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IRS should help us bank our refunds

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Cesilia Bueso, a San Francisco teacher and single mother, won't attend the public hearing in San Francisco Thursday on reforming the tax code to make it "simpler, fairer, and more pro-growth." But the panelists have much to learn from her — and from a San Francisco effort to help low-income people receive larger tax refunds and then save some.

Tax refunds provide most Americans with their best shot to save. By April 15, more than 100 million Americans will have filed for tax refunds that average $2,000. Even people with modest incomes like Bueso, who earn less than $36,000 a year, receive sizable refunds (averaging $1,700) from the Earned Income Tax Credit, an income supplement and work incentive mainly for parents with children. Bueso saved her EITC each year for five years, which enabled her to buy a home in San Francisco's Visitacion Valley neighborhood.

People like Bueso can't spend their way into the middle class — they save their way into it. But most Americans do not have Bueso's discipline. Our national savings rate is now at 0 percent. The problem is particularly alarming here in California, where, according to the nonprofit Corporation for Enterprise Development, almost a third of families suffer from "asset poverty" — meaning they'd only survive for three months at the poverty level if forced to deplete all of their assets. That's the fourth worst "asset poverty" rate in the nation, just ahead of New York.

Surprisingly, the IRS is well-positioned to significantly increase the national savings rate. It can adopt simple low-cost changes to make it easier for people to save their refunds.

Bueso's experience is again instructive here. She needed a safe place — a bank account — to save up for her down payment. But 10 million families — and a stunning 22 percent of Californians, according to 2002 data from the U.S. Census Bureau — don't have bank accounts. Many people, most of them low income, cannot meet bank minimum-balance requirements or lack the proper ID to open accounts. So, instead, they turn to check cashers and payday lenders, where they pay more and have little opportunity to save.

In San Francisco, community groups and businesses are turning tax time into an opportunity to bring low-income people into the financial mainstream. By having their refunds directly deposited into bank accounts, people can receive them quickly and avoid taking out costly rapid-refund loans. In partnership with San Francisco's free tax preparation sites, Wells Fargo is opening free checking and savings accounts for low-income tax filers. H&R Block is offering low-cost IRAs to low-income families.

This year, many San Franciscans will be more likely to save, thanks to the city's new Working Families Credit, a local match to the Earned Income Tax Credit that will put a few hundred extra dollars in the pockets of the city's working poor. (For more information about eligibility for the credit, call (415) 554-5678 or visit www.sfgov.org.) Mayor Gavin Newsom created the credit to increase awareness about the federal EITC, after San Franciscans neglected to claim between $10 million and $20 million in EITC benefits last year.

The IRS can make similar changes at the national level. The easier it is for people to save, the more they'll save. The IRS could change its forms to allow people to "split" their refund into "money to save" and "money to spend. " People could send some to their checking account to pay down their VISA bill and put the rest into an IRA. This idea was tested last year in Tulsa, Okla. The result? Low-income individuals — 75 percent of whom had no prior savings — deposited $583 on average into savings accounts.

The IRS could also make it easier to open savings accounts or IRAs right on the forms, with check-off boxes, or to buy savings bonds with their refunds.

Looking toward the future, community groups in San Francisco hope to test something called "Working Families IRA." If EITC filers put some of their refund into these IRAs, their deposits would be matched with philanthropic donations up to $300. These savings incentives would parallel the $300 billion a year the IRS gives to middle- and upper-income counterparts to deduct interest on their mortgages, get tax breaks for investing in businesses, or to save toward retirement — great policies, but 90 percent of the benefits go to households making more than $50,000 per year. Many of these changes can be made without passing any laws or spending a dime. Higher cost reforms are needed to help working-poor families in this country. But if the IRS can spur increased saving to improve the economic security of American families, it should do so now.