

Wealth Building in the Borderlands: Linking Tax Refunds to Asset Building

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Abstract

The Earned Income Tax Credit (EITC) is the largest anti-poverty fiscal policy program for working, low-wealth families administered through the tax code. For the 2004 tax season, US-Mexico border county receipts of the EITC refund amounted to \$1.9 billion while the total refund amount for low-income Borderlands families was \$2.6 billion. For the nation, \$38 billion in EITC refunds were disbursed to eligible working families in tax year 2003. The National Survey of America's Families indicates that Latino families have the lowest EITC knowledge rate at 27.1% compared to non-Hispanic white families (73.5%) and Black families (68.0%), (Maag, Tax Notes, 2005). This implies that many qualifying Latino families do not participate in nor receive the EITC refund. Clearly, families and single workers that qualify for the EITC who do not participate in this fiscal policy are missing an opportunity to increase their financial well-being as well as building assets for the future.

My paper chronicles the *Frontera* Family Asset Building Coalition and provides empirical analysis of a new data source that documents the financial behaviors of Latino low-income and working poor families filing tax returns for the tax years 2004 (Tax Season 2005) and 2003 (Tax Season 2004). The surveys were administered along the Southwest Border counties in Texas, New Mexico, Arizona and California in both metropolitan and rural areas. Over 7,000 respondents were canvassed about their financial behaviors and needs. Additionally, the survey captures tax refund expenditures on micro-businesses and self-employment activities while providing information on the financial behaviors of the micro-business owners. Local, state and federal policies that contribute to family and community entrepreneurial activities linked to asset building initiatives in the Borderlands are discussed and future policy initiatives are recommended.

Keywords: Earned Income Tax Credit, transnational economic activity, cultural responsiveness, economic resiliency, micro-business and self-employment, asset building programs and community development

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I. Introduction

The socio-economic status of Latino¹ families residing in the Southwest Borderlands² is tied to a variety of factors: loss of landownership, low educational attainment and under-funded public schools limiting educational opportunities, high rates of predatory lending and the concentration of such lenders in working poor communities, mistrust of financial institutions leading to a high number of unbanked families, low job creation and growth, limited affordable housing and health services, and a high incidence of isolation. These factors increase the entrepreneurial activities of Borderlands families in both the formal and informal sectors. Southwest border Census city and county data describe a less-developed America on many crucial socio-economic indicators. Indeed, we find what Velez-Ibañez (2004) coins ‘regions of refuge’ along the Southwest Border. Yet, for low-income families living on the U.S.-Mexico Border, the day-to-day participation in a transnational and culturally dynamic America engenders hope and opportunity. Despite data uncovering a *paradoxical* America, one that displays troubling and persistent poverty alongside strong family economic resiliency strategies and values, there is a genuine vitality and strong sense of community in the Southwest Borderlands.

II. Demographic and Socio-Economic Profile of the Borderlands

When discussing family well-being, researchers generally employ family income as the most compelling measure of welfare and assume that most readers will imagine a family of four living on a family income earned by two adult workers. In Latino ethnic enclaves, family formation often entails multiple earners, multiple generations and a larger number of dependent children. This implies that family income is distributed

¹ Latino and Hispanic are used interchangeably throughout the article.

² In this paper, the term Southwest Borderlands describes the contiguous counties in the U.S. bordering Mexico. This includes 20 counties in Texas, 6 counties in New Mexico, 4 counties in Arizona and 2 counties in California.

among more family members (and family not residing in the households) than the typical American ‘nuclear family.’

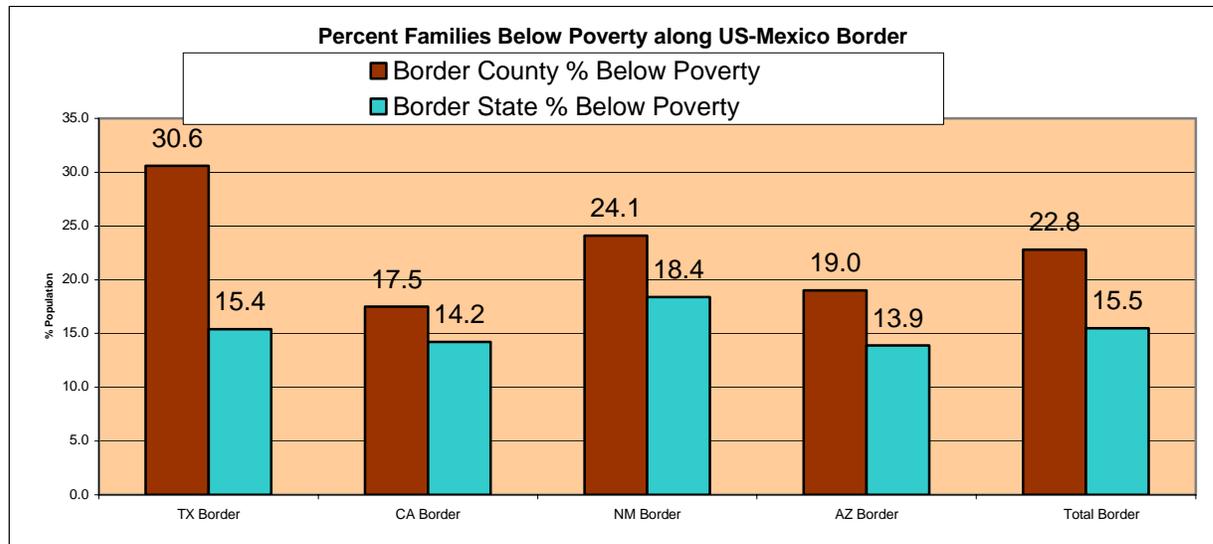
Table 1. Median Income, 2004 (current dollars)

<i>Family Type</i>	<i>Total Primary Families</i>	<i>Total Married Couple Family</i>	<i>Total Married Couple Under 65 years of age</i>	<i>Total Married Couple with two or more Related Children</i>
White, Non-Hispanic	\$60,9690	\$68,003	\$75,426	\$67,671
Hispanic	\$35,401	\$41,636	\$43,361	\$40,221

Source: U.S. Census Bureau, Current Population Survey, 2005 Annual Social and Economic Supplement, Department of Commerce (2004 Income)

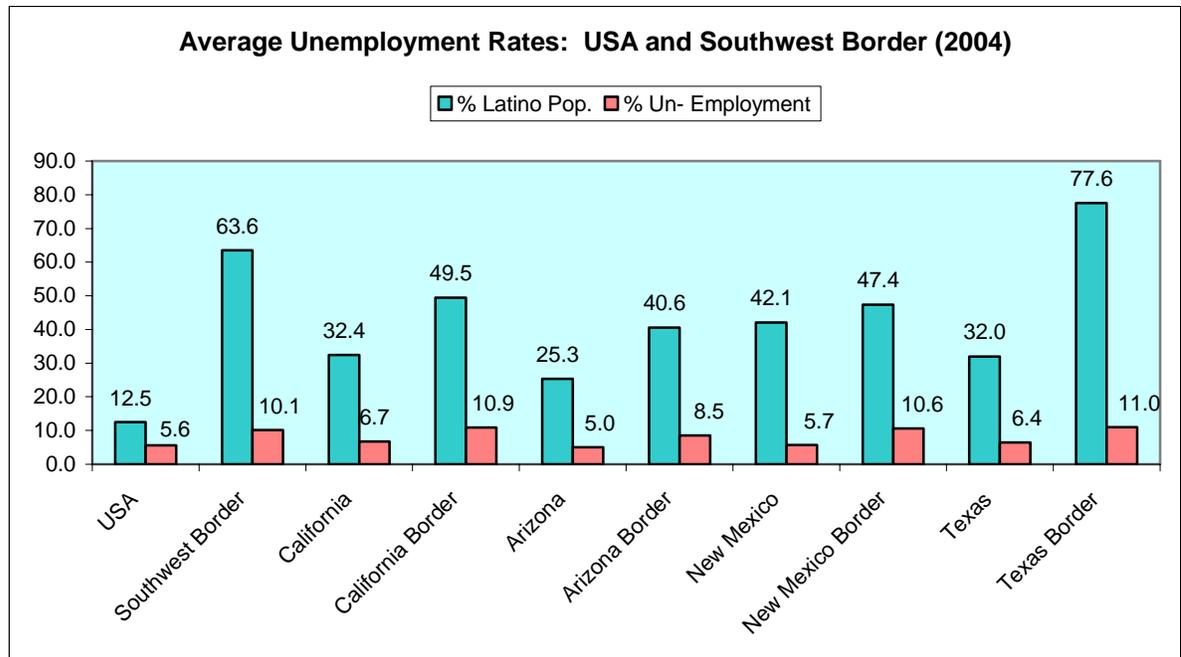
Along the U.S.-Mexico border, the per capita income for Latino families is even lower. In Texas, those counties with the highest concentration of Latinos have the lowest per capita indicators. For example, in Starr County, Texas, the Latino population is 97.5% and per capita income is \$7,069 (County and City Data, Census 2000, 1999 current dollars). The poverty rates for families in the Southwest Border rank among the highest in the U.S. The 2000 Census indicates that three of the four border states are ranked in the top ten states in the nation with the highest poverty rates:

- New Mexico ranked 4th with an 18.4% poverty rate,
- Texas ranked 8th with a 15.4% poverty rate and
- California ranked 10th with a 14.2% poverty rate.



