
Tax Credits as Asset-Building Tools for Families with Young Children

*Presented by: IRS Stakeholder Partnerships,
Communication & Education*

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How Are Tax Credits an Asset-Building Tool for Families?

- Many families can access **thousands** of dollars in tax credits
- A portion of these funds can be put toward savings, which is the first step toward asset building

Key Take-Home Lessons

- There are a number of available tax credits that can put THOUSANDS of dollars into the hands of low-income families
- You can help families...
 - To CLAIM IT:

 - Inform families that they need to file a tax return to access tax credits. Spread the word to new families every year
 - To MAXIMIZE IT:

 - Provide information about free tax preparation services in your community to help families avoid costly fees and “instant” refund anticipation loans
 - To \$AVE IT:

 - Educate families on the importance of saving a portion of these funds

Many Tax Credits for Families Exist

	Who's Eligible?	How much is it worth?
Earned Income Tax Credit (EITC)	■ Families with incomes less than \$48,362	■ Up to \$5,657
Child Tax Credit (CTC)	■ Families with children	■ Up to \$1,000 per child
Child and Dependent Care Tax Credit	■ Families who paid for child or dependent care to work or look for work	■ Up to \$2,100
Make Work Pay Credit	■ Families who earn less than \$200,000	■ Up to \$800
American Opportunity Credit	■ Families paying for postsecondary education	■ Up to \$2,500 per student
State tax credits (e.g. EITCs, renter's)	■ State EITCs: typically same as federal, but can vary	■ Can be up to 50% of value of federal credits

These tax credit

Source: Internal Revenue Service. <http://www.irs.gov>

These Are Powerful Tax Credits

- With an average nationwide EITC refund of **\$1,970**, this is the most effective anti-poverty tool for working families
 - ❑ Lifts 5 million people out of poverty each year, **half of them children**
 - ❑ Can turn a \$7-per-hour job into a \$9-per-hour job

EITC State Information at a Glance 2008

<u>State</u>	<u># of people</u>	<u>Avg. EITC Amt</u>
MO	514,580	\$2,177
KS	211,457	\$2,107
IA	210,754	\$1,999
NE	133,001	\$2,066

The Problem: The Proverbial Bucket Has 3 Leaks



1. Many families fail to CLAIM IT
 - Research indicates that as many as 25% of eligible families fail to claim the EITC
2. Many families fail to MAXIMIZE its value
 - Of those who claim the EITC, a large number pay for tax preparation and many also pay for instant refunds
3. Families may miss an opportunity to \$AVE IT
 - Families who pay for tax preparation may miss out on services and products that encourage savings often offered at free tax preparation sites

Plugging the First Leak: Help Families CLAIM IT

Who's missing out on the EITC?

Workers who are...

- Not required to file tax returns due to no tax liability – \$16,400 for married couples, \$10,500 for single parent with one child
- New parents or foster parents
- Older, especially grandparents
- Disabled or raising disabled children
- Learning English
- Living in rural areas
- Self-employed
- Individuals without children
- Recently divorced, unemployed, or experienced other changes to their marital, financial, or parental status

