

EMERGING LESSONS

September
2013

A Case Study on Fee-for-Service Tax Assistance for Small
Business Owners at Brooklyn Cooperative Federal Credit Union



expanding economic opportunity

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A special acknowledgement is extended to Brooklyn Coop's staff, who shared their time, experiences and expertise in a series of in-person and phone interviews over the course of our partnership. These staff include Rebecca Pear, the Small Business Tax Counselor, and Samira Rajan, the Chief Executive Officer.



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About this Case Study

This case study is a detailed analysis of one credit union's approach to designing and implementing a fee-based tax assistance program aimed at generating earned income to sustain the program, offer an alternative to commercial tax preparers for low-income entrepreneurs and draw more small business clients to their loan products. This case study is intended to be a resource that captures and shares many of the lessons from CFED's partnership with Brooklyn Cooperative Federal Credit Union (Brooklyn Coop) that convey what they have learned about delivering tax assistance services to entrepreneurs for a below market rate fee. This study is designed for anyone interested in establishing a similar fee-based tax assistance program, including community-based organizations, community leaders and practitioners, financial institutions, municipal or state agencies, microenterprise development organizations and other organizations that serve entrepreneurs and their families.

The content of this case study is based on the careful examination and analysis of the experiences of Brooklyn Coop. The content was gathered through a series of phone interviews, meetings and site visits that occurred during CFED's three-year engagement with Brooklyn Coop and through written materials provided by Brooklyn Coop staff. Other lessons and recommendations shared in this study have been documented in reports to funders, internal memos and documents shared between CFED and Brooklyn Coop. This publication aims to compile those vast sources of information into one comprehensive reference on Brooklyn Coop's experience implementing a fee-for-service tax assistance program.

This is not a toolkit or start-to-finish implementation guide. This case study is based on a relatively new and constantly adapting service delivery model and is not designed to serve as an implementation guide or an all-encompassing toolkit for those interested in establishing a similar approach. While the case study includes samples of materials developed by the Brooklyn Coop to implement this approach, it does not include an exhaustive, "nuts-and-bolts" toolkit with worksheets, templates or step-by-step instructions for program design or implementation. For organizations interested in implementing a similar approach, check out the Discussion Guide at the end of this document with key questions for consideration.



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Introduction

The Rise of Fee-Based Social Services

In recent years, many social service oriented nonprofits have been forced to adapt their service delivery models in order to fulfill their missions amidst a series of significant political, organizational and economic challenges. The old adage certainly applies here: there's no such thing as a free lunch, even if it's provided by a nonprofit. The burden of paying for the delivery of social services is so often carried by the providers themselves, but these larger shifts in the nonprofit environment have pushed many practitioners toward models that reallocate that burden in creative ways.

In 2002, the Aspen Institute and Brookings Institution explored some of the factors affecting social service providers in depth, finding that the following components have encouraged nonprofits to develop new financial models. Though the political environment is dramatically different even today than it was ten years ago, nonprofits still face:

- Expanded demand for their services
- Increased competition for resources (and clients)
- Growing accountability demands

In response, service providers are rethinking their funding models—or even beginning to think of them as business models—to create a diverse patchwork of sources for covering the costs of providing services. One response to these challenges is a tendency to adopt more tenets of “market culture into the fabric of nonprofit operations.”¹ Nonprofits are beginning to market products to clients, treat those clients as customers rather than beneficiaries, segment their markets, differentiate their service offerings accordingly, identify and cultivate a niche, and incorporate other characteristics of business management into their operations.

Community-based organizations that offer free tax preparation assistance to business owners, particularly Volunteer Income Tax Assistance (VITA) programs,² have been hit hard recently by shrinking funding streams and restrictive administrative policies³ limiting the types of services they can offer to owners of small businesses in need of tax help. Many in the field have begun experimenting with other service delivery and funding models that will enhance their programs' financial sustainability and enable them to continue offering safe, affordable tax assistance to hardworking owners of small businesses.

¹ Steven Rathgeb Smith, Chapter 4 (Social Services) *Highlights from The State of Nonprofit America* (Washington, DC: Brookings Institution Press, 2002), 1-3.

² VITA is an IRS-sponsored, community-based program designed to help low- and moderate-income taxpayers complete their annual tax returns at no cost. Each year, thousands of volunteers are trained and certified to prepare millions of income tax returns at more than 12,000 VITA sites across the country. In tax season 2011, VITA programs filed nearly 150,000 Schedule C or C-EZ forms for self-employed taxpayers.

³ IRS's Office of Stakeholders, Partnerships, Education and Communication determines the scope of services VITA programs are allowed to offer; in 2012, IRS placed greater limitations on the types of self-employed tax returns VITA programs can prepare.

Fee-for-Service Tax Assistance at Brooklyn Coop

Brooklyn Coop is a community development credit union that supports the economic development of the Bushwick and Bedford-Stuyvesant neighborhoods through consumer, business and home loans and other core retail consumer financial services such as checking and savings accounts. Today, it is among New York City's fastest growing credit unions. Brooklyn Coop began providing low-cost tax preparation assistance for owners of small businesses in February 2010. Brooklyn Coop is located in one of the most underbanked neighborhoods in New York City—there are only eight commercial bank branches in the Bedford-Stuyvesant and Bushwick neighborhoods, which together serve more than 250,000 people.⁴

With initial grant support from corporate and public-sector funders in 2010, Brooklyn Coop hired a full-time Small Business Tax Counselor.

While low-wage workers in the United States can access free tax preparation services through the IRS Volunteer Income Tax Assistance (VITA) program, self-employed businesses with expenses over \$5,000 are not eligible for VITA. So, rather than providing free tax assistance with rigid income restrictions, Brooklyn Cooperative chose to charge a below-market fee and made the program available to any independent contractor or small business owner needing help with their taxes. In doing so, Brooklyn Cooperative sought to bridge an important tax preparation service and quality gap for local small businesses since many neighborhood accounting and commercial tax preparation services are prohibitively expensive and rarely take the time to educate taxpayers about their businesses' financial management as they prepare their returns.

