes, and I may have received two survey results per household within this sample group.

While I admittedly have numerous limitations, I maintain their reliability as a valuable source of information that, at a very basic level, answers the questions, *How aware are Latinos of the EITC?* Some of the value of the surveys is in their very limitations. For example, while my survey probably does not accurately reflect the percentage of Latinos in Walla Walla that claim the EITC, it does provide a good estimate of how likely Latinos are to know about the EITC, regardless of whether or not they collect it. Also, in conducting my door-to-door research, there was great value in learning how uncomfortable Latinos were in answering my questions. Furthermore, it was interesting to compare how responsive Latinos were to my survey in different circumstances; their varying willingness to answer my questions was telling of what factors affect their level of comfort in issues relating to tax, a fact I will elaborate on below.

To expand on the information gleaned from the survey results, I interviewed four low-income Latinos in Walla Walla. They provided me with specific details and stories that explained or illustrated various survey results. The interviews were the best method to learn about the personal effects of the tax structure on individuals and families and were able to help me answer more in depth, *What factors affect how aware Latinos are of the EITC and what other factors affect Latinos' economic mobility?*

I targeted farm workers with the help of Yolanda Esquivel, Director of the Migrant Head Start Program in College Place, WA. Two interviews were with Spanish-speaking parents of children participating in the Migrant Head Start Program. They were conducted in Spanish with a translator with whom they were already well-acquainted. I also interviewed two Latinos who work at the Migrant Head Start Program in College Place, Washington. I conducted these interviews in English, though the option to do them in Spanish with a translator was available. Yolanda Esquivel, director of the program, set up the interviews and picked people she knew and thought would be responsive to my questions.

I also conducted interviews with two tax preparers in Walla Walla. Frank Herrera works primarily with Latinos, and David Frasco works through a free tax preparation site through the IRS and the American Association of Retired Persons (AARP). Both were able to explain which factors affect whether or not Latinos claim the EITC, how much it affects them, and how aware Latinos generally are of the EITC. They know firsthand what difficulties people face in filing taxes, and thus could point me directly to certain taxes or tax credits that may affect Latinos differently than they affect non-Latinos.

Findings

1. Income, Poverty, and Latinos in Washington and Walla Walla
2. Tax Fairness in Washington
3. Challenges in Claiming the EITC
4. Factors Promoting Civil Participation

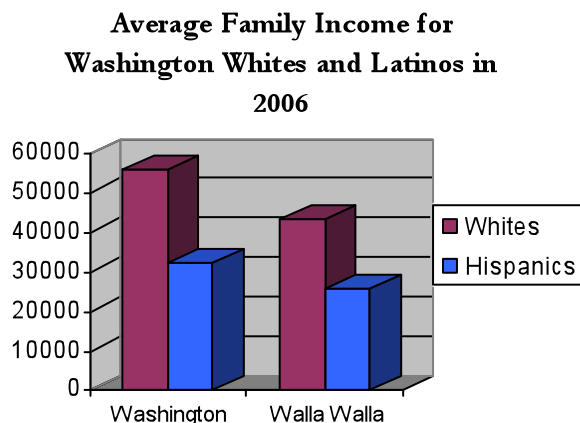
Income, Poverty, and Latinos in Washington and Walla Walla

By definition, those with low incomes are hurt the most by a regressive tax structure. In light of this, I have researched the socio-economic status of Latinos in Washington and Walla Walla. It is apparent that Latinos in Washington are in fact struggling to stay above poverty levels. With a minimum wage job earning \$8.07, a full-time worker would earn approximately \$15,748.43³ and be well below the poverty line for a family of three, which is \$17,170 by the HHS guidelines. According to the 2006 U.S. Census, the average Washington Hispanic family makes \$32,183 in yearly income, compared to \$45,776 for the total population of Washington, and \$55,856 for whites. 8.61% of white individuals live below the poverty line, compared to 24.22% of Hispanic individuals. According to the 2006

³ number calculated by author, assuming a 40 hour work-week, and a 1949 hour work-year

US Census, 9.1% of Washington residents were Hispanic, compared to 75.6% whites (US Census SF 2 and SF 4).

Figure 3



Source: Author's interpretation of US Census SF 2 and SF 4;
<http://quickfacts.census.gov/qfd/states/53/5375775.html>

Although it is not within the scope of this project to explain why the income gap falls along racial lines, there has been much prior research claiming the gap is largely due to historic institutionalized discrimination (Lui et al., 2006, 136-166).

Property taxes consist of about 30% of total local and state wide taxes, and are widely considered to be the most important tax for determining the quality of educational facilities, libraries, fire protection, and parks and recreation. As noted above, property taxes frequently fall on the shoulders of renters instead of landlords. Latinos are much more likely to be renters than whites, and in fact the majority of Latinos rent homes. 58.42% of Latino families rent homes, compared to 32.07% of whites. In Walla Walla, 57.47% of Latinos rent their homes, compared to 38.18% of white families. This tax is particularly harmful for because neighborhoods without large or expensive property will likely be without quality education (Youngman 2002, 241).

The Business and Organization tax is especially detrimental to Latinos because it hurts small business owners the hardest and Latinos are likely to be small business owners. Between 1997 and 2002, the amount of Hispanic-owned businesses grew by 30%, three times that of the national average (Bergman 2006).