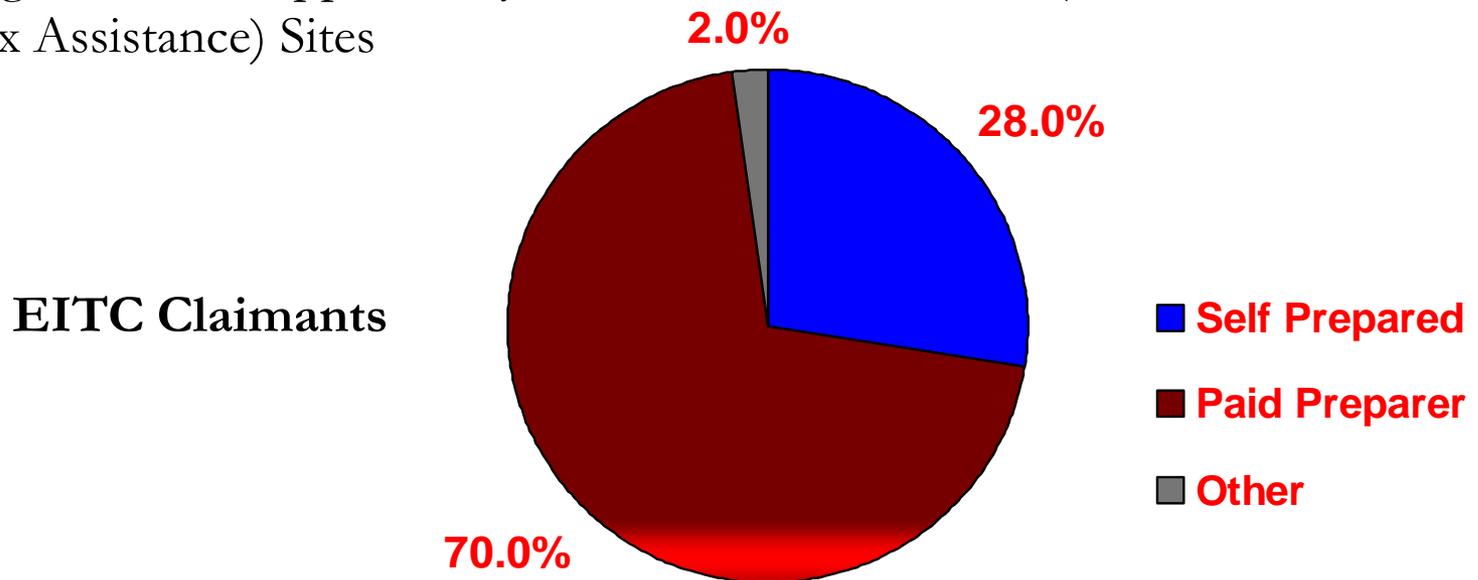


*Which one of these
groups do you work with?*

Plugging the Second Leak: Help Families MAXIMIZE IT

Advertising local, free tax prep

- The vast majority of families that are claiming the EITC are spending a large portion (\$50-\$200) of their EITC benefit on tax preparation services
- Organizations in many communities provide free tax preparation services
 - Organizations supported by the IRS are called VITA (Volunteer Income Tax Assistance) Sites



Do you have any local partners that offer free tax preparation services?

Are there VITA sites in your community?



Plugging the second leak: Help families MAXIMIZE IT

Teaching Families to avoid Costly and Risky “Instant Refunds”

- Paid tax preparers are attractive because they offer “instant refunds”
 - At VITA sites, it takes between 8 and 15 days for families to receive their refund (using direct deposit)
- These “instant refunds” are really loans (called refund anticipation loans or RALs) that need to be repaid—even if the IRS denies or delays the refund or the refund is smaller than expected
- Like any loan, RALs come with interest and fees
- If a family doesn’t pay back the RAL, the lender will take actions to hurt their credit rating and may send the account to a debt collector

An Example

If your tax refund is \$3,300, you might pay to get a RAL:

RAL Loan Fee	\$65
Other RAL Fees (transmitter, e-file, service bureau or application fees)	\$40
Plus the fee for the tax preparer	\$185
<i>TOTAL \$290 or nearly 10% of your refund, not including any interest that may have accrued</i>	

Plugging the Third Leak: Help Families SAVE at Tax Time

Helping families think ahead about saving at tax time

- Consensus from the majority of research on the EITC suggests that primary use of refunds is to pay bills (Goodman-Bacon et al., 2008)
- While paying bills makes sense, educating families on the importance of saving a portion of the refund will help them build assets over time
 - Goals include establishing a 1- to 6-month reserve account and contributing to an IDA.
- Provide information on easy ways to save at tax time, such as:
 - The new split refund option (filers can use portion of tax refund to electronically purchase U.S. Savings Bonds) -- new provision also allows purchase of savings bonds for kids

How You Can Help: The Continuum

**Lower-intensity /
lower investment**

Tell families that they can access thousands of dollars in tax credits using free tax preparation services

COMMUNICATE

**Higher-intensity /
Higher
investment**

Train staff to educate parents about ways to save at tax time and the pitfalls of instant refunds

MOTIVATE

Participate in a community partnership

PARTICIPATE

Help is needed at all points along the continuum – consider where your organization could contribute

Communicate

- Local Early Learning Community Roles:
 - ❑ Advise families that they may qualify - new families are eligible every year
 - ❑ Highlight tax credits and free preparation services at upcoming parent meetings or staff trainings
 - ❑ Make flyers available at recruitment events, home visits, resource centers, parent involvement activities, and in program newsletters
 - ❑ Incorporate accessing tax credits into family assessment processes
- Local Asset Building Community Roles:
 - ❑ Provide materials on tax credits and free tax preparation services to organizations that reach families (early learning centers, schools, WIC offices, libraries)
 - ❑ Offer informational sessions to early learning organizations in the community—EITC campaigns or VITA sites can market their services to Head Start and other providers

Motivate

- Local Early Learning Community Roles:
 - Assist families with basic eligibility screening
 - Train staff to educate parents on the risks and costs associated with paid tax preparation services and instant refunds
 - Train staff to inform parents of easy ways to save at tax time. Consumer credit counselors, IDA coaches, Lutheran Social Services, and CAP agencies can provide guidance.