Brooklyn Cooperative's core goals for this program included:

- **Meeting the needs of their small business clientele by providing an affordable tax assistance alternative for entrepreneurs who cannot qualify for VITA.** While assisting unincorporated sole proprietors—Schedule C filers—is important, there are many low-income entrepreneurs who work in retail services, the construction industry and even cleaning services who choose to incorporate their businesses and face even greater challenges when they encounter the complex small business tax code. The core difference between unincorporated and incorporated businesses is a legal distinction, although the types, incomes and needs of low- and moderate-income incorporated and unincorporated business owners are often quite similar. Like self-employed taxpayers, incorporated business owners must file their taxes on a different, more complicated form than wage-earning employees and are also in need of quality, affordable tax preparation services.
- **Achieve financial sustainability for the program.** Brooklyn Cooperative aims to eventually fund two-thirds of the operating costs of this business tax assistance program with earnings from the program itself. The fee charged to small business taxpayers provides direct operational support to fund staff time and materials.
- **Complement and support the small business lending program.** From an organizational standpoint, beyond just creating a program that sustains itself through earned income, Brooklyn Coop also wanted to draw in more businesses to their lending products and support the entrepreneurs seeking loans who are also in need of tax help. They hoped that their tax preparation services would also improve the success of the credit union's small business loan program by helping to create a pipeline of more prepared loan applicants.

⁴ Visit Brooklyn Coop's website for more information: <http://brooklyn.coop/about-us/brooklyn-cooperative-profile/our-mission-history>



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This approach is innovative because the vast majority of community-based tax assistance providers offer their services for free, which requires them to heavily subsidize the costs of operating a tax assistance program—marketing, outreach, staff training, staff time and materials—with grant funding. Brooklyn Coop’s fee-for-service model, though still partially subsidized with grant funding, is designed to gradually pay for itself. As a result, the program is both more sustainable and scalable than traditional community-based tax preparation programs.

Owners of small businesses who utilize tax assistance at Brooklyn Coop also receive access to a greater range of high-quality, affordable financial services and products than those who utilize the services of commercial tax preparers. Since tax preparation is provided by the small business counselor and located in a credit union, tax clients receive a thorough explanation of the significance of their tax return and are also encouraged to take advantage of other financial services, including banking, lending, financial counseling and credit counseling. Additionally, access to quality tax assistance can help business owners build stronger business loan applications. For example, some businesses that apply for loans at Brooklyn Cooperative are unable to gain approval for the full amount of their request because their taxes do not show or inaccurately report their business income and expenses. With high-quality tax assistance, borrowers that take advantage of the business tax assistance will have more complete and accurate tax returns and stronger business loan applications.

Program Design

Multiple questions need to be asked—and answered—when considering the viability of a fee-based service model: What is the value proposition of the service for the target customer, and how is the service differentiated from other options in the marketplace? How much demand for the service realistically exists within the market? What is the actual cost of providing the service, and what is the price point that the market will bear? What—if any—subsidy is needed to cover the spread between cost and price, and for how long is that subsidy required before the program can self-sustain?

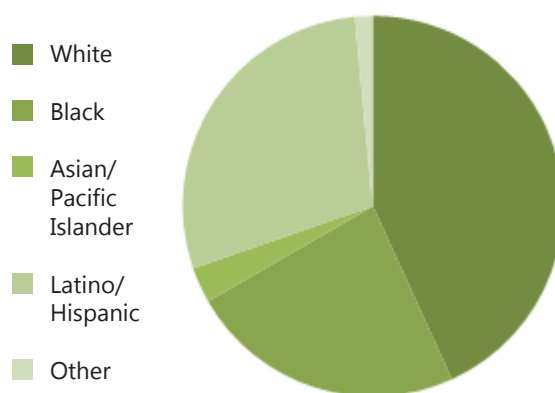
In an ideal world, all of this research happens before a product is ever brought to market. But in the real world—and especially among mission-driven service providers—the program design process tends to be a bit more iterative.

Before launching its fee-for-service tax preparation model, Brooklyn Coop enjoyed a unique vantage point within their target market as a financial service provider serving a particular niche market segment in their geographic footprint. Though they did not undertake an in-depth market analysis study to come to conclusions about their target market, pricing or demand, they leveraged their deep understandings from having served the community since 2001 to make judgments about the feasibility of a fee-based initiative and inform the program's design.

Defining the Target Population

Brooklyn Coop's target population for small business tax assistance is defined first and foremost by its charter and the geographic boundary in which it is designated to serve as a community development credit union—under that charter, Brooklyn Coop is authorized to serve people who either live, work, volunteer or worship in Bushwick or Bedford-Stuyvesant neighborhoods. As a cooperative, Brooklyn Coop's membership has a stake in the credit union's growth and development and the credit union is, in return, directly accountable to its members. Brooklyn Coop aims to present a competitive and attractive alternative to mainstream, for-profit financial institutions whose products and services sometimes fail to meet the needs of some members of the community. In particular, the credit union has tried to find ways to serve the financial needs of the various immigrant communities in the neighborhoods of Bushwick and Bedford-Stuyvesant.

Ethnicities of Small Business Tax Clients Served in 2013



At the outset, Brooklyn Coop expected that they would draw a sizeable share of their small business tax preparation customers from the two programs that had motivated them to launch the fee-based initiative in the first place: VITA and their small business lending operations. But after their first year, they realized that their client base was coming from a much more diverse range of sources, many of whom had been informed of the services



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through the credit union's advertising campaign in local media and at partners' organizations. Data on first year operations showed that about a third of the program's clients were Brooklyn Coop members and another 15% were referred by Freelancers Union, who promoted Brooklyn Coop's tax services to its large membership on their [blog](#).⁵ Some other clients were referred from small business service providers in the city. But, beyond these partner referrals, the rest of the clients were coming from other sources. For example, many new artist entrepreneurs were moving into the neighborhood after having been pushed out of costlier areas of the city, and many young clients who had been unable to find full-time employment and started their own businesses or were being paid as contractors were utilizing the service.