Source: County Census Data, 2002.

The degree of unemployment along the U.S.-Mexico border plays a profound role in the ability of families in the Borderlands to secure a financially stable future for their children and has a positive relationship with poverty rates. Unemployment rates are double-digit in urban metro centers and in the outlying rural areas in the Southwest Borderlands. The high concentration of Latinos in the region corresponds to a greater incidence of seasonal jobs, low-wage service sector jobs and a larger labor pool with lower educational attainment characteristics. As public assistance income declines with more stringent eligibility rules legislated by the 1996 Welfare Reform Act, more families are engaging in self-employment and microbusiness activities and the number of earners in families increase.



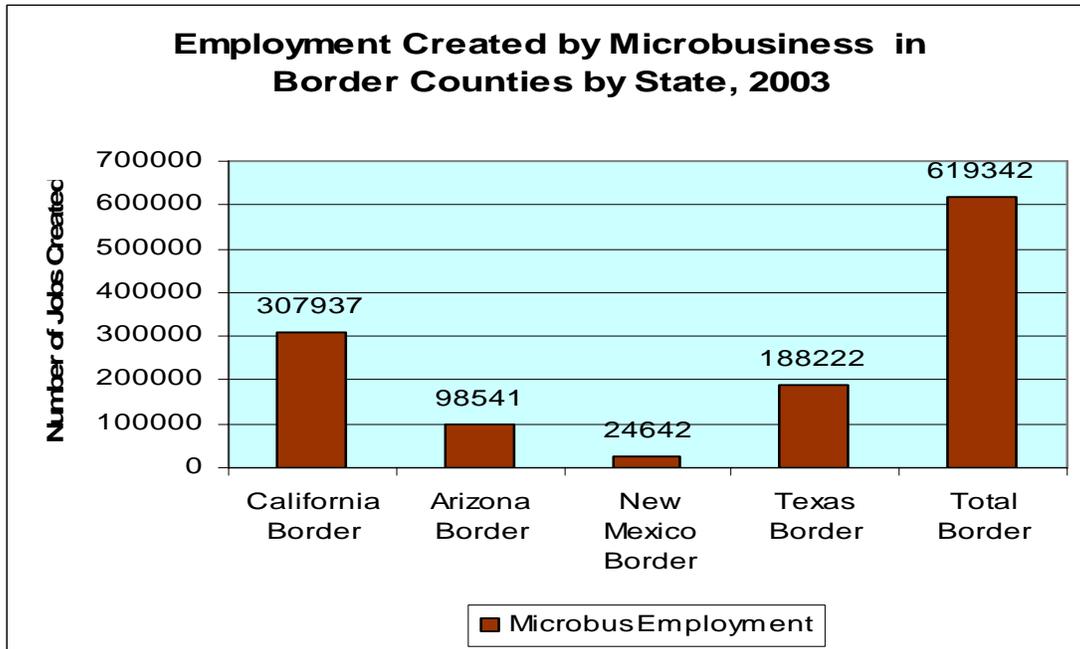
Source: State and Local Unemployment Statistics, Monthly Bureau of Labor Statistics, Author's Calculations

The amount of informal economic activity is also related to stagnant job creation, high unemployment rates and chronically depressed wages (Bates and Servon, 1998). As more entrepreneurial activity increases in the region, formalizing 'income patching' becomes a crucial policy issue both for individual families (using microbusiness and self-employment as asset leveraging vehicles) as well as local governments (capturing new revenue streams). A large portion of the microbusiness and self-employment activities in both the informal and formal markets along the Southwest Border are highly correlated with economic survival strategies and are often the 'second or third' job for the working adult.

II. Latino Micro-business Owners Profile in the Borderlands

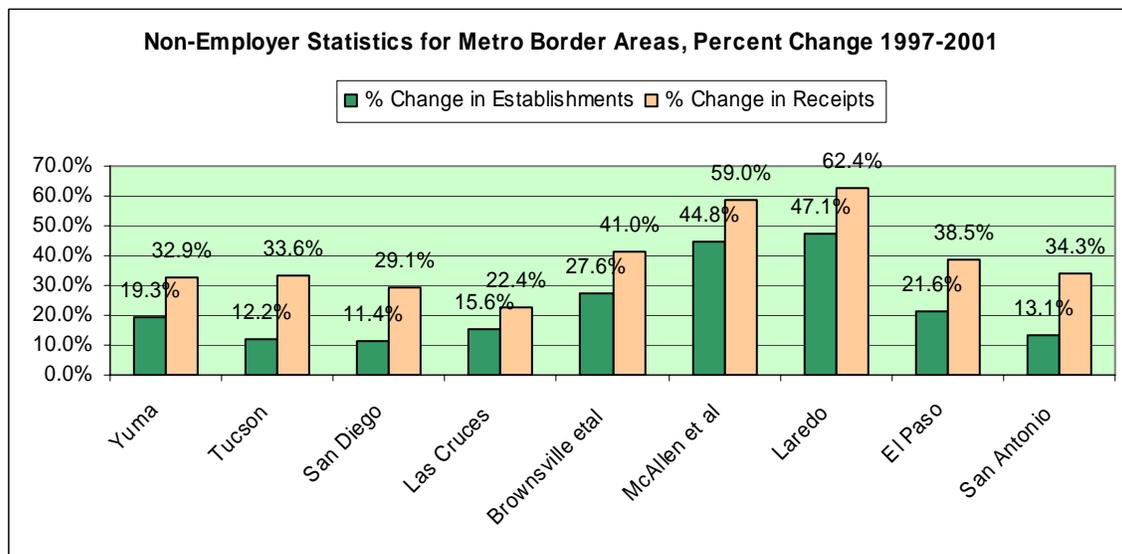
What constitutes an informal economic activity? Informal economic activities range from bartering goods, to extending reciprocal favors in the form of babysitting

and housecleaning, to day labor and odd jobs as well as taking in laundry for cash or in-kind services without a recorded transaction occurring. Working poor families often engage in activities that are cash and in-kind driven as a means to supplement low-wage formal work. Additionally, ethnic and cultural food preparation for cash or for service exchanges occurs frequently. Even as informal economic activity serves to buffer erratic income flows for families on the Borderlands and can be identified as an 'asset' enhancing activity, the lack of recorded exchange of services for a fee represents a challenge for community-based organizations engaged in financial and tax education and tax preparation services. On the one hand, informal economic activity helps keep struggling working poor families from experiencing stressful economic and financial losses during periods when seasonal work is unavailable. On the other hand, formalizing such activities can be used to leverage asset and wealth building opportunities for working poor Latino families. The challenge lies in educating workers and families on their tax rights and documenting income streams from services provided. This helps create a track record for the individual, opens up avenues of leveraging informal work activity by transitioning into formal business activity and creates new sources of fiscal revenues for local, state and federal government.



Source: Non-Employer Statistics, County Business Patterns, FT and PT County Employment Statistics, US Dept of Commerce, American Enterprise Opportunity (www.aeo.org)

The metro areas along the border reflect the increase in the self-employed with McAllen and Laredo, Texas seeing the largest increases during this time period. This is not surprising, given that Laredo and McAllen, Texas also have some of the highest rates of unemployment along the Border.



Source: Non-Employer Statistics, Economic Census, 1997 and 2001, Bureau of the Census

Acknowledging and recognizing the entrepreneurial and resiliency behaviors embedded in informal economic activities allow community-based organizations to craft financial and tax education outreach programs with relevant examples that speak directly to the lived experience of *colonia*³ and Southwest Border families. Employing realistic examples that respect the hard work and economic survival behaviors of community members creates a space for sharing information on the benefits of formalizing such activities. Many microbusinesses have emerged from informal activities and these entrepreneurial activities are often accompanied by financial and tax education in a ‘learning by doing’ environment.

The additional benefits from formalizing informal economic activities are less visible yet more permanent: children learn entrepreneurial skills through watching adult caretakers. Business activities generally involve several important skills: securing supplies, tracking inventory, costing-out work by the hour, the week or by project completion, conflict resolution, bargaining, and time management. All these skills can be supported and expanded through formal support by community-based organizations providing microbusiness assistance and loan services, financial and tax education and outreach. The Borderlands economy has always displayed an entrepreneurial spirit. The remarkable survival strategies of working poor families indicate the drive to maintain family well-being despite constrained opportunities. Informal economic activities are uncharted ‘asset and wealth enhancing activities’ that require minimal support to convert into formal income generating activity.