Tax Fairness in Washington

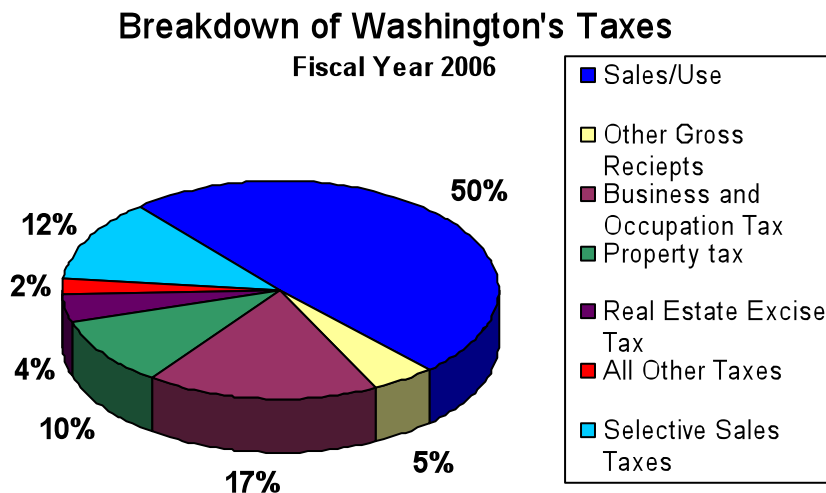
Studies show Washington has the most regressive tax structure in the nation (ITEP 2003). A Senate House Bill for the WFC explains the regressive tax structure:

“The legislature finds that many Washington families have income that is too low to afford the high cost of health care, child care, and work-related expenses. Lower-income families pay a higher percentage of their income in state and local taxes than do higher-income families. The

legislature finds that higher-income families are able to recover some of the sales and use taxes that they pay to support state and local government through the federal income tax deduction for sales and use taxes, but that lower-income people, who are not able to itemize, receive no benefit from this deduction” (Senate House Bill 3234, 2008).

This is largely because Washington relies heavily on the sales tax to generate revenue instead of the more progressive income tax. Below is a breakdown of how Washington generates revenue for the state’s general fund. According to a publication by the nonpartisan Institute on Taxation and Economic Policy, the wealthiest one percent of Washington taxpayers pay only 3.3% of their income in state and local taxes, while the poorest fifth of Washington non-elder taxpayers pay 17.6% of their income in state and local taxes (ITEP 2003).

Figure 4



Source: Author’s interpretation of Washington Department of Revenue’s *Summary of Washington State Taxes* (http://gis.dor.wa.gov/docs/reports/2000/Tax_Statistics_2000/Table_1.pdf)

Most states rely heavily on a progressive income tax to offset the regressivity of the sales tax. Through the income tax, a person earning \$200,000 will be taxed more heavily than a person earning \$15,000. Even states with a proportional income tax rate, such as Pennsylvania, still maintain at least a somewhat progressive nature with the income tax by exempting extremely low-income earners from paying the tax. In general, the state income tax is popular because it is fair in terms how progressive it is (Brunori 2002, 93-95). “The (income) tax will remain an important source of revenue because it is relatively easy to administer, has demonstrated consistent growth, and is widely accepted by the citizens,” writes David Brunori (2002, 99).

However, Washington is one of only five states without an income tax. To compensate for the loss of revenue, Washington relies heavily on a sales tax. In the fiscal year 2002, Washington collected \$9,949,859 in general sales and gross receipts taxes, more than the

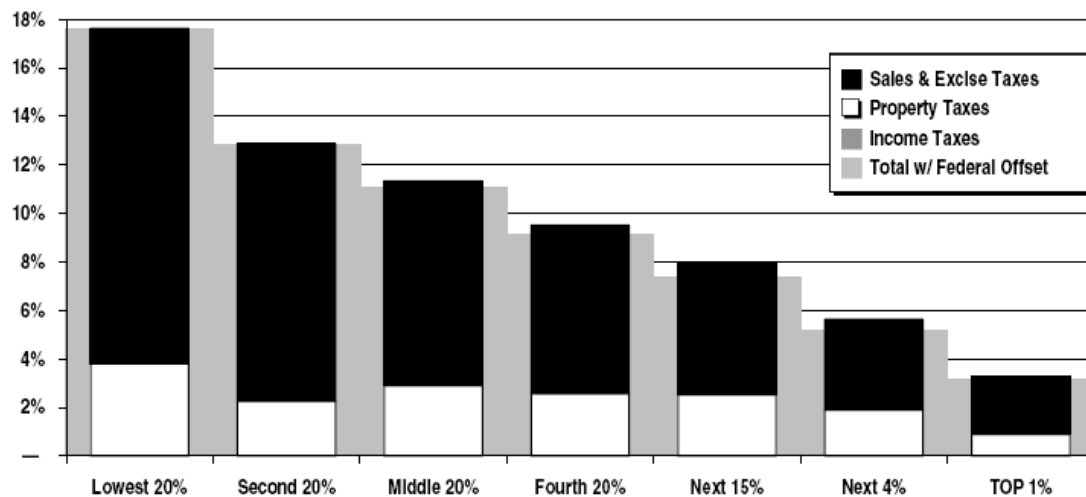
revenue generated by any other tax in the state (Census Bureau 20021-02). Residents pay anywhere from 7-9% of the cost of a purchase in sales, and 8.3% in Walla Walla (Washington 2008). The sales tax is considered highly regressive because it taxes every person, regardless of income, the same amount per item. This means that a person earning \$200,000 will pay the exact same tax rate as a person earning \$15,000, and the lowest income earners will pay a higher percentage of their income in taxes than the highest income earners.