Bedford-Stuyvesant, or Bed-Stuy, is Brooklyn's fastest growing neighborhood, and in addition to its African American and Caribbean American population⁶ it has also increasingly become home to young "20- and 30-somethings who've left their sleepier hometowns for Bed-Stuy apartments which cost less than nearby Williamsburg, Clinton Hill and Ft. Greene."⁷ In 2013, Brooklyn Coop's self-employed and small business tax clients were predominantly young (25-45 years old), mostly White and/or Hispanic and low- to moderate-income. Over time, they have observed that the fee-for-service model seems to attract more "intentional" business owners—those most interested in growth—than a VITA program might. For some, entrepreneurship is not an option: they are forced to create their own jobs out of necessity—often because of unemployment or lack of other job options—rather than launching a startup because a promising idea motivated them to do so. Surely, this dualistic depiction of motivations for business ownership is not the full picture, but these two identities do offer a helpful lens through which we can interpret the needs and goals of the types of business owners coming into Brooklyn Coop for tax help.

Assessing Demand & Gauging Organizational Readiness

Brooklyn Coop has operated a VITA program in every year since 2003. During that time, many small business owners have visited the VITA site in need of tax assistance with circumstances that exceeded the scope of services that may be provided based on IRS restrictions. At the same time, they also observed owners of small businesses seeking loans for startup or expansion who could not qualify because they lacked the tax records or business plan required to apply. For early-stage, small businesses seeking a loan without a business plan but with well-kept financial records, the Coop could easily refer them to a small business development center where they could receive affordable business plan development assistance. Those without the financial records, however, were often in need of a deeper level of assistance than a business counselor could offer. Many times, those business owners' only option was to seek bookkeeping and tax assistance with a commercial preparer or accountant before going to a business counselor, which they often could not afford.

According to Samira Rajan, Brooklyn Coop's Chief Operating Officer, "it just seemed like the reasonable thing to do... They [funders] are interested in piloting programs, but years later, there isn't going to be an unlimited supply of grants. Programs that can say they have a plan for longer-term financial sustainability are better off."

⁵ <http://www.freelancersunion.org/blog/2011/01/20/low-cost-tax-prep-in-nyc/>

⁶ Bed-Stuy is predominantly African American and Caribbean American, Bushwick is predominantly Latino. The young entrepreneurs who are moving into the neighborhoods are a variety of races, although mostly white. Most of the small business tax clients who are operating out of necessity are the Bushwick Latino clients who do not have social security numbers and are being paid under the table by employers or have set up their own businesses because they could not secure other employment opportunities.

⁷ Simone Weichselbaum, "Bed-Stuy's boomboomBoom: Nabe topstopsTops Brooklyn populationPopulation Rise," *New York Daily News*, March 20, 2013, accessed June 25, 2013, <http://www.nydailynews.com/new-york/brooklyn/bk-population-boom-bed-stuy-babies-article-1.1294424>.

Brooklyn Coop saw an opportunity to fill a gap in the market and seized it. The tax assistance spectrum leaves low- and moderate-income small businesses with a dearth of options that meet their needs because commercial preparers are often prohibitively expensive and free community-based providers are often limited by IRS scope. They determined that a fee-based program would not only meet an evident need within their target population that was not being met by their free tax assistance program or commercial preparers, but would also provide returns to their organization.

At the same time, Samira Rajan, Brooklyn Coop's Chief Operating Officer, saw that grantmakers were driving them toward implementing more sustainable program models as well. Funders "are interested in piloting programs, but years later, there isn't going to be an unlimited supply of grants. Programs that can say they have a plan for longer-term financial sustainability are better off." Furthermore, by making tax assistance more easily accessible to their small business loan applicants, Brooklyn Coop saw an opportunity to increase the flow of applicants and ultimately improve their lending operations.

According to Samira, it was a no-brainer. "It just seemed like the reasonable thing to do," she said.

Since launching this program, they found that many business owners actually prefer to pay a fee for tax assistance rather than to visit a free tax assistance provider. Taxpayers who visit the Business Tax Counselor at Brooklyn Coop know that they are paying for a quality service and appreciate that it is being offered at an affordable price. Because they are paying for that service, they are more accountable as clients—they expect the tax preparer to behave professionally and they behave accordingly as well. For instance, clients come as prepared and organized as possible and are more likely to call ahead if they know they might be late to an appointment; they want to get the most out of the time for which they pay.

Service Offerings and Pricing

Brooklyn Coop's small business tax preparation service offerings and pricing have evolved quite organically over time. Though initial offerings were based on needs identified through the VITA program and small business loan clientele, over the life of the program, customers' needs and staff's capacity have also shaped the current menu of services available and their pricing.

For the most part, determining what services the Tax Counselor can offer has been informed by an exercise in one-on-one problem solving with clients. Aside from preparing basic small business returns, clients also commonly request assistance with sales taxes, business planning and recordkeeping:

- Though state **sales taxes** were not an issue Brooklyn Coop expected to deal with up front, because New York state sales taxes must now (as of 2013) be filed online and some of the Coop's clients have computer literacy issues, it has become a much more prevalent need.
- When clients ask for **business planning assistance**, the Tax Counselor will offer them a template and encourage them to seek help at one of the many business development organizations in the city. Though business plan assistance originally seemed like a logical set of companion services to offer alongside tax assistance, the credit union ultimately decided to discontinue it because of the wealth of other small business counseling and training services available at other providers throughout New York City.



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- **Accurate and timely recordkeeping** is a critical component of tax filing and businesses owners' ability to make informed financial decisions about their business operations. When clients need help with recordkeeping, the Tax Counselor offers tools⁸ and advice to help them keep track of their income and expenses throughout the year. She encourages them to separate their bank accounts (or credit cards) for business and personal transactions and to use online financial management services like Mint.com to stay organized.

Over time, Brooklyn Coop has learned that they are best able to help those clients who require fairly simple tax assistance. These include the self-employed sole proprietors and small businesses with annual revenues below \$100,000. These business owners are in the earliest stages of business development, often have the fewest resources and are the most financially vulnerable; they fall into the exact niche that Brooklyn Coop sought to serve. Though they initially imagined that some sizeable share of their work would include corporate, partnership and nonprofit returns, for which they could charge higher fees, this has not been the case.

The credit union found that these organizations are generally more likely to pay a professional accountant and have returns that are complicated enough that they might exceed the Tax Counselor's expertise or detract from the amount of time she can spend preparing returns for their target population. Because Brooklyn Coop is not prepared to make a more significant investment in staff training to keep up with the nuances of corporate tax law or to offer ordinary bookkeeping and payroll services for companies that require a higher level of accounting service, they cannot serve that market. Partially due to mission alignment and the decision not to invest in additional training, it has not been feasible to prepare more complicated tax returns simply to generate higher program revenues.