³ The term ‘colonia’ is a Spanish word for neighborhood or community. However, the term *colonia* conveys a unique meaning along the US-Mexico Border. These ‘colonias’ are areas of non-incorporated townships that may lack basic water and sewage systems, paved roads, safe and sanitary housing conditions, phone service and school and public health facilities (Federal Reserve Bank of Dallas, 2001).

Latino Families: Resource Sharing and Asset Pooling Theory and Practice

Many of the economic resiliency behaviors adopted by Latino families with immigrant or recent immigrant memories include sharing and exchanging resources. Latino low-income families often include extended-kin members as well as having a significant percentage of multigenerational family members in households. Shared resources consist of financial, time-sharing, and in-kind assistance that often make the difference between economic survival and economic loss. Moreover, shared resources also include shared information concerning strategies for adapting to U.S. institutions and markets. Learning to navigate the intricacies of labor markets, local and state governmental service agencies, consumer services, and housing markets can be overwhelming for recent New American families as well as for native-born families residing in isolated communities. Research indicates that Latino immigrants rely on kin-relationships and extended family to adapt and begin the process of integration into the host country (Phillips and Massey, 2000; Portes, 1994).⁴

Another distinct cultural asset is affiliation and sponsorship through fictive-kin⁵ relationships. In particular, the connections formed by *comadres* and *compadres* (affiliation of adult-adult relationships through religious marriage, baptism, communion or confirmation rites of children) along with children-adult relationships of *madrina*

⁴ Phillips, J. and D. Massey, "Engines of Immigration: Stocks of Human and Social Capital in Mexico," *Social Science Quarterly* (March 2000), pp. 33-48, and Portes, A. "Should Immigrants Assimilate?" *The Public Interest* (116), pp. 18-34.

⁵ Fictive kin is also known as psuedo-kin and is defined as any person that is given 'family' or 'extended family' status through formal religious affiliation or friendship bonding.

(godmother) and *padrino* (godfather). The system of *compadrazgo*⁶ links members of Latino communities across class and wealth resources, connects individuals operating in distinct occupations and creates opportunities to access extended social networks through political ties and patronage (Dill, 1994; Robles, forthcoming). For Latino Border families, this becomes a community social and cultural capital asset: expanding opportunities for employment, child-care arrangements, emergency lending and borrowing and information sharing.

Children often serve as translators and language interpreters for older family members with limited English abilities (Orellana et al, 2003). Language switching between Spanish and English is part of daily life in Latino ethnic urban and rural enclave communities and is one measure of cultural capital. Bilingual family members become resources for extended family and psuedo-kin when navigating consumer transactions, employment opportunities or microbusiness activities. The children's bilingualism becomes a cultural asset for all family members.

Pooling of resources to purchase assets is a survival strategy employed in many Latino working poor families. Communal ownership of assets creates avenues for leveraging and acquiring more assets. Many times, a vehicle, a plot of land or small business is owned by a group of kin-related individuals (extended families) who contribute to the cost of acquiring the asset or running the enterprise. Because government and mainstream institutions define family in terms of its nuclear definition, legal contractual documents and many financial products are not designed to

⁶ *Compadrazgo* is a Spanish term that captures the supportive nature of 'godfathering' that occurs in Latino communities. The female version of this is *comadrazgo*.

accommodate communal and extended family ownership of assets. The reality of working poor families and communities collides with a legal system that underscores and rewards the individual and the nuclear family. Family arrangements outside these strict bureaucratic definitions remain below the radar and yet, are the lived reality in many distressed communities of color. Without identifying non-traditional family arrangements and pooling of assets, programs designed to permanently reduce persistent poverty in high immigrant communities will continue to disappoint.

IV. Tax Filing and Survey Methodology

Financial education is the foundation for asset building among low-income families in distressed neighborhoods. Many studies focusing on the African American population in the U.S. offer innovative public policies that have aided the black population in building community financial assets and resources.⁷ Such research has helped shaped newly emerging policies on housing, enterprise zoning, and taxation relief for families, individuals and microenterprise minority businesses.

However, preliminary findings indicate that economic conditions along the Southwest Border region of the U.S. and in urban Latino ethnic enclaves require additional strategies for poverty alleviation than those predominantly used by non-governmental and governmental agencies in metropolitan non-Hispanic urban areas. In

⁷ For low-income families, research such as Caskey, J., Fringe Banking: Check-Cashing Outlets, Pawnshops and the Poor (1994), Sherridan, M., Assets and the Poor: A New American Welfare Policy (1991), and Shapiro, T and E. Wolff (eds.), Assets for the Poor: The Benefits of Spreading Asset Ownership (2001) focus only on 'low-income status.' For the African American population, research that identifies the unique historical, cultural and racial legacy of policies include: Conley, Dalton, Being Black, Living in the Red: Race, Wealth, and Social Policy in America, (1999) , Oliver, M. and T. Shapiro, Black Wealth/White Wealth: A New Perspective on Racial Inequality, (1995), Shapiro, T., The Hidden Cost of Being African American: How Wealth Perpetuates Inequality (2004) and Darity, W., Jr. and S. Myers, Jr., Persistent Disparity: Race and Economic Inequality in the U.S. Since 1945 (1998).

approaching the subject of asset and wealth building in low-income Latino communities, especially those communities located on the U.S.-Mexico Border, awareness of educational attainment levels becomes central to understanding the degree of disenfranchisement that exists in many of the *colonias* and border communities.

There are several significant issues confronting the Latino working-poor and microbusiness owner population stemming from community isolation fused with recent immigrant behaviors. These behaviors are related to authority avoidance and suspicion of mainstream institutions and governmental agencies. Immigrant families bring experiential knowledge from their country of origin concerning government institutions and financial services. Many have had distressing experiences with savings and loan products that were affected by currency devaluation (instantaneously eroding the value of their savings accounts) or financial institution instability and government privatization efforts in their countries of origin.

Avoidance and mistrust of mainstream financial institutions presents a challenge to the financial services industry and to financial education outreach initiatives by community-based organizations. Financial and economic choices are fundamentally intertwined with consumer skills that are generally learned through intergenerational transfer of knowledge and frequent exposure to mainstream markets. For immigrant families and native-born families residing in isolated communities, additional factors compound access to affordable financial services: a proliferation of convenient but

expensive fringe financial services outlets such as finance companies, check cashing outlets, pawn shops, and *notarios*.⁸

For many Latino border families, financial education programs require not only basic financial information and product familiarity but understanding the concept of ‘financial intangibles’ like checking and savings accounts.⁹ Cash is a very tangible item used in daily commercial transactions; no one will reject cash. Thus, cash provides a degree of security that an abstract check or a savings passbook does not.

Learning to navigate and become familiar with abstract concepts such as account holdings and balances, fees charged for transaction items and other basic costs associated with owning a checking and savings account that are not common tangible exchange items requires innovative cognitive instruction techniques and supporting curriculum. Additionally, financial education outreach requires engaging community members in cognitive learning exercises: mastering the difference between writing numbers on a check and writing-out monetary amounts on a check in English.

For native-born, middle class Americans such basic financial concepts are often learned by watching parents or adult caretakers engage in monthly budgeting, bill paying and consumer purchases. For non-native born working poor families arriving from countries with class-oriented financial institutions (limited to serving wealthy and middle-income customers) and severely underdeveloped credit systems, these concepts

⁸ *Notarios* are seasonal tax preparing offices that also double as notary public service providers who often set up office in finance companies or other fringe financial service outlets. These offices are unique to the Borderlands and Latino ethnic enclaves.

⁹Recent Latino immigrants and native-born Latinos display ‘unbanked’ rates of 25% to 58% (Freeman et al, “The Business of the Future: Banks, Latinos, and the Changing Financial Borders,” **TX Business Review**, (April 2003)); in some locales the rate is as high as 69% (Toussaint-Comeau, M., “Changing Hispanic Demographics: Opportunities and Constraints in the Financial Market,” **Chicago Fed Letter**, (August 2003), No.2).

and activities are skills to master. Moreover, for native born families residing in isolated communities in the U.S. that rely on cash and informal barter systems, familiarity with mainstream financial services and products is difficult to acquire since credit unions and mainstream financial institutions are often absent.