- Local Asset Building Community Roles:
 - Embed services that encourage families to save into free tax prep services
 - VITA sites can partner with local credit unions to offer lower-priced express refund loans that require direct deposit into a savings account
 - Ensure VITA sites offer the “split refund” option – a portion of family’s refund is used to purchase savings bonds

Participate

- Local Early Learning Community Roles:
 - Early learning centers can initiate their own small-scale tax outreach and awareness initiatives with the following types of activities:
 - Assist clients with documents needed for tax prep
 - Coordinate translator needs
 - Provide locations and directions to VITA/Call 211
 - Provide a computer with Internet for families to “Free-File” to IRS
 - Identify a mentor to assist families with Free-File
- Local Asset Building Community Roles:
 - Recruit staff from early learning centers to train as volunteer tax preparers
- Roles for Local Early Learning and Asset Building Communities:
 - Start or participate in existing community-based partnerships

Community-Based Partnerships

- Partnerships between early learning providers and other community organizations can serve as a centerpiece for enhancing awareness and education and encouraging families to use tax credit refunds for asset building



Overview of Promising Practices

- **Office of Head Start and IRS-SPEC, EITC Project**
 - ❑ Conducted webinars for Head Start centers, giving an overview of EITC and proposing approaches to increase awareness among Head Start program staff and families
- **Milwaukee Asset Building Coalition**
 - ❑ Head Start marketed EITC and a free tax preparation program directly to its client base of families. In addition, staff are being trained to directly assist families with taxes.
- **Oklahoma CAP and Head Start, EITC Collaboration Pilot**
 - ❑ Head Start partnered with community action agencies to provide free tax preparation to Head Start families
- **Stafford County, Virginia, Head Start**
 - ❑ Head Start provided training for staff and incorporated EITC outreach and free tax preparation into the staff's responsibilities
- **The United Way of Metropolitan Dallas Earn It! Keep It! Save It!**
 - ❑ Integrated EITC and tax preparation services with the Head Start center, breaking down barriers to access and creating a seamless process for families to receive both child care and tax preparation services

Recent Innovations



- Alternative Refund Anticipation Loans
 - ❑ VITA sites partner with credit union to provide less costly and risky instant refunds
 - ❑ For example, fees of \$20 and fixed interest rate (for 10 days only) of 12.95%
- Express Refund Loan & Savings Programs
 - ❑ Provide alternative RALs, help individuals get banked and encourage savings
 - ❑ Refunds are direct deposited into savings accounts at credit union
- New Split Refund Option
 - ❑ Doorways to Dreams (D2D) Fund Refund to Assets (R2A) US Savings Bond Program
 - ❑ Program uses a Web-based Savings Bond portal and leverages the IRS's Split Refund infrastructure/Form 8888 to facilitate purchase of bonds

Promising Practice: United Way, Metro Dallas Earn It! Keep It! Save It!

- One of United Way's most successful financial education programs is Earn It! Keep It! Save It! (EKS). The purpose of EKS is to empower low- to-moderate income families to become financially stronger, more self sufficient, and successful
- Launched in October 2008, EKS combines free tax preparation services and financial education for managing assets and debts
- Over the past 2 years, EKS put more than \$16 million into the pockets of hard-working North Texas families by filing returns and helping them take advantage of many tax credits such as the EITC
- Head Start of Greater Dallas has been offering VITA services to nearly 700 families over the past 4 years

United Way, Metro Dallas

Earn It! Keep It! Save It!

- In the second year of the program, a Family Financial Center (FFC) was launched through a partnership with Ferguson Road Initiative, Consumer Credit Counseling Service, and United Way
- The FFC serves as a neighborhood hub where families can access financial tools and services that will help improve their financial stability
- In addition to providing VITA services, the FFC offers:
 - ❑ **Financial Education:** Classes that teach families basic income management (budgeting, bank accounts, savings, etc.). Credit counseling and housing support classes are also offered.
 - ❑ **Benefits Screening:** Assistance accessing public benefits that families are eligible for

Families Need to Know How to...

CLAIM IT  **MAXIMIZE IT**  **\$AVE IT**

To do this, families need to know:

1. They may be eligible for BIG \$\$\$\$\$\$\$
2. They need to file a tax return to access it
3. Free tax preparation services are available
4. To resist offers for “instant refunds”
5. How to make their refund dollars go furthest by using funds for savings!

Key Resources to Help You...

- Internal Revenue Service (www.irs.gov)
 - Becky Harrell, IRS-SPEC (Rebecca.Harrell@irs.gov)
 - Kate Lett-Deathe, Territory Manager, Missouri & Kansas, (Kathryn.Lett-Deathe@irs.gov)
 - Mary Solomon, Territory Manager, Iowa & Nebraska, (Mary.L.Solomon@irs.gov)

- Doorways to Dreams Tax Time Savings Bond Campaign (www.d2dfund.org/taxtimebonds)

- National Community Tax Coalition, 2009 Asset Building Resource Guide (<http://tax-coalition.org>)

- National League of Cities - Maximizing the EITC in Your Community (www.nlc.org/iyef/eitc/index.html)