Charging for their services allows Brooklyn Coop to offer a level of service beyond what is available at their free VITA program, but they have intentionally set and held pricing below the market rate for commercial tax preparation in order to adhere to the credit union's community-focused mission and to reach the gap in service between free tax assistance and high-cost commercial preparers. In its first year, Brooklyn Coop charged the following fees to prepare the following types of forms and perform some additional services:

Tax Season 2010: Brooklyn Coop Small Business Tax Assistance Fee Schedule	
Type of Service	Unit Price
Form 1040EZ	\$25
Form 1040	\$50
Additional State other than NY, NJ or CT	\$25
Amended Form 1040	\$50
Schedule A, C, D or E	\$25
Partnership/Corp (1041, 1065, 1120, 1120S)	\$200
Form 7004: Extension	\$25
NYS Sales and Use Tax (per filing)	\$30
Estimated Tax: Federal & State	\$25
MTA Tax Form	\$20
Additional Tax Return Copy	\$15
General Tax Assistance (per half hour)	\$20
Offer in Compromise	\$100
Form 1099	\$20

⁸ See Exhibit A, Self-Employment Tax Preparation Worksheet

Brooklyn Coop did not place income restrictions on the small business tax assistance recipients in the first two years of the program's operation. Since there were no limits restricting access to business tax counseling services to those below a certain income level, Brooklyn Coop served a few taxpayers who could have afforded to pay the market rate for professional tax assistance. Typically, the wealthier the client, the more complex their return can be since more potential loopholes arise with asset ownership. As a result, these clients take more time to serve and can detract from attention spent on lower-income business tax filers with fewer options when it comes to affordable tax assistance. As a community development credit union, Brooklyn Coop is committed to serving those in greatest need.

For the 2013 tax season, in an effort to ensure that they were allocating their resources most efficiently to serve the needs of their niche—low- and moderate-income small business owners—the credit union did institute income limits. They adapted their pricing model so that some fees are dependent upon the customer's income. For example, for single filers with net incomes of \$25,000 or less, a basic schedule C form would cost \$50, whereas for those with incomes above \$25,000, a basic Schedule C would cost \$100.

Tax Season 2013: Brooklyn Coop Small Business Tax Assistance Fee Schedule	
Type of Service	Unit Price
Form 1040 + 1 Schedule (net income under \$25,000)	\$50
Form 1040 + 1 Schedule (net income \$25,000 to \$75,000)	\$100
Additional State	\$25
Additional Schedules A, C, D, or E	\$25
Additional W2s or 1099-MISC (after 5)	\$10
Partnership/Corp (1041, 1065, 1120, 1120S)	\$200
Fed and State extensions	\$30
NYS Sales and Use Tax (per filing)	\$30
NYS Sales and Use Tax online setup	\$50
Estimated Tax: Fed and State	\$50
Additional Tax Return Copy	\$15
General Tax assistance (Form Completion, IRS correspondence, etc.)	\$20/30 minutes
Form 1099	\$20

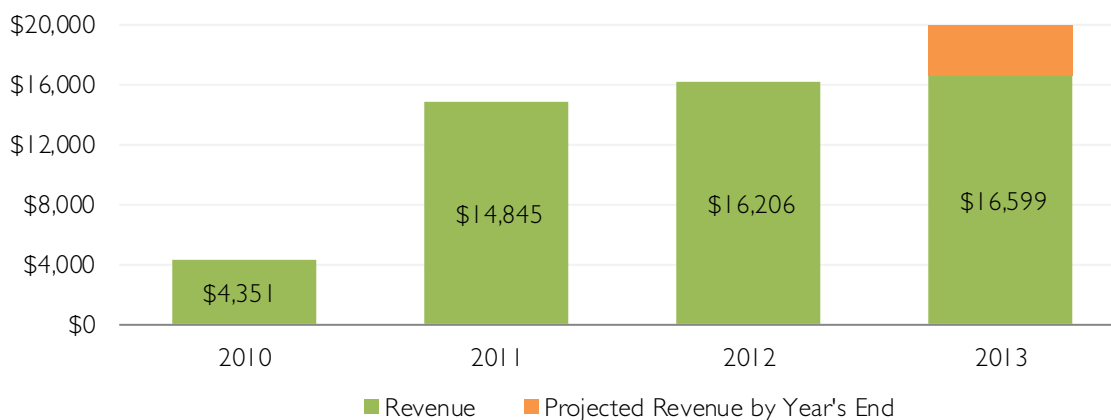
Along the way, they also considered charging an hourly fee rather than a flat rate for tax preparation, but ultimately decided against it. However, because the Tax Counselor is not a Certified Public Accountant (CPA), she sometimes takes more time to do research on tax law issues than a CPA might. Also, she often spends additional time with clients offering basic recordkeeping and business accounting education. To avoid detracting from the important educational component of her approach and to account for the additional time she may spend on research, they chose to stick with a flat fee for each form, but to charge a time-based fee for general tax assistance.

Financial Sustainability

Program Income

When the small business tax assistance program at Brooklyn Coop was first launched, the original goal was to cover at least two thirds of program expenses through earned income. Ideally a mature program would cover between seventy and eighty percent of its operating costs. They estimate that the program expenses generally amount to about \$60,000 annually, and these expenses are largely comprised of staff salary and software purchases. At minimum, they hoped that the program's revenue would yield about \$40,000 annually. To date, this level of earning has not been realized and leadership has adjusted their expectations now that they better understand the dynamics of the program's operations and have a better sense of what the market will bear, what services they can and cannot provide, and what reasonable level of revenues they can expect.

Annual Program Revenues 2010 - 2013



Having made the strategic decision to focus on the smallest, most financially vulnerable businesses—rather than more complex and costly corporate businesses or partnerships—Brooklyn Coop realizes that it cannot realistically generate \$40,000 annually given the lower price point of sole proprietor's returns. In order to earn \$40,000 a year serving this target clientele, Brooklyn Coop would need to serve approximately 400 clients. In tax season 2013, they served a total of 152 small business owners and hope to serve a total of 200 throughout the year to generate approximately \$20,000 in revenue. In 2014, they are aiming for modest growth: between 220 and 240 clients at most. The program's earning potential may plateau at a little over \$20,000 unless they make a different decision about their ideal client mix in coming years or increase the fees.