Figure 5

Washington

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Source: ITEP 2003

Because the reliance on the sales tax is so high, any strains on the states' finances could lead to a raise in the already excessive sales tax. "Washington has increased its cigarette tax by \$1.09 per pack since 1989. The repeal of the 2.2 percent vehicle license represented a slightly progressive, yet expensive, tax cut. Since the state has no income tax and consumption taxes are the major source of funding for government services, these changes collectively made the nation's most regressive tax system even more burdensome for the lowest income Washingtonians" (Institute on Taxation & Economic Policy 2003).

In a phone interview, Dr. Marilyn Watkins, Director of the Economic Opportunity Institute⁴, explained that a measure of the regressivity of the tax structure should take many factors into

⁴ See Appendix B for full details

account, including income, property, and business and organization (B&O) taxes. She explained that these taxes hit lower-income residents hardest. Property taxes are frequently pushed on the renter instead of landlords, and B&O taxes are generally harder for smaller business owners to pay. “If a small business owner opens a coffee shop, he has to pay the sales tax on every item he purchases – the chairs, the coffee machine, everything. He’ll have to pay a high property tax even if he’s just renting the space, and finally, he’ll have to pay the B&O tax. A corporation like Walmart can afford these kinds of costs, but not the average guy just opening up shop,” she explained⁵.

Gilberto Mendoza, Treasurer and co-chair of the Hispanic/Latino Legislative Organizations (HLLO)’s Economic Development Committee said in a phone interview, “If [small business owners] have a tight month, taxes really sets them back. They don’t have a line of credit they can tap into to help with their cash flow situation... it’s pretty much all the taxes, but primarily, the higher taxes would be employment taxes, the overhead on employment, those really are a strong setback.”⁶ While the B&O tax applies to everyone who owns a business, small business owners must shoulder the burden of the taxes themselves, while large business owners can afford to push the expenses on the consumer by raising the price of their products. In addition, small business owners are subject to the regressive sales tax, and any items they purchase for their business are subject to the sales tax.

The property tax accounts for about 10% of the state’s general fund. Youngman contends that its opponents generally classify it as unfair because it taxes assets, it is nonuniform, and it is difficult to administer such that the poor are not shouldering the majority of these taxes (Youngman 2002, 225). Watkins claims the property tax is most likely to hit renters the hardest because when the state raises the property tax, instead of paying the difference, landlords will pay the same amount in taxes and simply raise the price for renters.⁷ As mentioned above, property taxes are an indicator of how much funding a school will get. Low-income neighborhoods generally send their children to impoverished schools, where students and educators have access to fewer resources.

Challenges in Claiming the EITC

At a very local level, the question of tax fairness is currently being addressed by Walla Walla’s new Asset-Building Coalition. In their attempt to promote asset-building, they have prioritized focusing on EITC-outreach as well as outreach on Walla Walla’s free tax preparation service. This is significant because it shows that citizens in Walla Walla believe that an effective way to promote asset-building is by spreading awareness of the EITC. They have acknowledged that the EITC is an important resource already available that too few people are taking advantage, a fact proved by Philips’ and Brook’s research

⁵ Marilyn Watkins, telephone interview by author, October 15, 2008.

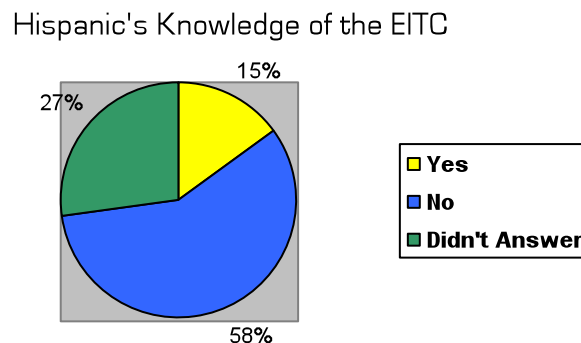
⁶ Gilberto Mendoza, telephone interview by author, November 10, 2008.

⁷ Watkins, 10/15/08

proving that knowledge of the EITC is limited, and that knowledge is a significant indicator of who will claim the EITC (Brooks 2006, 369; Philips 2001, 116).