Understanding income tax responsibilities and rights are also asset and wealth building skills and are often overlooked as a component in financial education curricula and outreach. Studies and research indicate that the Earned Income Tax Credit (EITC) has been successful in providing substantial economic relief to a growing segment of the U.S. population, low-income workers.¹⁰

Table 2. Distribution of Tax Provisions: U.S. Earned Income Tax Credit, 2003 (TY2002)

Income Class	Joint Returns		Head of HH & Single Returns		All Returns		Average EITC Refund
	Number	Amount	Number	Amount	Number	Amount	
\$0-\$10,000	510	\$816	5062	\$6,129	5572	\$6,945	\$1,246.41
\$10,000-\$20,000	1033	\$2,851	4505	\$10,901	5538	\$13,752	\$2,483.21
\$20,000-\$30,000	1327	\$3,007	3207	\$6,758	4534	\$9,766	\$2,153.95
\$30,000-\$40,000	1229	\$1,543	1765	\$1,976	2994	\$3,519	\$1,175.35
\$40,000-\$50,000	397	\$262	210	\$130	608	\$392	\$644.74
\$50,000-\$75,000	36	\$37	2	\$2	38	\$39	\$1,026.32
\$75,000 and over	0	\$0	0	\$0	0	\$0	
All Returns	4533	\$8,516	14752	\$25,896	19284	\$34,412	\$1,784.48

Source: Joint Committee on Taxation, Ways and Means Committee 2004 Green Book (Number of Returns in Thousands, Amounts in millions except in the Average EITC Refund column)

From all indicators employed by researchers, Latinos lag behind other population groups in filing for the EITC and being informed about the EITC.¹¹ Failure to recognize

¹⁰ The EITC is the largest single source of federal support for low-income families (Stanfield, R., 2002).

¹¹ A study by Katherine Phillips at the Urban Institute, "Who Knows about the EITC?" (January 2001) indicates that Hispanic low-income families are the least likely to know about and claim the EITC. She reports that fewer than one in three low-income Hispanic parents know about the EITC (32%) and fewer than one in five (18.4%) have ever received the EITC. Contrast these findings with those of low-income non-Hispanic White parents, 75.9% who know about the EITC and 53.1% who have ever received the

the unique bi-cultural, linguistic and economic behaviors of Latino low-income communities located along the Southwest Border may very well contribute to poorly crafted initiatives and intervention efforts by governmental agencies, non-governmental organizations, and non-local policy analysts.

Findings from the 1997 National Survey of America’s Families (NSAF)¹² indicate that Hispanic families have a higher incidence of low-income status than do White and Black families. This higher incidence of low-income status among Latino families can be traced to transitional immigrant status, continuing language difficulties and perhaps most significantly, the lack of educational opportunities that provide mechanisms for rapid and basic integration into US society, institutions and markets.

Table 3. Size of Families in the US, 2002 (as a Percent of Total Families)
[numbers in 1,000]

Size of Families	White	Black	Hispanic
Total	60,251 (100%)	8,664 (100%)	7,561 (100%)
No Children	32,144 (53%)	3,882 (45%)	2,747 (36%)
One Child	11,496 (19%)	2,101 (24%)	1,791 (24%)
Two Children	10,918 (18%)	1,624 (19%)	1,693 (22%)
Three or More	5,693 (9%)	1,058 (12%)	1,330 (18%)

Source: Statistical Abstract of the US, 2002 (some percentages do not add to 100% due to rounding errors).

Recent research indicates that families with more dependents have a higher payroll and income tax burden (despite dependent exemptions) than do those families with 2 or less children.¹³ If we aggregate the data in Table 3 into families with 2 or

EITC. The low-income Black community also has higher rates of being informed about the EITC, 72.7% while 48% have ever received the EITC.

¹² NSAF includes survey questions designed to measure knowledge about and receipt of EITC.

¹³ Kobes, D. and E. Maag, “Tax Burden on Poor Families Has Declined Over Time,” **Tax Notes**, February 3, 2003, p. 749.

more children, the breakdown for each sub-population indicates the potential Earned Income Tax (EITC) participation significance for Latino families: Whites, 27%, Blacks, 31% and Latinos, 40%.

Since a large proportion of Latino families have more than two children, the nature of the tax exemption features of annual income taxes often place these families in the non-filing population given their low-income status resulting in a zero tax liability position. John Cilke, a researcher at the Office of Tax Analysis, Treasury Department, constructed profiles for the non-tax filing racial and ethnic populations (eg. non-filers) in the US.¹⁴ His results indicate the likelihood of filing a tax return even if the respondent is not legally required to file a tax return due to below-threshold earned (or unearned) income:

- People with means-tested government transfer income are less likely to file a return
- Married people that are not required to file a return are more likely than unmarried people to file.
- Persons with an education level at or below 10th grade are less likely to file a tax return
- Minorities are less likely to file a tax return than whites.

National data on labor force participation rates also indicate that Latinos have higher rates of labor force participation in certain educational attainment categories than do other populations. For example, Latinos with less than a high school degree have a 69.1% participation rate compared to Whites (64.5%) and Blacks (58.7%). Latinos with a high school degree have an 81.0 percent participation rate in the labor force while Whites with comparable education have a 78.7% rate and Blacks have a 76.8 percent

¹⁴ Cilke, J., "A Profile of Non-Filers," OTA Working Paper, #78, (July 1998), US Department of the Treasury.

rate.¹⁵ Thus, regardless of family type, more Latinos are eligible for the EITC yet, research shows that Hispanics are least likely to be aware of this refunded tax credit and less likely to claim it compared to Whites and Blacks. This is especially significant for Borderlands families as Table 4 indicates.

Table 4. EITC Borderlands Participants and Average Refund Amounts, Returns Filed in 2003 for Tax Year 2002

	Total EITC Claimed (Returns)	Total EITC Claimed (Amounts) (Millions)	Estimated Eligible EITC nclaimed (Amount) (Millions)	Estimated Eligible EITC Non-Filers (Returns)	Average Claimed EITC Refund (Amount)	Average Eligible EITC Refund (Amount)
Southwest Border	705,001	\$1,419	\$302	181,131	\$2,013	\$1,812
California Border	209,916	\$354	\$95	62,101	\$1,688	\$1,529
Arizona Border	102,083	\$187	\$27	24,820	\$1,827	\$1,672
New Mexico Border	37,831	\$76	\$4	5,127	\$1,931	\$1,921
Texas Border	355,171	\$805	\$175	89,083	\$2,268	\$2,035

Source: SPEC, Internal Revenue Service, 2004

Some of the most pressing concerns unique to the Latino community along the Southwest border and in high density Latino urban enclaves that directly impact the participation and outreach initiatives related to the EITC, tax preparation services, self-employment and microbusiness income and consumption of financial services and products include:

- Securing identification documents
- Securing social security and tax identification numbers
- Reluctance to interact with official representatives for information on eligibility criteria for any governmental (official) services

¹⁵Table 564, Labor Force, Employment and Earnings, U.S. Census Bureau, Statistical Abstract of the United States: 2002, pg. 369.

- Seasonal employment in the service sector paying cash wages (resulting in an intense cash-flow problem that creates opportunities for predatory lending)
- Participation in the informal economy (engaging in economic activities outside the mainstream markets, for example, barter and cash transactions and self-employment non-reported income)
- Spanish language public, non-profit and private sector outreach (especially documents related to tax and financial services) provide a direct translation of English documents without taking into account the lower educational attainment levels of many Southwest border residents, rendering much of the Spanish version documents incomprehensible
- Tax preparation services and the fees charged the EITC recipients pose a significant problem to the Latino working poor community¹⁶
- Predatory lending along the Southwest border specifically targeting the Latino working poor by marketing payday loans and tax anticipation loans¹⁷ in Spanish and in English and
- Commercial and seasonal tax preparation services and the fees charged for more complicated Self Employment and Schedule C tax forms for Latino microbusinesses and the self-employed who cannot use IRS Volunteer Individual Tax Assistance (VITA) tax filing sites since volunteers are not trained in filing Schedule C and Schedule SE forms; being poor does not necessarily mean an automatic use of a 1040-EZ tax form.

Because of the complexity in filing tax returns with EITC claims, current data indicates that 62% of filers with EITC claims use paid tax preparation services compared to 53% of the non-EITC tax filing population (Stanfield, 2002). Many Latino working poor generate self-employment income from seasonal and contractual work increasing the degree of complexity of tax filing. Free tax assistance sites sponsored by

¹⁶ Recent qualitative research indicates that the most successful community based programs in Latino low-income communities are those that rely on individual contact and continuing relationships that foster trust and mutual respect. For tax preparation service providers, this is an essential ingredient for minimizing dread and confusion concerning tax filing and the complexity of the tax code when providing tax counseling to Latino filers.

¹⁷ Berube et al (2002) report that firms offering tax anticipation loans operate in low-income communities with a high incidence of EITC claimants. Preliminary data analysis of the TX-Mexico border indicates that 40% (and higher) of tax filers claim the EITC.

the IRS (Volunteer Individual Tax Assistance, VITA) for low-income and elderly tax filers do not train volunteers on more complicated tax forms, that include business or self-employment income (Schedules C and SE). This is an additional inducement for using commercial tax preparation services where Latino workers are exposed to high-pressure sales of rapid tax anticipation loans (RALs).