Fundraising

From the beginning, the program's earned income has been supplemented by grant funding from partners such as CFED, Morgan Stanley and the New York State Empire Development Corporation. As mentioned previously, the development of this fee-based model was, in some part, driven by the funding environment in which long-term grant support is hard to come by.

The ultimate goal of greater financial sustainability is a compelling component for many funders, but when Brooklyn Coop pitches their program to philanthropic partners, they often highlight the following selling points as well:

- **The difficulty sole proprietors or new entrepreneurs have when trying to understand their tax compliance burdens.** Brooklyn Coop's provision of one-on-one education helps business owners understand their tax responsibilities and learn how to keep better track of their income and expenses in years to come.
- **The significance of the services they provide in helping business owners build wealth.** By filing their taxes with Brooklyn Coop, business owners can avoid falling into trouble with the IRS; make more informed financial management decisions; and prepare themselves to qualify for loan capital that might help them grow their business in the future.
- **The unique nature of the market niche that Brooklyn Coop serves.** Because there are not many competent professionals in the neighborhood who will offer tax assistance for affordable fees, owners of small businesses often either do their taxes themselves and struggle with the complexity of the process *or* seek assistance at commercial preparers whose services they cannot afford and who often do not share Brooklyn Coop's commitment to community development.



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Program Implementation

Client Outreach, Participation & Retention

Marketing and Outreach

At the start of their small business tax program, Brooklyn Coop enlisted a professional graphic designer to create flyers and posters for use both online and in print. These advertisements were placed in seven local newspapers and on seven blogs or websites. As expected, newspaper advertisement was more expensive than online ad placement, costing an average of about \$1,300 (ranging between \$450 and \$2,400) to run an ad for three to four months. The local newspapers included three monthly publications, *The Williamsburg Greenpoint News & Arts* paper, *The Brooklyn Rail* and *The Greenline*; three weekly papers, including *The Brooklyn Paper*, *Our Time Press* and *The Greenpoint Gazette*; and *Brooklyn's Progress*, the Brooklyn Chamber of Commerce newspaper, which is a quarterly publication circulated to all Chamber business members. These seven publications were circulated to more than an estimated 180,000 readers. All of these except *The Greenpoint Gazette*, which costs 25 cents per issue, are free to readers.

Online advertisements were placed on local blogs, including the *Bed-Stuy Blog*, *The Bushwick News*, *3rd Ward*, and *Brooklynian*. Brooklyn Coop marketing materials were also placed on larger, national websites frequented by the target population of owners of small businesses. These included *Sheepless*, a national magazine about small business and local economies; *Fractured Atlas*, a national nonprofit that serves independent artists and artist organizations; and the *Freelancers Union*, a support system of products and services to help the growing independent workforce. Ad placement on Bed-Stuy Blog cost \$150 for three months, whereas placement on the Bushwick News site cost \$500 per month. All other online advertisements were free. Overwhelmingly, the most useful source of clients was the credit union itself, from which 35% of the small business taxpayers seeking assistance in the 2011 tax season learned about the credit union's new tax preparation service, followed by the Freelancers Union website advertisements, return clients from the prior year, local small business counselors and former clients who spread the word to fellow business owners.

The Tax Counselor also spreads the word about the small business tax assistance services offered at the credit union by giving presentations at partners' entrepreneurship training classes at Brooklyn Economic Development Center (Entrepreneurship Assistance Program); New York City Housing Association's Resident Business Development Program; St Nick's Alliance (Brooklyn Business Center); Pratt Area Community Council; and Rolling Up the Gates events. She also shared flyers with various local organizations that serve owners of small businesses in the community. A good number of small business taxpayers were referred to Brooklyn Coop by community-based organizations with whom she built partnerships and shared information. These included various small business counseling centers such as Make the Road New York, a local organization that promotes economic equity and opportunity through policy advocacy, leadership development, adult education and legal support services; In Good Company, a community for women entrepreneurs that provides office space and networking opportunities in New York; and South Brooklyn Legal Services, which provides legal assistance to low-income families.

In the first year of operation, Brooklyn Coop learned some critical lessons about marketing and the best ways to achieve optimal outcomes:

- **Extensive newspaper advertising is not worth the cost.** The cost of advertising in seven newspapers for about three months leading up to the 2011 tax season totaled a little under \$10,000. Only seven of the 121 small business taxpayers served in 2011 learned about the business tax assistance at Brooklyn Coop through newspaper ad placements. Of those, six came from one paper alone, the *Our Time Press*, a paper local to Bedford-Stuyvesant, Fort Green, Crown Heights and other neighborhoods in Brooklyn. *Our Time Press* probably generated more referrals because it caters to such a local crowd, compared to the other newspapers.
- **Marketing techniques that target specific populations are most successful for drawing in clients.** The Tax Counselor identified several distinct groups of business owners seeking services at the Brooklyn Cooperative in 2011 and following years, including relatively low-income young people who may have just graduated from college and have chosen to embark on some entrepreneurial venture and very low-income immigrant families on the fringes of the economy without Social Security numbers who operate businesses out of necessity. The Tax Counselor also found that organizations that serve key target populations—like owners of small businesses, specific neighborhoods, artists and so on—drew in good numbers of referrals in 2011. As a result, outreach strategies in subsequent years focused on reaching those key populations and the organizations and other media that serve them.
- **Local community partner organizations are great referral partners.** With just one staff person responsible for operations and service provision as well as marketing and outreach, maintaining and growing deep partnerships with other community-based organizations is a challenge. Still, these partners—who often serve as advisors to owners of small businesses on other issues—can be great allies and provide many referrals. Cultivating relationships with community partners requires consistent engagement; this type of advertising takes more time than posting flyers on local blogs, but it is very useful. As community partners build trust and become familiar with the credit union’s services, they generate more and more client referrals.

Client Retention & Cross-Selling with Other Credit Union Services

Early on, one of the secondary goals of this program was to complement and support the small business lending portfolio at the credit union. From an organizational standpoint, beyond just creating a program that sustains itself through earned income, Brooklyn Coop also sought to draw in more small businesses to their lending products and support the entrepreneurs seeking loans in need of tax help.