In my surveys, designed to gauge awareness of the EITC, I have asked low-income Latinos if they know about the EITC. Of 51 survey respondents, 40 identify as Hispanic, 6 identify as white, 3 are Asian, and 2 prefer not to say. Of the Hispanics, 31 are married, and 8 are single and have never been married. 19 males and 21 females responded. The average family size among Hispanic respondents is 4, and the average person has 1.8 children. Interestingly, when I asked about knowledge of the EITC, most respondents claimed they did not know about it. Out of all of my Hispanic respondents, 12 claimed to know about the EITC and 19 said they didn't know what it was. However, if I remove a unique sample of respondents from Garrison Night School (GNS), only 3 know what it is and 16 do not. Based solely on number of dependents and income, 67.5% of Hispanics said they were eligible for the EITC. 25% said they were not, and 7.5% did not answer. On page x, I attempt to explain the disproportionate number of respondents who know about and claim the EITC attending GNS. The significance of this finding should not be overlooked. Almost none of my Hispanic respondents knew about the EITC, and fewer claimed it. This means that the EITC, whose primary purpose is to help people out of poverty, is currently having a very minimal impact on this population. Even people who are receiving may not be aware of it. After I explained the EITC to Amy Diaz, who said she both knows about the EITC and claims it, she stated, "I wasn't sure what it was. I was like oh, if you have a kid you get it, and I've got one. But that's about it – I didn't know what it was for or why we get it."⁸

Figure 6



Source: Author's representation of survey results (see Appendix A for full details)

Even including GNS respondents, most Hispanics do not know what the EITC is. While I have admittedly few white respondents, only one of the six white respondents claimed to not know what the EITC is. The white respondents were all taken from residents involved with Commitment to Community's activities in the Edith-Carrie and Jefferson neighborhoods. Of the six Hispanic respondents from the same two neighborhoods, four claimed not to know about the EITC, 1 knew about it, and 1 didn't answer. While I didn't

⁸ Amy Diaz, personal interview by author, November 18, 2008; see Appendix E for full details

have a large number of respondents, the answers showed that even within the same neighborhoods, Latinos are less likely to know about the EITC than whites, and even less likely to receive it.

This may be for many reasons. It is possible that Hispanics were simply less likely to understand the question (though the survey was offered in Spanish and English). It is also possible that Hispanics were less likely to trust me when I distributed the survey. Migrant Head Start Director Yolanda Esquivel and Gilberto Mendoza both warned me that Hispanics are more likely to get their taxes filed through a tax preparer, and thus will probably not know if they receive the EITC or not. However, I propose that this still is a significant finding because Latinos who do not know what the EITC is may be less inclined to file their taxes. Many people who are eligible for the EITC are also eligible not to pay taxes if they make a small income.

However, my data clearly suggests that Walla Walla's Hispanic population is largely unaware of the EITC, regardless of if they claim it. In fact, Hispanics were more likely than non-Hispanics to get their taxes prepared for them through services such as Fast Tax and private tax preparers. According to David Frasco, who prepares taxes through Walla Walla's free tax preparing site, most tax preparers use a computer system that makes it hard to avoid filling for the EITC, and it is to the benefit of tax preparers who charge money for their services to have their clients claim the EITC because tax preparers get paid per form filed.

Assuming a major reason a person wouldn't respond to a survey question is that they do not understand it, it is likely that most of the people who did not answer the question probably do not know about the EITC. Furthermore, this would be much more dramatic if the GNS respondents – who almost entirely make up the population that knows about the EITC were removed. I discuss this in more detail below.

Phillips' work also proves that Latinos in general are the least likely to know about the EITC. Married, low-income parents are less likely than non-married low-income parents to know about the EITC, and the higher the education level, the more likely a person is to know about the EITC (Phillips 2001). Latinos are statistically more likely to be married than non-Latinos, and more likely to have a lower education (Census 2006), and are therefore less likely to know about the EITC.

Frank Herrera, who runs a tax preparation service mostly aiding immigrants, said, "If you can educate them and make them aware that these benefits are there, then it just trickles down and their friends will know and everyone can benefit from it."⁹

However, a lack of knowledge of the EITC is not the only factor preventing Latinos from claiming it. Of the 15% of respondents who know of it, only 65% of those actually claim it. As mentioned above, only one Hispanic outside of GNS, and eight Hispanics including Garrison Night School respondents claim the EITC. This suggests that knowledge is not the only factor preventing Hispanics from claiming the EITC.

⁹ Frank Herrera, interview by author, Walla Walla, WA, October 20, 2008.

Another potential reason why Latinos who even know about the EITC and are apparently eligible for it based solely on income and number of dependents criteria, are less likely than their white neighbors to claim the EITC is that is riddled with complex laws and eligibility requirements that disproportionately disqualify Latinos. Below is from a guide from the IRS to assist people in learning if they are eligible for the EITC.

My own analysis of these requirements suggests the EITC disproportionately excludes Latinos through the age requirement, ITIN rule, citizenship requirement, rules for qualifying children, English advantage, marriage penalty, and cultural bias are all especially harmful for Latinos.