An additional issue related to EITC qualification for Southwest Border families is the seasonal migration of particular family members (migrant workers) during the year which often creates episodes of child care by extended family members. Establishing child residency status is confounded by the seasonal nature of farm and construction employment. Extended families often rotate child care during seasonal employment episodes making the documentation of child residency a confusing task. Exemption from child residency documentation for seasonal migratory employees with dependent children may offer an intermediate solution.

Increasing financial and tax education is vital to preventing and reducing the presence of predatory lenders in border communities. But financial and tax education alone cannot succeed without the availability of alternatives to fringe banking and financial services. Mainstream banks and credit unions can easily establish a presence in working poor Southwest Border communities by partnering with established community development financial institutions (CDFIs) and community-based organizations.

For Latino immigrants and families with recent immigrant memories, familiarity with US financial products, financial institutions and markets and government fiscal

policy initiatives may take longer and require more outreach efforts by the private and public sectors, philanthropic foundations and non-profit community based organizations.

V. Data Analysis and Summary Statistics

Because of the interconnectedness of economic well-being and family stability with the development of human, social, cultural and financial capital, Latino community-based organizations have created holistic asset building initiatives that link together a variety of community programs and services. For example, linking the Earned Income Tax Credit refund to self-help housing programs, microenterprise support services, individual development accounts (IDAs), and bank account ownership create practical and ‘tangible’ results for Southwest Border families. In creating comprehensive asset building programs and initiatives, experimentation and innovative program design are supported by collaborative partnerships between CBOs, community members and external funders. These programs integrate education, self-empowerment, tangible skill-building, and financial stability through asset building.

Innovative collaborative partnerships promoting Latino family and community asset building are contributing to imaginative and creative yet, practical program design based on coalition building. These newly formed coalitions bring new voices and fresh perspectives to Latino community asset building programs and stakeholders. But more importantly, community members and community perspectives inform the program design and delivery by the collaborative partnerships. Instead of a top-down coalition, the collaborative partnerships are based on supporting programs and services that already

exists and have been successful in Latino working poor Borderlands communities and most significantly, involve Latino youth.

- ***Frontera Family Asset Building Coalition*** – A collaboration of community-based organizations operating along the Southwest Border in Texas, New Mexico, Arizona and California, community, state and national foundations, educational institutions (a lead research public university and a community college) and the IRS combine resources to link the Earned Income Tax Credit refunds to asset building programs for Borderlands families and communities. Formed in 2003, after a series of policy roundtables, the coalition of community members, practitioners, researchers and graduate students along with foundation sponsors designed and implemented a strategic program to provide low-income working families residing along the Southwest Border with access to affordable and reliable tax preparation linked to asset building services. Community-based Organization partners within the *Frontera Family Asset Building Coalition* provide tax preparation service and also help families leverage their Earned Income Tax Credit (EITC) refunds by offering:

- Homeownership Counseling
- Financial Education
- Individual Development Accounts
- Down Payment Assistance Programs
- Innovative Mortgage Finance Products
- Leadership Development Training
- **Small and Micro Business Incubator Programs** and
- Self-Help Housing Programs.

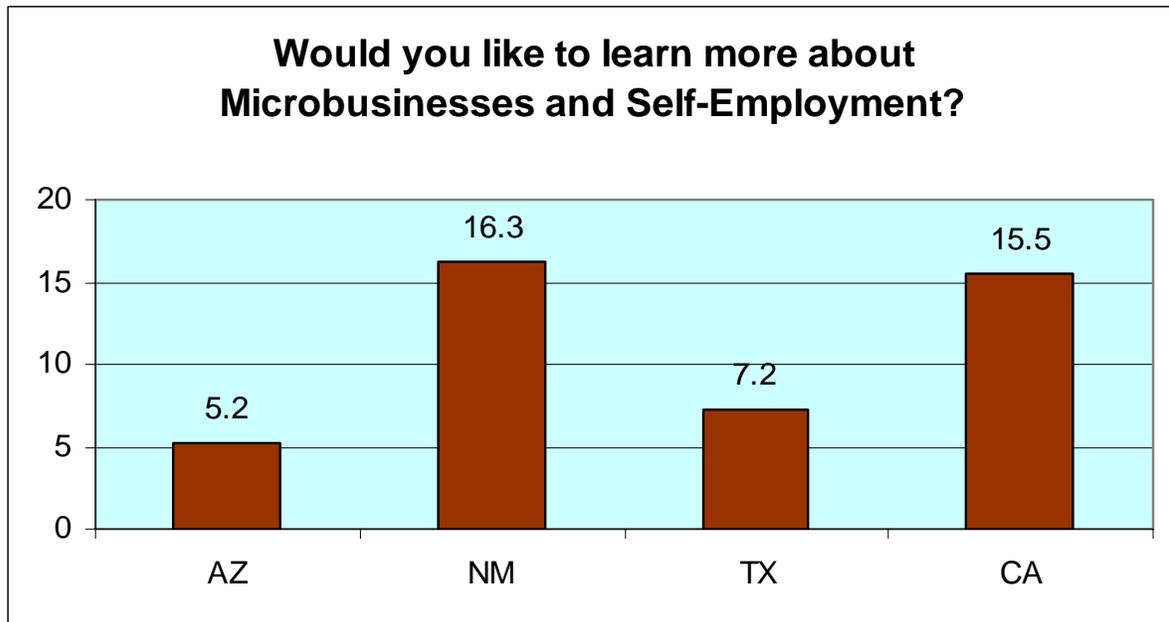
Data results reveal that during the 2004 tax-filing season (TY2003), over 40 of the *Frontera Family Asset Building Coalition* community-based partner tax preparation and electronic filing sites successfully prepared 6,627 tax returns for families residing along the Arizona, New Mexico, and Texas Border areas (California was not included in the 2004 Tax Season). Approximately 65 % of the families who filed returns received an Earned Income Tax Credit (EITC) refund amounting to \$7.8 million dollars. During the 2005 tax filing season, 13,451 tax returns were filed with a total of \$16.25 million in tax refunds received by tax filing border families. (See Appendix C for total EITC refunds for the entire border states).

A direct outcome of this community-university collaborative initiative is the administering of an exit survey by community based partners offering free or low-fee tax preparation and filing services. Since the CBOs have an established ‘trust’ relationship in the communities they serve, they successfully administered 1,992 *Finanacial Behaviors and Needs* surveys during the 2004 tax season and 4,689 surveys during the 2005 tax season. For summary statistics, I rely on the 2005 tax season survey responses as the baseline data (all four border states are included).

Microbusiness Owners Financial Behaviors Survey

In the context of a participatory action research approach, the community based organizations offering asset building programs participated in the design of the survey questionnaire. The single most important goal arising from the survey design discussion centered on wanting to provide services that community residents wanted and expressed interest in exploring. Many of the community based organizations operated community development financial institutions that provided microbusinesses support services. We

designed the survey to capture microbusiness owners financial behaviors and needs and their use of tax refunds to capitalize their operations. We asked a final additional question about what community members wanted to learn more about concerning financial services and products and included a specific question pertaining to micro-businesses and self-employment.