Though a sizeable share of the Tax Counselor’s clients are credit union members, the small business tax assistance program at Brooklyn Coop has *not* been a significant complement to their lending activities—fewer than ten business owners who had their taxes done have gone on to secure business loans since the program launched three years ago.

Even if tax assistance does not fall squarely within the continuum of lending services they offer to business owners, Brooklyn Coop believes that it is a critical component in their suite of financial education or financial services more broadly speaking. The Tax Counselor has actually referred more small business tax clients to and from their foreclosure counselors and financial counselors than to the small business loan program.



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Developing & Maintaining Staff Capacity

Most community-based tax assistance providers, especially VITA programs, rely heavily on volunteer tax preparers to deliver their services. With the fee-based model, because Brooklyn Coop is being paid to prepare New York State and Federal tax returns, any person preparing returns must be registered with both the state and federal governments. Accordingly, the fee-based tax assistance model requires a different staffing model than most traditional community-based tax assistance providers.

Staff Roles & Responsibilities

When Brooklyn Coop launched their fee-based tax assistance program in 2010, they hired a full-time staff person to serve as the Small Business Tax Counselor—the sole staff responsible for everything from marketing and outreach to delivering tax time assistance to small business clients.

Though this position requires an understanding of business accounting and tax law, Brooklyn Coop chose not to hire a Certified Public Accountant (CPA)—doing so would likely have required that they charge a higher fee, which conflicts with their mission-based goal of offering an affordable, accessible service to their target market. In order to prepare federal tax returns, Brooklyn Coop’s Tax Counselor must be a registered tax return preparer and obtain a Preparer Tax Identification Number (PTIN) that must be renewed annually. They must also take and pass the [Registered Tax Return Preparer](#) (RTRP) Competency Test, pass a tax compliance suitability check and receive an RTRP certificate. Each year, they must also complete fifteen hours of continuing education from an IRS-approved provider that covers ethics, federal tax law updates and additional tax law topics. A [similar process](#) is required in order to prepare New York State tax returns for a fee.

Over time, as kinks in the funding model have been worked out and adjustments have been made, the Tax Counselor position has transformed to encompass a wider set of responsibilities. When the program was first conceptualized, Brooklyn Coop expected to have a full-time staff person dedicated to small business development—someone who could help business owners with recordkeeping, the minority- and women-owned business certification process, business planning and more.⁹ The position was envisioned in this way initially because Brooklyn Coop’s leadership understood that the core task of providing small business tax preparation assistance was a seasonal one. In order to constitute a full-time, year round position and financially support the program with enough earned income annually, the Tax Counselor would need to offer a consistent set of services throughout the year. Alternatively, they could have hired a part-time or seasonal worker, but decided that the amount and type of training required each year along with the need to develop a client base would require the commitment and consistency of a full-time employee.

As mentioned previously, Brooklyn Coop moved away from offering additional business development services in 2013 because of the wealth of other small business counseling and training services available at providers throughout the city. Also, as the Tax Counselor’s interest in credit union operations grew, she began to serve as the Director of Member Services for the credit union. In that role, she manages teller staff and member services staff. Her added role has freed up the credit union’s Chief Executive Officer’s time, allowing her to focus more on strategic leadership activities than day-to-day operational tasks. At the same time, being more deeply involved in the management of the credit union will make it more difficult for the Small Business Tax Counselor to dedicate her time to tax clients in the coming tax season. In future years, the staffing model will need to evolve so that enough support is available on the credit union management side so that her attention can be focused on small business tax clients during the tax season.

⁹ Small businesses with 8(a) or [Minority Women Business](#) certification can take advantage of opportunities that level the playing field within the private and public sectors. With certification, minority- and women-owned firms capable of producing quality products and services at competitive prices have a more competitive position. Neither 8(a) nor MWBE certification is a guarantee for business, but if used as a marketing tool, can generate more opportunities to bid for business.

Tools & Technology

One ongoing challenge Brooklyn Coop's Tax Counselor has faced is finding the most appropriate and reasonably priced tax preparation software. Software packages can simplify data entry, automate calculations and check returns for errors in the tax preparation process.

Brooklyn Coop has used TaxWise's professional tax preparation software since they started this program, but have run into issues given TaxWise's delays releasing their corporate tax platforms for the past two years. The Tax Counselor has researched other options, but has not found one that exceeds TaxWise's functionality—especially the checks and balances it offers—for a reasonable cost.

competitive position. Neither 8(a) nor MWBE certification is a guarantee for business, but if used as a marketing tool, can generate more opportunities to bid for business.



Evaluating and Communicating about Impact

Since CFED began partnering with Brooklyn Coop in 2010, we have worked with them to develop plans each year for collecting a certain set of output measures that indicate who is being served, what types of tax assistance services they receive and what types of additional products or services they leverage at tax time.

For the most part, the data collected according to this plan informs us of certain client characteristics and activities that can be expressed quantitatively. The output data collected each year has also been a helpful tool for informing the program's evolving design; for example, the Tax Counselor has used information about clients' incomes and the time required to complete different types of returns to inform the pricing model. Demographic information has helped inform marketing materials, outreach partners and so on.

When it comes to communicating with outside audiences—at conferences, on webinars and even with funders—about the outcomes and impact of this initiative, however, and the broader changes that occur within program participants (taxpayers) and the larger community, Brooklyn Coop finds that anecdotal evidence is most compelling. Stories that effectively convey the need for these services and the value they bring to small business owners who leverage them are most striking. Brooklyn Coop often offers anecdotes about small business tax clients whose needs for tax assistance are compounded by challenges in other areas of their lives, like foreclosure; those who have been referred by foreclosure counselors but cannot move forward in the foreclosure process without filing taxes have much to gain. There is value for the customer in both the amount of money they save by avoiding commercial preparers and in the fact that this service is more than a transactional tax preparation experience—the other positive externalities they enjoy from receiving individualized attention and education in a supportive environment are hard to quantify but are certainly meaningful.

Discussion Guide: Key Considerations for the Reader

We encourage readers to use this case study—particularly those interested in implementing a similar program at their own organization—to get a better understanding of how this kind of work is done. Consider themes that might apply to your own organization or your own work. Where do you see similarities? How is your experience different from Brooklyn Coop’s? Why? What solutions have you identified to challenges that were raised in this examination of Brooklyn Coop’s experience?