Table 2. Earned Income Credit in a Nutshell

First, you must meet all the rules in this column.		Second, you must meet all the rules in <i>one</i> of these columns, whichever applies.		Third, you must meet the rule in this column.
Chapter 1. Rules for Everyone		Chapter 2. Rules If You Have a Qualifying Child	Chapter 3. Rules If You Do Not Have a Qualifying Child	Chapter 4. Figuring and Claiming the EIC
n 1. Your adjusted gross income (AGI) must be less than: • \$37,783 (\$39,783 for married filing jointly) if you have more than one qualifying child, • \$33,241 (\$35,241 for married filing jointly) if you have one qualifying child, or • \$12,590 (\$14,590 for married filing jointly) if you do not have a qualifying child. (See page 5.)	n2. You must have a valid social security number. (See page 5.) n3. Your filing status cannot be "Married filing separately." (See page 6.)m n4. You must be a U.S. citizen or resident alien all year. (See page 6.) n5. You cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income). (See page 7.)m n6. Your investment income must be \$2,900 or less. (See page 7.)m n7. You must have earned income. (See page 9.)	n8. Your child must meet the relationship, age, and residency tests. (See page 12.)m n9. Your qualifying child cannot be used by more than one person to claim the EIC. (See page 15.)m n10. You cannot be a qualifying child of another person. (See page 19.)	n11. You must be at least age 25 but under age 65. (See page 20.) n12. You cannot be the dependent of another person. (See page 20.) n13. You cannot be a qualifying child of another person. (See page 21.) n14. You must have lived in the United States more than half of the year. (See page 21.)	n 15. Your earned income must be less than: • \$37,783 (\$39,783 for married filing jointly) if you have more than one qualifying child, • \$33,241 (\$35,241 for married filing jointly) if you have one qualifying child, or • \$12,590 (\$14,590 for married filing jointly) if you do not have a qualifying child. (See page 22.)

Source: IRS Publication 596: Earned Income Credit

Only residents over 25 are eligible to claim the EITC if they do not have qualifying children. Tax Preparer Dave Frasco¹⁰ explained that this rule is primarily to dissuade college students who don't have a large income but may not necessarily be disadvantaged from claiming the EITC. However, Latinos are much more likely than whites to married at a younger age and significantly less likely to be attending colleges universities (Census SF2 & 4). The majority of Latinos who immigrate to the United States to work are between the ages of 17 and 25 (Chiswick & Hurst 2000, 181-182). The median age for Hispanics was 23 in 2006, compared to 37 for whites, thus Latinos are likely to be disproportionately ineligible for the EITC solely based on age, and are much more likely to be in the work force supporting a family (even if not their own children) than non-Latinos (Census 2006).

A Social Security Number is required to be eligible for the EITC. This may seem obvious, except that a person can, and is expected to pay taxes with an Individual Tax Identification Number. According to Frank Herrera, who prepares taxes for Latinos and guides many through the naturalization process, most people paying taxes with an ITIN are undocumented immigrants and most undocumented workers earn significantly less than documented workers.¹¹ Thus these people are the most in need of the EITC, yet are simply unable to claim it.

It is a common argument that undocumented workers do not pay any taxes and simply take resources from the state. However, in Washington this is far from true. In a state where a regressive sales tax is the main source of revenue, undocumented workers are actually paying more of their incomes in taxes than most the richest Washington residents; and residents filing with an ITIN are not even eligible for the tax credit that are supposed to help them out of poverty.

Along with the Social Security Number requirement, there is a citizenship or legal resident requirement. Basically, a person who is not a legal resident in the United States is not eligible for claiming the EITC, even if he or she has a child who is a citizen. This obviously affects Latinos disproportionately than it affects whites, and it is especially harmful for Washington's economy because it is denying a huge portion of its workforce **give number** a significant tax credit that has been proven to help people out of poverty. Thus, by disallowing non-citizens (who still pay the excessive sales tax and all other state taxes) from claiming the EITC, Washington's economy will suffer **expand**.

As discussed in Brown's analysis, the CTC, which is available primarily to middle class citizens, offers a credit that goes up per child. The EITC offers a small credit for individuals without children, a substantially larger credit for couples or individuals with one child, and a slightly larger credit for families with two children. However, there the credit stops increasing, and a family with 2 children will receive the same credit as a family with 5 children as long as they make the same income. This is harmful to Latinos, who are more likely to have larger families. Latinos have a birthrate of 2.3, compared to 1.8 for white women.

¹⁰ David Frasco, interview by author, October 29, 2008.

¹¹ Herrera, 10/20/08

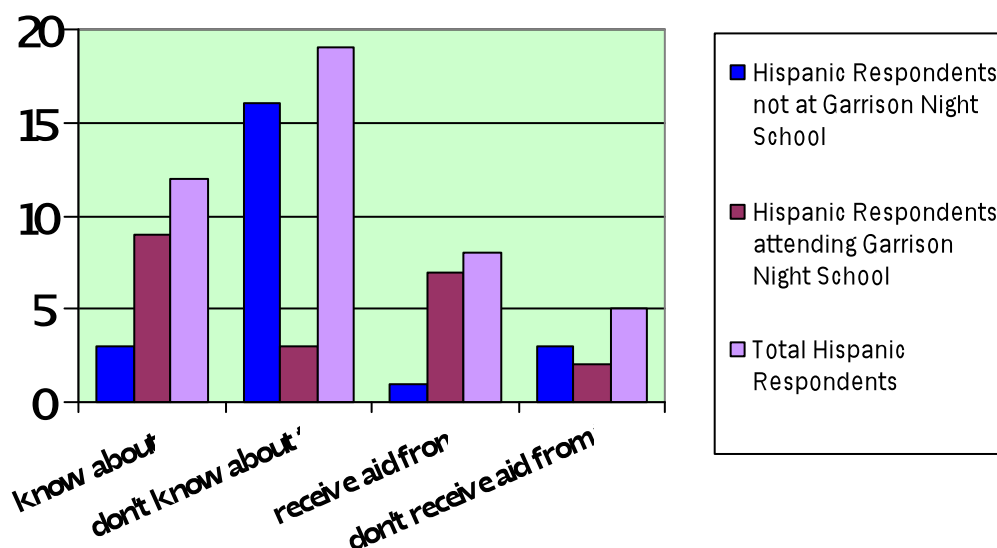
The IRS publishes information on the EITC in both English and Spanish, however when a person seems eligible for the EITC based on their tax returns but doesn't claim it, the IRS will send a letter encouraging them to apply. The letter is only sent out in English, though studies show that Latinos are much less likely to know about the EITC than whites.