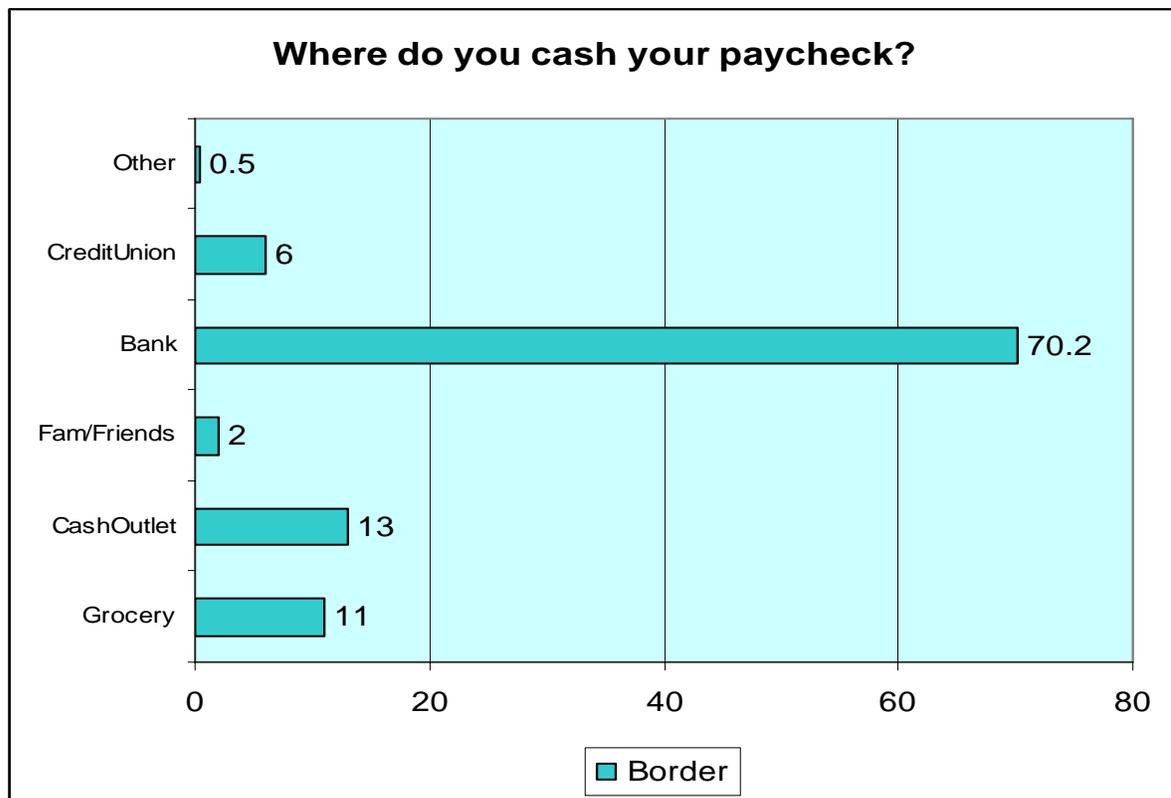


Source: *Financial Behaviors and Needs Survey*, Tax Season 2005, Texas (n=1479 obs), AZ (n=1646 obs), NM (n=1183 obs), and CA (n=381 obs).

The results of the 2005 tax season survey (n=4,689) provide an instructive and compelling empirical snapshot of families with an average AGI of \$11,780 and an average tax refund of \$1,309 (which includes EITC). Forty-five percent of the respondents surveyed answered the Spanish version of the survey and the remaining 55% answered the English language questionnaire.

In contrast, the results for the microbusiness owners sub-sample provides a differing snapshot of the 2005 survey respondents (n=202).¹⁸ For example, the microbusiness owners had a lower average AGI at \$9,845 but a higher average tax refund of \$1,460. Their English language abilities were also evident in that 63% of those surveyed answered in English with the remaining 37% responding to the Spanish version of the survey.

Many of the microbusiness owners and self-employed also have paying jobs, we asked where they cashed their paycheck in an attempt to capture the types of financial service outlets frequented.

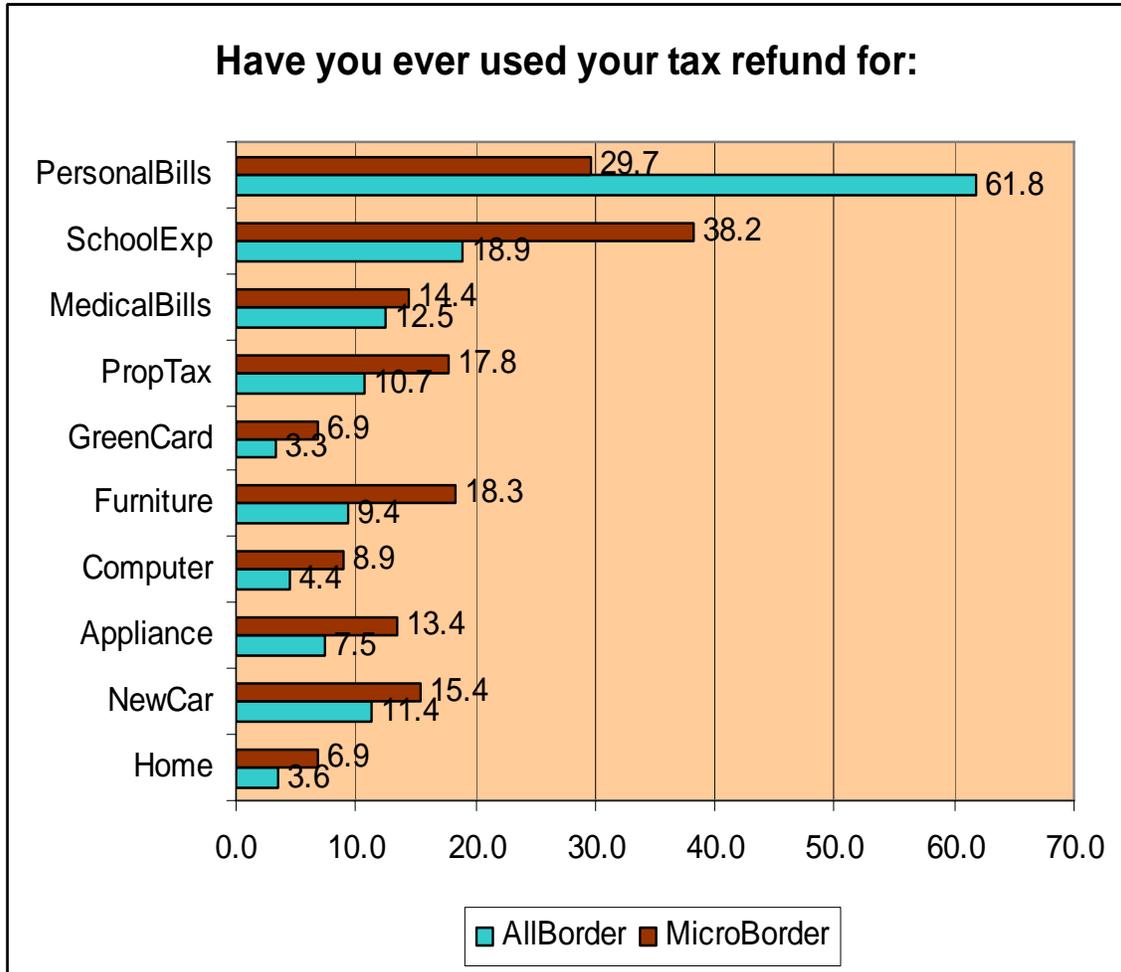


Source: *Financial Behaviors and Needs Survey, TY2004, Tax Season 2005, n=202*

¹⁸ The Tax Season 2004, TY2003 survey generated 151 microbusiness owner and self-employed respondents. This data is used in the statistical modeling and empirical analysis.

Microbusiness owners and the self-employed had a higher 'bank usage rate' in their financial transactions than did the overall Border tax filing sample, with a bank response rate of 63.1%. We also asked how often money orders were used to pay bills in an attempt to tease out the actual use of bank accounts and found that 27% of microbusiness owners and the self-employed used money order 'sometimes,' 20% responded 'yes' and 52.5% responded 'no.' This indicates an opportunity for more commercial financial services outreach and support services to a growing entrepreneurial population.

We wanted to know if microbusiness owners and the emerging self-employed differed in how they expended their tax refund from the general border survey population.



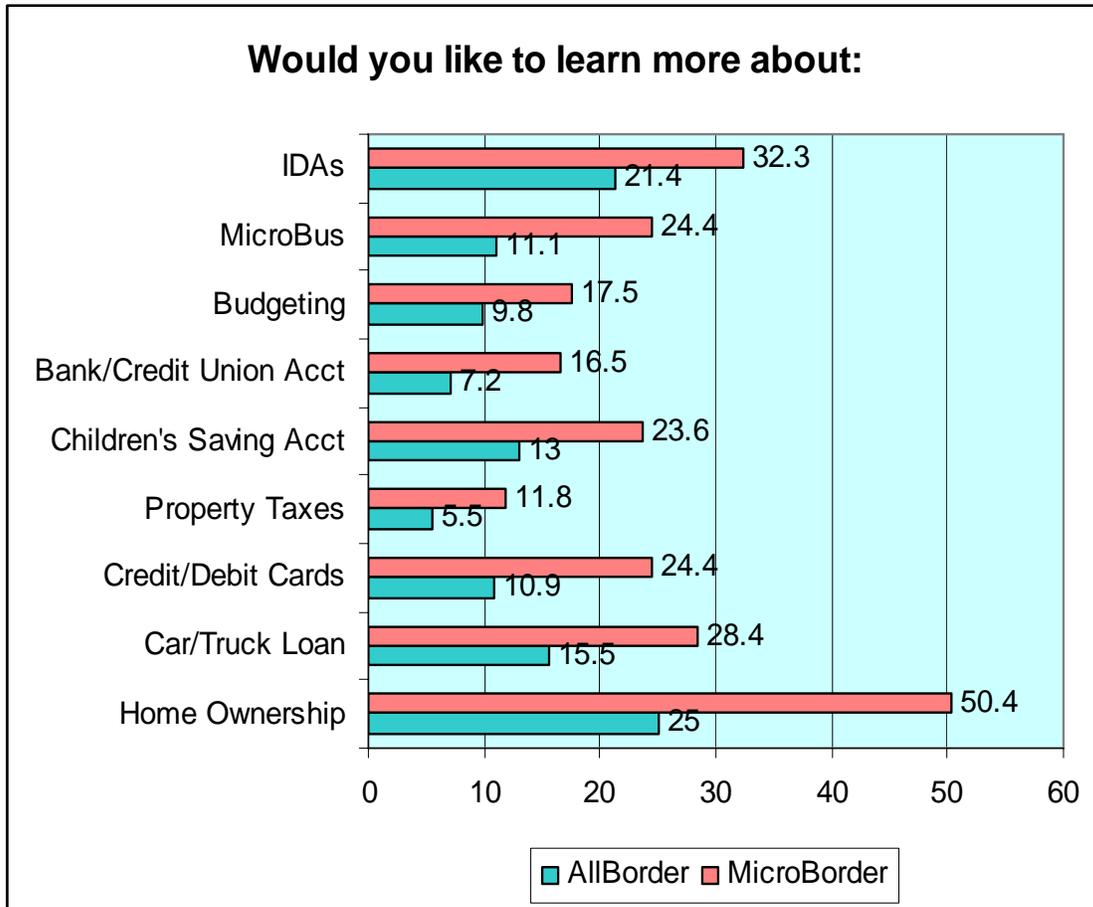
Source: *Financial Behaviors and Needs Survey, TY2004, Tax Season 2005, (MicroBorder, n=202, AllBorder, n=4,698)*