Program Design

1. How would a fee-for-service model of tax assistance better equip you to serve the needs of your target market?
2. What capacity, resources or tools would be required that we don’t currently have in-house?
3. What does the organization aim to achieve by offering small business tax assistance? By charging a fee?
4. How would your primary or targeted funders react to a fee-based program?
5. How well do you know your target population? How long have you served them?
6. How might the target population of a fee-based program differ from your current target population?
7. What cultural considerations must you keep in mind as you plan programs, design products, distribute communications and craft messaging?
8. How might your target population react to being charged a fee?
9. What share of your program’s budget can reasonably be generated through fee-based services?
10. What specific anecdotes from your work might help to illustrate the impact of this model for a funder?
11. Which components of your program are most compelling to the target funder audience?

Financial Sustainability

1. What share of your program’s budget can reasonably be generated through fee-based services?
2. What specific anecdotes from your work might help to illustrate the impact of this model for a funder?
3. Which components of your program are most compelling to the target funder audience?

Program Implementation

1. What messages resonate most with your target population?
2. What methods of communication is your target population most likely to receive and respond to?
3. How critical is it that tax clients leverage other services offered by your organization?



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4. What staffing model is the best fit based on your organization's earned-income strategy?
5. If you hire a full-time staff person to meet your tax preparation needs, how will you cover their time outside of tax season?
6. Beyond tax preparation assistance, what kinds of services will your staff need to be qualified to provide? How much, if any, of those additional services can be provided by partner organizations?
7. What training and certifications will your staff require?
8. What technology, systems and software are required to deliver the services you want to offer?

Evaluating and Communicating about Impact

1. What do you need to illustrate or convey to an outside audience using data?
2. What information do you need to collect in order to monitor clients' progress?
3. What types of systems might facilitate the data collection you require?
4. What information does staff need to effectively serve clients' needs?

Additional Resources

Exhibit A. Self-Employment Tax Preparation Worksheet



Self-Employment Tax Preparation Worksheet

Part I: BUSINESS INCOME			
List Form 1099(s)			
		\$	
		\$	
		\$	
		\$	
		\$	
		\$	
Total Cash		\$	
Total Checks		\$	
Part II: GENERAL BUSINESS EXPENSES (Ordinary and Necessary)			
Advertising and Promotional Items	\$	Office Rent Expenses	\$
Banking Fees (including check charges, monthly charges, bank wire fees or overdraft fees on business account)	\$	Office Supplies	\$
Professional Use of Telephone and Telecommunications Expenses	\$	Professional Publications / Subscriptions	\$
Meals and Entertainment	\$	Postage and Shipping Expenses	\$
Conference and Convention fees	\$	Professional Fees (legal, accounting, etc.)	\$
Small equipment and furniture (other than depreciable items)	\$	Software Costs	\$



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Insurance (for buildings, machinery or equipment)	\$	Employment-related education (tuition/fees, books and supplies)	\$
Interest and Fees (on money borrowed for the business)	\$	Job Search Expenses: travel (Mileage @ \$.51), online services, resume, telephone, postage)	\$
Losses from theft, fraud, damage from natural disasters	\$	Business gifts (\$25 maximum per individual)	\$
Membership Dues	\$	Health Insurance Premiums	\$
Moving Expenses	\$	Other Expense: _____	\$
Travel (This includes vehicle expenses pertaining to business usage, hotels, airfare, meals, laundry and business entertainment while on the road)	\$	Other Expense: _____	\$
Total			\$

Did you make estimated tax payments throughout the year?

Quarter 1 (4/15/2011)	\$	Quarter 3 (9/15/2011)	\$
Quarter 2 (6/15/2011)	\$	Quarter 4 (1/17/2012)	\$

HOME EXPENSES	
Area in home used for your business	sq ft
Total sq ft in home / apartment	sq ft
Total cost of rent	\$
Mortgage Interest	\$
Property taxes	\$
Property Insurance (renters insurance may also qualify)	\$
Home repairs and maintenance	\$
Gas and electricity	\$
Water	\$
If you own your home, (a) date the property was purchased (b) date when it was first used for your business (c) Home purchase price	(a) ____ / ____ / ____ (b) ____ / ____ / ____ (c) \$ _____

Depreciation of Assets		
List major equipment purchases	Date of Purchase	Cost

Part III: COST OF GOODS SOLD (COGS)

Inventory at the beginning of the year	\$
Products purchased during the year	\$
Cost of products subtracted for personal use	\$
Supplies added to product for resale	\$
Other associated inventory costs	\$
Total inventory at the end of the year	\$

Part IV: VEHICLE INFORMATION

Month/day/year the vehicle was put in service for business: ____ / ____ / ____	
Total business miles for the year:	
Total "commuting" miles (trip to and from main office location):	
Total miles for personal use:	
Parking and tolls: \$	Interest on car loan: \$
Was your vehicle available for personal use outside of working hours? (Yes/No)	
Do you (or your spouse) have another vehicle for personal use? (Yes/No)	
Do you have documentation to support your vehicle expense deduction? (Yes/No)	
If you answered "Yes", is the documentation written? (Yes/No)	

Exhibit B. *Letter to New Clients*

Dear _____,

Thank you for contacting me regarding filing your taxes. I run the small business tax preparation program here and would be happy to answer some questions by phone or schedule a tax prep appointment. Should you decide to file your taxes with me, please review the list of documents to bring to make sure you have all the necessary tax forms for this year. I've also attached a basic worksheet that may be helpful in organizing your business income and expenses if you have not done so already. Filing fees start at \$50 per return/\$100 if your net income is over \$25,000. Any questions, feel free to contact me.

Regards,
Rebecca

Exhibit C. *Letter to Returning Clients*

Dear _____,

Happy New Year!

Tax season is upon us and I want to make sure you are well prepared! Submitting timely, accurate tax returns is a tremendous challenge for any business, whether you are just getting started or have been running your business for years.

This year, please be aware that as a result of the late approval of tax law changes, the IRS will not be accepting electronically submitted (e-filed) tax returns until January 30. Please keep this in mind when planning your tax appointment.