The effects of the marriage penalty are widely debated by various scholars. The marriage penalty happens when two people would qualify for a larger credits if they were not married than if they were married. By marrying and combining two incomes, the couple is effectively losing money from the EITC (IRS Form 1040). The marriage penalty specifically disadvantages married couples and Latinos are more likely to be married than non Latinos (Census 2006).

The EITC is targeted towards income earners; work is rewarded by providing a higher credit to people who work more. However, many Hispanic families divide the domestic work so that the mother will stay at home while the father is at work. Because stay-at-home mothers do not receive an income, the IRS does not consider them to be workers, and their contribution to the economy and to the household is not counted in deciding the credit for the EITC. The EITC specifically benefits a culture that values both parents working.

Figure 7

Hispanic's Knowledge of EITC at Garrison Night School a in Walla Walla



To discover these factors, I started by analyzing GNS's answers separately, as a much bigger portion of these respondents who know about the EITC claim it.

Perhaps these responses can be understood by characterizing the students attending the classes.

Most had children in Walla Walla's public school system. Most learned about the program through their children because the children's parents were targeted. Latino students took home flyers to their parents, teachers told parents they knew, and Director Carlos Jaque even went door to door to recruit people for the classes.

Also, the EITC is a credit aimed at families, so it is possible that they are simply more likely to be eligible for the credit. However, according to the survey responses, the average family size of my respondents outside of Garrison Night School was 3.8, while Garrison Night School's respondents were 4.0. Given the small sample size (only 50 people were surveyed all together), that is not a significant difference to explain the dramatically different results.

Directors Jaque and Florian told me that because it was so early in the fall season when I administered my survey, and because harvesters are working late this year, most farm workers that usually attend classes on a yearly basis won't be able to attend until mid December. The only people present at the classes were people who are not farm laborers.

The results are probably exaggerated because most of my surveys outside of Garrison Night School targeted families, so I received only one survey response per family. However, I did not stipulate that GNS respondents only fill out one per family, thus it is possible that a lot of people signed up for night school classes with their spouses and I received two surveys per family. GNS respondents are also notable because they were all attending English classes in the evening. Most of my other respondents were at women who stayed at home during the afternoon or early evening. Thus, perhaps GNS respondents are simply more involved in their community, or are more motivated to learn English and thus move forward economically.

Literature by Stokes and Jackson suggest factors such as group consciousness, education level, family size, age and stability of family raise Latinos' level of civic participation (Jackson 2003, 347; Stokes 2003, 369). The group attending night school was older than a similar group attending ESL classes at Walla Walla Community College in the afternoon. It is likely that this group had more situated families – none of them were farm workers, and many of them had children attending Garrison Middle School or other schools in the city. Furthermore, most of them probably are either U.S. citizens or planning to stay in the U.S. for a long time, as evidenced by the fact they were making a time and fiscal commitment to learning English.

Working Family's Credit

Though the EITC has proven to be an effective measure to counteract the regressivity of the nation's tax structure, it has done little to help counteract Washington's residents affected by the state's extremely regressive tax system. Thus, legislators have proposed and passed a statewide EITC, titled the Working Families Credit (WFC).

The role of the WFC is specifically to counter the regressivity of Washington's tax structure. "This bill will help low-income and disabled people in urban, suburban, and rural areas. Labor, civic, and senior groups can unite under this bill to make our tax structure more fair. This is a targeted improvement to our tax structure that disproportionately affects low-income persons" (Senate Bill Report ESSB 6809, 2008). Because the current tax structure is especially detrimental for Latinos, my research is dedicated to deducing whether or not the WFC will be able to achieve its intended purpose. Washington State's non-partisan Budget & Policy Center prepared a policy brief that claims the credit will:

"Reduce sales and consumption taxes for low-wage workers by as much as 30 percent, mitigating the unfairness of Washington state's regressive tax structure, boost a minimum-wage worker's earnings by up to 31 percent when combined with the federal credit, supporting families who are working to move out of poverty, and will bring additional income to communities across the state, particularly rural areas and smaller towns" (Andrea Lee and Remy Trupin 2008).

However, because the WFC is only being added to benefits from the EITC, low-income workers who are not claiming the EITC will not claim the WFC. Latinos, who are least likely to claim the EITC, will be least likely to claim the WFC, though they are most likely to be eligible for it simply in terms of dependents and income.

All of the low-income Latinos that I interviewed stated that if they were to receive the WFC, spending it on their children would be a priority. Parents said they would spend it by paying groceries, bills, and new clothes for children. According to Phillips, this kind of usage of tax credits encourages upward economic mobility (Phillips 2001, 213).