Three pertinent comparisons provide an understanding of how tax refunds are allocated between total population and the microbusiness owners in terms of tax refunds being leveraged into asset building: a) microbusiness owners and the self-employed expend tax refunds on schooling for themselves or their children to a greater degree than the general tax filing population; b) microbusiness owners and the self-employed expend on property taxes to a greater degree and c) microbusiness owners and the self-employed allocated their tax refunds on personal bills and expenses to a lesser degree than does the general population.

Ninety-two percent of all respondents in the borderlands had never heard of individual development accounts (IDAs)¹⁹ compared to 87% of microbusiness owners. This question was a particularly good entry point for the community based organizations that were providing IDAs. Once the respondents asked what an IDA was and expressed interest in it, the CBOs enrolled them in the IDA program they were administering. IDA programs are especially relevant to Borderlands families but remain difficult to administer in the Borderlands (Robles, Summer 2006) due to the erratic income streams of working poor families and microbusiness owners.

Directly asking survey respondents what kind of financial information they wanted to learn more about tells us more about microbusiness owners and the self-employed compared to the Border tax filing population. The Homeownership response rate for microbusiness owners was twice that of the Border sample. Children's Savings Accounts and IDAs also had a higher response rate among microbusiness owners as did wanting to learn more about Budgeting. Overall, microbusiness owners and the self-employed wanted more information on a variety of financial products and services.

¹⁹ IDAs are restricted savings accounts administered by community based organizations or community financial development institutions (CDFIs) in conjunction with a depository institution such as a commercial bank or credit union. The account matches dollar-for-dollar deposits by the individual saver (sometimes by more than a dollar) until a stated goal has been reached. Often these savings vehicles are tied to particular asset building purchases such as a home, microbusiness startup, educational tuition, etc.



Source: *Financial Behaviors and Needs Survey*, TY2004, Tax Season 2005, (AllBorder, n=4689 and Microborder, n=202)

VI. Logit Modeling Results

The first logit model (Model 1) investigates the probability of the tax filer expending their tax refund on a microbusiness as a function of: adjusted gross income, refund amount, years of education, use of a mainstream financial institution (bank or credit union =1, otherwise=0), number of dependents, survey language (English=1, Spanish=0), tax refund used for property taxes =1, otherwise=0, and expressed interested in knowing more about microbusinesses or self-employment =1, otherwise=0. The second logit model (Model 2) examines the probability of the tax filer expressing interested in

wanting to know more about self-employment or microbusiness ownership as a function of: adjusted gross income, amount of refund, years of education, number of dependents, language of survey (English=1, Spanish=0), use of mainstream financial institution (bank or credit union =1, otherwise=0), tax refund used for education expenses=1, otherwise=0, and tax refund used to pay property taxes=1, otherwise=0.

Table 4. Logit Models (t-statistics of logit coefficients in parantheses)

Coefficient Variables	Model 1 DepVar = Tax Refund Used for Microbus/S.E. n = 1319	Model 2 DepVar= Wanting to Know More About S.E. or Microbus Ownership n=1321
AGI	-.000045 (-1.57)	.000004 (.702)
REFUND	.0002 (1.52)	.0002 (2.83)**
EDUCATION	-.102 (-2.03)*	.0684 (2.31)*
DEPENDENTS	-.0006 (-.042)	-.0009 (-.712)
BANK/CREDIT UNION USAGE	-.816 (-1.75)	.0054 (.021)
SURVEY ENGLISH	1.14 (1.913)*	-.297 (-1.18)
USED TAX REFUND-PROPERTY TAXES	2.14 (4.32)**	-.378 (-1.01)
USED TAX REFUND-EDUCATION		.605 (2.59)**
WANTS TO KNOW MORE Self-Emp/Microbus	1.33 (2.45)**	--
Likelihood Ratio	31.65	24.57

*= .05 level of significance and **= .01 level of significance

The results of the logit estimation for Model 1 indicate that English proficiency, using tax refunds to pay property taxes (proxy for homeownership) and wanting to learn more about self-employment and microbusiness ownership (a proxy for wanting to gain access

to business operations information) are all statistically significant and directly contribute to increasing the odds of using tax refunds to capitalize microbusiness (being a microbusiness owner or being self-employed). The education coefficient is negative and significant indicating that as years of education increase, the log odds of using tax refunds to capitalize microbusiness ownership and operations declines which is entirely unsurprising given increased education provides a greater degree of self-employment and microbusiness capitalization options.

The results for Model 2 provide a snapshot of the microbusiness owner/self-employed aspirant. Education appears to increase the log odds of wanting to know more about microbusiness ownership and self-employment information. Indeed, using tax refunds on educational expenses increases the log odds of wanting to know more about self-employment and business operations. The size of the refund also increases the log odds of wanting to acquire more business and/or self-employment information.

VII. Policy Recommendations and Future Directions

Potential initiatives that may prove successful in redressing the erosion of EITC refund amounts to Latino working poor families while also increasing their participation in the EITC include:

- Funding non-profit tax preparation services that piggy-back on other well established community services such as affordable housing organizations, child care and health services, and micro-lending organizations with
- Encourage and provide technical support to local welfare-to-work programs in order to provide transitional participants with EITC information and provide assistance with tax preparation services
- Support and encourage bicultural economic activities and cultural behaviors that result in increasing community benefits and information

sharing among Latino low-income families especially with respect to financial products and services. In recognizing and supporting existing mechanisms for increasing community capacity and asset building, culturally sensitive initiatives and interventions can successfully promote behaviors and choices that result in increased familiarity with mainstream institutions, markets, CBO and government programs and services

- Urge the IRS to reassess its role in the market for tax preparation and tax anticipation refund products in light of the growing profitability of this industry and the increasing reliance of EITC recipients on paid tax preparers²⁰
- Bicultural content in financial, microbusiness and tax education outreach programs
- Inclusive participation of residents in programs and minimizing the degree of ‘autocratic’ interaction with governmental agencies and officials.

While high density urban and rural Latino communities have significant concerns surrounding job creation, high unemployment rates and more informal economic activity, collaboration between public sector agencies and community based organizations providing support services can generate innovative and substantive change. The economic conditions that create challenges for traditional economic development in struggling communities are also opportunities for microbusiness and entrepreneurial initiatives provided all stakeholders collaborate in providing support services, especially those that target youth and intergenerational transfer of entrepreneurial skills. The key is to link the microenterprise and self-employment opportunities to tangible formal economic activity and markets allowing for individual capacity building while capturing new sources of revenue for the local, state and federal tax programs.

Creating New Indicators and Measures of Success

²⁰ Because of the complexity in filing tax returns with EITC claims, current data indicates that 62 percent of filers with EITC claims use paid tax preparation services compared to the non-EITC tax filing population (53%) (Stanfield, 2002, pg.12).

Many Southwest Border researchers and community-based organizations acknowledge that qualitative indicators convey deeper information about permanent social change. These non-quantifiable indicators include: increased trust of community-based organization staff by community members, increased self-confidence and self-esteem of residents, increased networking and maintenance of social capital among community members, families displaying increased reliance on financial budgeting and tracking of expenses, and families becoming comfortable with mainstream financial behaviors and services. Such metrics are not currently employed in program evaluation assessments and outcomes. Yet, these indicators capture ‘permanent’ learned behaviors arising from community members’ participation in microbusiness support services provided by community microlenders and financial education outreach.