Hopefully you have been keeping good records of your business income and expenses and will be able to easily create your end-of-year profit and loss summary. For those who may need a bit of assistance, I've attached with this letter a basic worksheet to help you organize your business income and expenses. Also, there is a list of necessary documents to bring so that your return can be prepared as accurately as possible and so that you can take advantage of applicable tax credits. Please give me a call or email to schedule your tax appointment. Please also be sure you have a completed summary of your total income and expenses when you come for your scheduled tax appointment.

Regards,
Rebecca



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Exhibit D. Tax Preparation Invoice



Invoice

Date:

Client:

**Brooklyn Cooperative Federal Credit Union
Tax Services**

1474 Myrtle Ave
Brooklyn, NY 11237
Phone: 718-418-8232
Fax: 718-418-8252
Email: Rebecca@brooklyn.coop

Payment Method			
Qty	Description	Unit Price	Line Total
	Form 1040 + 1 Schedule (net income under \$25,000)	\$50	
	Form 1040 + 1 Schedule (net income \$25,000 to \$75,000)	\$100	
	Additional State	\$25 ea.	
	Additional Schedules A, C, D, or E	\$25 ea.	
	Additional W2s or 1099-MISC (after 5)	\$10 ea.	
	Partnership/Corp (1041, 1065, 1120, 1120S)	\$200	
	Fed and State extensions	\$30	
	NYS Sales and Use Tax (per filing)	\$30	
	NYS Sales and Use Tax online setup	\$50	
	Estimated Tax: Fed and State	\$50	
	Add'l tax return copy	\$15	
	General Tax assistance (form completion, IRS correspondence, etc)	\$20/half hr	
	Form 1099	\$20 ea.	

* In case of financial hardship, fees may be adjusted.

Thank you!

Brooklyn Coop Final Reporting Data from TY 2010 – 2012

Category	Data Question	TY 2010	TY 2011	TY 2012
Schedule C Data	How many business returns were filed for your small business clients?	69	117	152
	<i>Schedule C: Sole Proprietors</i>	67	68	89
	<i>Schedule CEZ: Sole Proprietors w/Limited Expenses</i>	2	5	16
	<i>1120(S) Corporations</i>	0	13	21
	<i>990 Nonprofits</i>	0	0	1
	<i>Schedule E: Rental Real Estate</i>	0	17	17
	<i>1099: Independent Contractors</i>	0	6	7
	<i>NYS Certificate of Authority Issued</i>	0	1	2
	<i>NYS Sales Taxes</i>	0	5	17
	<i>Year End Profit & Loss Statement</i>	0	2	3
	What percentage of your self-employed clients came to your tax preparation program last year?	12%	39%	49%
	What percentage of these self-employed clients increased their AGI?	67%	70%	69%
Form 1040 Data	What were the five most common types of businesses that your program served and percentage of self-employed clients for each category: (childcare providers, hairstylists/barbers, construction, etc.)	See Below	See Below	See Below
	What is the percentage breakdown of the self-employed clients served by filing status (Form 1040, lines 1-5)?			
	<i>Single</i>	63%	65%	59%
	<i>Married</i>	17%	18%	18%
	<i>Married (Separate)</i>	6%	5%	6%
	<i>Head of Household</i>	14%	12%	18%
	<i>Qualifying Widower</i>	0%	0%	0%
	How many SE clients received an EITC refund (Form 1040, line 64)?	14	15	12
	What was the average amount of this refund?	\$1,391.00	\$1,458	\$3,754
	How many SE clients received a Child Tax Credit (Form 1040, line 51 and 65)?	3	8	89
	What was the average amount of this refund?	\$1,650.00	\$1,128	\$1,440
	How many SE clients needed to pay a tax penalty?	17	22	10
	How many SE clients also had W-2 income (Form 1040, line 7)?	36	47	88



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Demographic Data	How many self-employed clients were male?	43%	38%	44%
	How many self-employed clients were female?	57%	60%	56%
	How many of the self-employed clients were:			
	White	33%	37%	43%
	Black	33%	24%	23%
	Asian/Pacific Islander	4%	6%	3%
	Latino/Hispanic	28%	31%	29%
	Native American	0%	0%	0%
	Other	1%	2%	2%
	What percentage of clients were people with disabilities?	0%	0%	2%
	What percentage of clients lived in households where another language besides English is spoken?	22%	24%	23%
	What percentage of the self-employed clients were in the following age cohorts:			
	Under 25 years	2%	3%	0%
	25-45 years	73%	70%	85%
	46-65 years	23%	25%	9%
	Over 65 years	2%	3%	3%
	What percentage of the self-employed clients had AGI in the following intervals (Form 1040, line 37)?			
	Under \$5,000	11%	10%	19%
	\$5,000-\$15,000	27%	22%	23%
	\$15,001-\$30,000	33%	39%	35%
	\$30,001-\$40,000	7%	9%	8%
	\$40,001-\$50,000	7%	3%	2%
	Over \$50,001	15%	17%	13%
	How do you accommodate self-employed clients during the tax season (by appointment only, on a designated day of the week, during a designated time period in tax season, etc.)?	Appointment/Walk Ins	Appointment/Walk Ins	Appointment/Walk Ins
	Does your organization, or an immediate partner, provide microloans?	Yes	Yes	Yes
	What percentage of your SE clients (who underwent your tax preparation service) applied for a loan?	2%	6%	3%
	What percentage of your SE clients (who underwent your tax preparation service) received a loan?	0%	5%	3%
	What was the total amount of microloans that SE clients received?	0%	\$ 14,100.00	\$ 9,800.00
	What was the average amount of microloans that SE clients received?	0%	\$ 2,820.00	\$ 2,450.00

	Were the SE clients offered any asset-building products? (i.e. retirement accounts, financial planning, IDAs, pre-paid debit cards, business checking accounts)			
	What percentage of the SE clients signed up or opened any of the products?		7%	9%
	Business Checking Account			5%
	CD			1%

What were the five most common types of businesses that your program served?		
TY 2010	Arts & Design	27%
	Food Services	19%
	Retail	10%
	Consulting	7%
	Construction	7%
TY 2011	Arts & Design	40%
	Consultant	11%
	Real Estate	6%
	Street Vendor	5%
	Construction	5%
TY 2012	Arts & Design	10%
	Retail	8%
	Construction	7%
	Media Production	7%
	Real Estate	6%



September
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