Conclusion and Policy Recommendations

As America's economy continues to worsen, there is a danger that, as the nation's most vulnerable population, Latinos will fulfill their historic role as scapegoats and their economic situation will continue to deteriorate. But it is at times like these when Americans must step up and defend the American right to economic equality and justice. The EITC and the WFC are two great measures: their potential to strengthen the workforce by providing a benefit to America's working families, as well as to counter the regressivity of the state's tax structure are enormous, but neither of them can reach their full potential if they are inaccessible to Latinos, who are America's poorest population by all indicators.

Policy Recommendations:

1. Change the regressivity of Washington's tax structure.
 - a. I recommend that a state income tax be implemented and the sales tax be lowered to avoid these problems of how to fix a regressive tax structure all together. This is the best solution for helping the most amount of low-income earners in Washington.

- b. Fully fund the WFC to provide a much-needed tax credit to low-income workers. As my literary research shows, Latinos are facing reduced economic opportunity as employers are paying less of health care costs, housing prices are rising, wages are dropping, and taxes are higher than ever for low-income workers. The WFC is a step in the right direction. Though relatively small, the credit has great potential to counteract these effects.
2. Raise the level of awareness of the EITC among the Latinos community.
 - a. On a local level, residents interested in promoting tax fairness should concentrate on spreading awareness of the EITC among Latinos. A possible factor preventing Latinos from claiming the EITC is that they are uncomfortable putting their names on government documents, thus I propose conducting outreach through venues comfortable for Latinos – perhaps in their church or through their childrens’ schools.
 - b. Encourage Latinos to take an active part in promoting the WFC. This will work to increase their knowledge of the EITC, encourage their participation in the community, and help get the WFC funded.
 - c. Tax preparers should inform EITC recipients that they are receiving it. Many Latinos get their taxes prepared for them through a tax preparation service and thus may receive the EITC without knowing what it is. As Latinos rely heavily on word of mouth, as I learned in several surveys as well as my literary research, if people knew that they were receiving the EITC, they may spread awareness to neighbors and friends.
 - d. The IRS currently sends a letter to tax filers who appear to eligible for the EITC but didn’t file for it. However, they only send this letter in English. I propose that the letter be offered in Spanish, either to everyone, or to people who file their taxes using Spanish forms.
3. Make the EITC and the WFC more accessible for Latinos
 - a. Change the eligibility requirements of the WFC so that it can achieve its intended purpose of helping to counter Washington’s regressive tax structure. The WFC will be beneficial only to those who can claim it. Currently, the eligibility requirements of the WFC are identical to those of the EITC, and as my research shows, these requirements disproportionately disqualify Latinos. At the very least, I recommend that further research be done analyzing more precisely what the effects of these eligibility requirements are. This should be a priority of the state, as ameliorating the regressive tax structure can only be accomplished if Latinos are included.

- b. Similarly, the eligibility requirements of the EITC need to be altered so that it is more beneficial to Latinos on a federal level. Specifically, I think tax filers who are not American citizens, legal or otherwise, should be eligible for the credit. Either they should not be required or expected to pay taxes, or they should be invited to fully participate in the benefits of the taxes they pay.
- 4. Create a basis for engaging in dialogue about how tax policies affect Latinos.
 - a. In my literary and primary research, I have found that the knowledge base of tax fairness for Latinos is almost non-existent. As the population of Latinos in Washington is rapidly growing, Washington can no longer afford to ignore the economic inequalities Latinos are facing. Organizations already focusing on social justice, Latino's rights, and tax fairness should recognize what they have in common and combine their resources to engage in this dialogue. Furthermore, the state should fund further research to obtain sufficient data on who is collecting the EITC by racial composition.
 - b. Further study needs to be done in many areas. A more comprehensive study should be conducted on the effects of the eligibility requirements on Latinos. A study should be conducted on the receipt of welfare and other social benefits; my study suggests that Latinos in Walla Walla are not receiving benefits such as welfare and social security to the same degree that whites are, but I have no conclusion as to why that is, to what extent it is, how that can be changed, or even if it should be changed. Finally, the quality and accuracy of tax preparers needs to be analyzed.

My research has made clear the urgent need for knowledge. Latinos do not about the EITC, and nobody seems to know about how taxes affect Latinos. The first step in eradicating these inequalities must be to arm ourselves with knowledge, and to encourage knowledge in the populations experiencing inequalities. Many of my recommendations are not to implement new programs, but to share knowledge of programs already in place. There is a way out of poverty, it has been done before; but there is little hope for someone who simply does not know this.

Appendix A: Surveys

All surveys were offered in English and Spanish.

Survey was taken in the Edith-Carie neighborhood with Commitment to Community (C2C). I surveyed some people at the Commitment to Community event, and also went door-to-door

with Whitney, Teri Berila's (the Event Coordinator) daughter. Most people refused to do my survey. Most of my white respondents came from this survey pool.

I conducted my survey again in a different neighborhood with the after-school tutoring program through C2C. C2C Director Nancy Carter helped me by walking with me. The people of the neighborhood know C2C well and recognized Nancy Carter, thus were more likely to trust me than when I was walking with Teri Berila's daughter. Nancy Carter is also fluent in Spanish and was able to communicate with people that likely would not have spoke with me otherwise. People were much more responsive to me. At this place, the only person I talked to who was receiving the EITC was paying to get her taxes done for her.