For example, incorporating cultural behaviors such as the incidence of ‘pooling’ of family and extended family resources to increase wealth and asset accumulation provides a deeper understanding of family, fictive kin and collective community resources and should be included as success indicators for microbusiness program and service delivery. Such indicators would provide guidance to researchers and policymakers in crafting microbusiness policies supportive of family wealth building behaviors in ethnic/racial enclaves.

A qualitative approach enriches any data analysis by providing a ‘voice’ to the empirical information. Much of the informal economic activities and financial decision making behaviors that occur in low-income Latino communities do not appear directly in data sets but rather, must be observed first hand by researchers.

This requires employing mixed methodological approaches to understanding

Borderlands 'hidden' assets and family resiliency and economic survival strategies. Researchers and students trained in both methodologies and partnering with CBOs operating in urban Latino ethnic enclaves and *colonias* bring a powerful skill set to program evaluation and policy assessment.

Microbusiness Job Creation and Entrepreneurial Training

Because half of all Latino youth in the United States resides in the four border states, using community organization youth enrichment programs and public schools as stakeholders and providers of microbusiness and entrepreneurial training can create a significant difference in the lives of many disenfranchised community members. Because schools and community based organizations are often the first point of connection for many community members, the entry point into youth enrichment and entrepreneurship training programs can reach a wider audience. Anecdotal information of children and youth working with family members in microbusiness operations provides us with a glimpse of where future research can be directed in order to ascertain how to design support services that encourages schooling and economic literacy among Latino youth.

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Appendix A – Earned Income Tax Credit TY2003

(For Returns Filed in 2004)

If your filing status is....	At the end of 2002, you were:	File a return, if your gross income was at least:
Single	Under 65	\$7,700
	65 or older	\$8,850
Married Filing Jointly	Under 65 (both)	\$13,850
	65 or older (one spouse)	\$14,750
	65 or older (both spouses)	\$15,650
Married Filing Separately	Any age	\$3,000
Head of Household	Under 65	\$9,900
	65 or older	\$11,050
Qualifying Widow/er w/dependent Child	Under 65	\$10,850
	65 or older	\$11,750

Source: www.irs.gov

Fact: Federal Minimum Wage (\$5.15) Annual Salary before Tax calculated at 52 weeks at 40 hours a week: **\$10,712**

Appendix B

Southwest Borderlands: U.S. Border Counties

Total Counties: CA (2) + AZ (4) + NM (6) + TX (20) = 32

California:

San Diego County

Imperial County

Arizona:

Cochise County

Pima County

Santa Cruz County

Yuma County

New Mexico:

Doña Ana County

Grant County

Hidalgo County

Luna County

Otero County

Sierra County

Texas:

Brewster County

Brooks County

Cameron County

Culberson County

Dimmit County

El Paso County

Hidalgo County

Hudspeth County

Jeff Davis County

Jim Hogg County

Kinney County

Maverick County

Presidio County

Starr County

Terrell County

Val Verde County

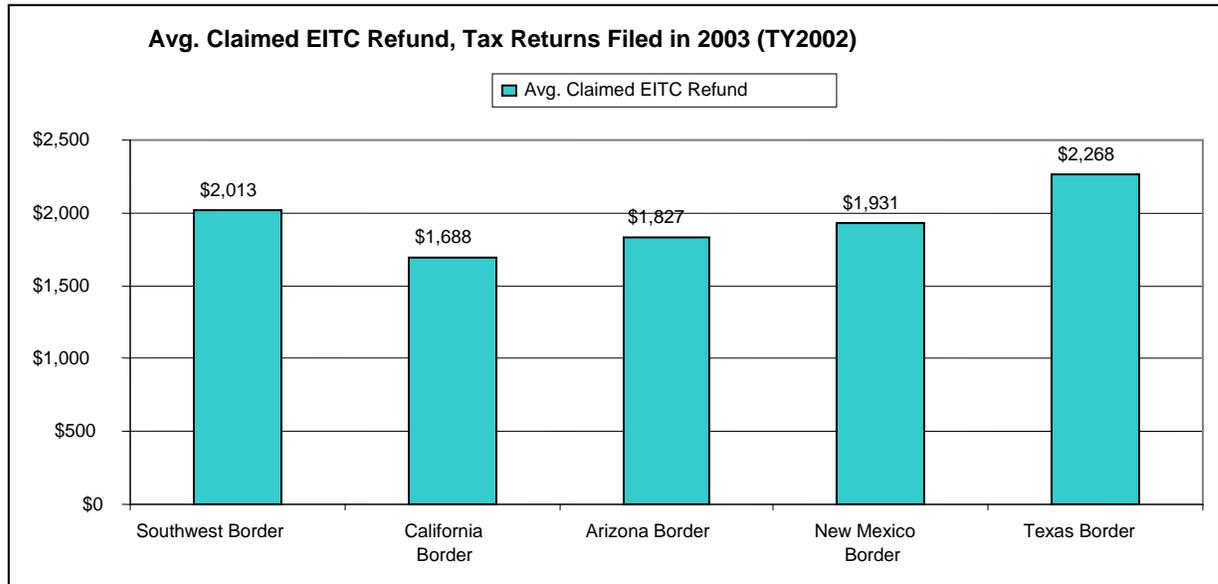
Webb County

Willacy County

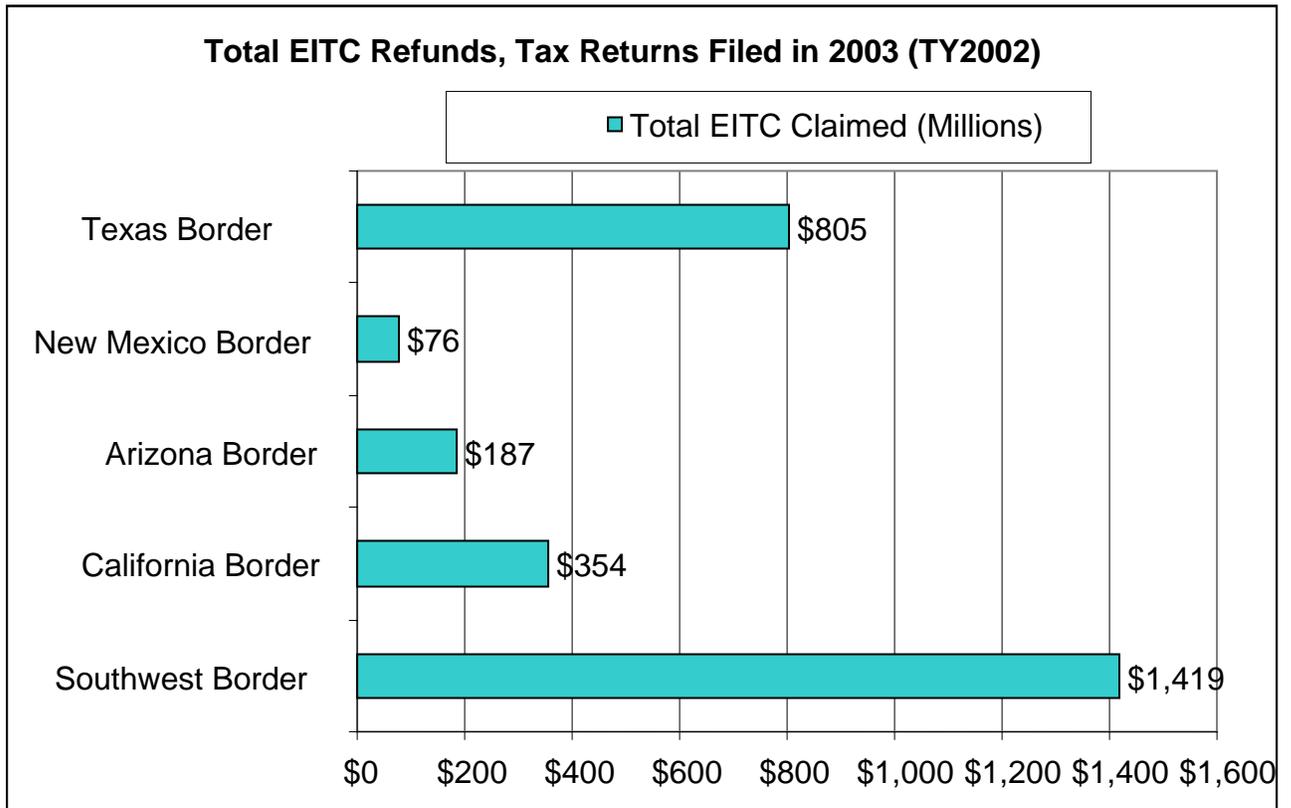
Zapata County

Zavala County

Appendix C – Borderlands Earned Income Indicators



Source: Author's calculations, Internal Revenue Service, SPEC, 2004



Source: Author's calculations, Internal Revenue Service, SPEC, 2004