About half of my Hispanic responses are from three ESL classes at the Community College. The groups I talked were not only receptive, but excited about my research. They asked lots of questions, requested information, and most of them answered all the questions in my survey.

I conducted my survey to a group of mostly Hispanics registering for ESL classes at Garrison Night School in Walla Walla. Respondents were fairly receptive, except many didn't want to take my survey after going through the long process of registering for night classes. Those that did do my survey seemed to trust me, and I had a Spanish speaker help me.

I conducted 17 surveys at Garrison Middle School's night school. Most of the people there have students in the public school system and learned about the night school through them. Interestingly, almost all of these survey respondents claimed to know about the EITC, compared to almost none of the Hispanics from other groups I surveyed. The numbers in bold in the "Hispanic" and the "Prefer not to say" indicate respondents from Garrison Night School's classes.

	Hispanic 40	White 6	Asian 3	Prefer Not to Say 2	Total 51
Number of Respondents	24, 16 GNS ¹² 40 total	6	3	2 (both from Garrison Night School)	51
Martial Status	13 , 18 – married 2 , 6 – single, never been married	1 – married, 1 – single, never been married, 2 – divorced, 2 – widow/widower	1 –married 1 – single, never been married 1 – divorced	2 – single, nbm	33 – married, 12 – single, nbm 3 – divorced 2 – widow/er
Gender	10 , 9 male 6 , 15 female	1 male 5 female	1 male 2 female	2 female	21 male 30 females
Number of dependent children	Average = 1.8 0 – 6, 3 = 9 1 – 5, 3 = 8 2 – 3, 7 = 10 3 – 7, 2 = 9 4 – 1 = 1 5 or more – 1, 1 = 2	0 – 1 1 - 3 2 - 1 3 - 1 4 - 0 5 or more - 0	1 – 1 2 – 1 3 – 1	0 – 1 1 – 1	0 – 11 1 – 13 2 – 12 3 – 11 4 – 2 5 or more – 2

¹² Numbers in bold in this column include GNS respondents

People in household H. Average = 3.79 Total H. Average = 4 GNS Average = 4.2 W. Ave = 2.66	1 – 1, 1 = 2 2 – 5 = 5 3 – 4, 2 = 6 4 – 4, 6 = 10 5 – 8, 4 = 12 6 – 2, 2 = 4	1 – 1 2 – 2 3 – 1 4 – 2	2 – 2 4 – 1	2 – 1 9 – 1	1 – 3 2 – 10 3 – 7 4 – 13 5 – 12 6 – 4 9 – 1
Knowledge of the EITC	Yes – 3, 9 = 12 No – 16, 3 = 19 Unanswered – 5, 4 = 9	Yes – 5 No – 1	Yes – 2 No – 1	Unanswered – 2	Yes – 19 (10) No – 21 (18) Unanswered – 11 (7)
Receive aid from the EITC (of the people who know what the EITC is)	Yes – 1 7 = 8 No – 3 2 = 5	Yes – 1 No – 4	Yes – 1 No – 1	Unanswered – 2	Yes – 10 (3) No – 10 (8)
How much aid do you receive from the EITC (of the people who receive aid)	\$1 - \$1000 – 4 \$1000 – \$2000 – 2, 1 \$2000 – 3,000 - 1	1\$-\$1,000 – 1 \$1,000 - \$2,000 -1	\$1000-\$2000 – 1	Unanswered – 2	1 – 1,000 – 6 (2) 1,000 – 2,000 – 5 (4) 2000 – 30000 – 1 (0)
Ever used IRS free tax filing services such as VITA or LITC?	Yes – 4, 2 = 6 No – 17, 12 = 29	Yes – 2 No – 4	No – 3	No – 2	Yes – 8 No – 38
What is your annual income before taxes?	\$1 - \$13,000 – 5, 2 = 7 \$13,000 - \$34,000 – 9, 11 = 20 \$34,001-40,000 – 3, 1 = 4	\$1-13,000 – 1 \$13,001 – 34,000 – 1	\$1 - \$13,000 – 1 \$13,000-\$34,000 – 2	Unanswered – 2	1 - 13,000 – 9 13,001 – 34,000 – 23 34,001 – 40,000 – 4

Based on the above criteria (on income and number of dependents), do you qualify to claim the EITC?	Yes – 16, 11 = 27 No – 7, 3 = 10 No answer - 3	Yes – 2 (except one guy gets SS, so no) No – 3	Yes – 1 No – 2	Unanswered – 2	Yes – 30 No – 15
What benefits do you receive?	None – 5, 4 = 10 Welfare – 1, 1 = 2 Social Security – 1 Food stamps – 5, 2 = 7 Free/reduced lunch – 9, 7 = 16 Medical coupons – 10, 5 = 15	Free/reduced lunch – 2 Social Security – 1 Welfare – 1 Food stamps – 1	Social Security – 1 Medical Coupons – 1 Free/reduced lunch – 1 None – 1	Unanswered – 2	None – 10 Free/red. lunch – 19 Social Security – 3 Welfare – 3 Food stamps – 8 Medical coupons – 17