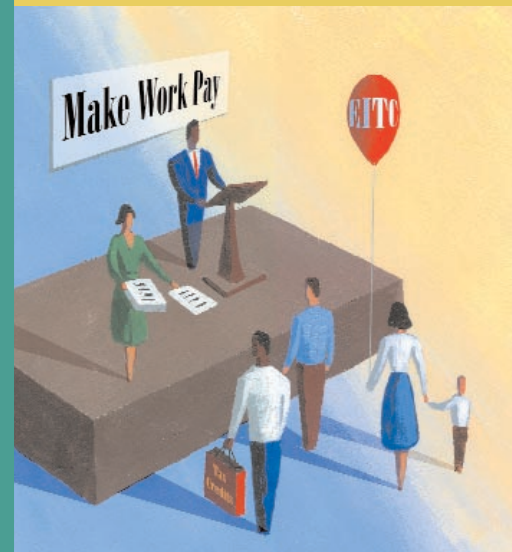


Making Work Pay:
Building Incomes and
Assets
through the Earned Income
Tax Credit

Winter 2004 ▶ Vol. 5 No. 1

- ▶ Spreading the Word about Tax Credits
- ▶ Offering Workers Free Tax Preparation and Education Services
- ▶ Helping Low-Income Workers Access Basic Banking Services



BuildingBlocks

A Practitioner's Guide to
Planning and Financing
Community Revitalization

The way the U.S. government delivers social service assistance has changed mightily in recent decades. Most dramatically, welfare reform eliminated benefit guarantees, linking eligibility to work. But even before the welfare overhaul, a less visible shift had begun: policymakers were increasingly turning to the U.S. tax code to deliver assistance.

Enter the Earned Income Tax Credit (EITC)—a refundable federal income tax credit available to low-income individuals who work. Initially approved as a small credit in the mid-1970s, the EITC has grown into the largest federal economic assistance program targeted to poor workers. In 2002, the EITC provided an estimated \$30 billion in refundable tax credits to low-income households.

The EITC is not without critics. Some analysts have pointed to inefficiencies in the allocation of the credit, a charge that has prompted the IRS to make administrative improvements. But EITC proponents applaud the program for encouraging work and putting money directly in the pockets of low-income families. Recipients can use this added income to pay bills, go back to school, save for a home, or build other assets. In largely poor neighborhoods, high EITC participation can also mean more dollars flowing through the local economy.

Despite the boost in income provided by the credit, millions of eligible people never file for it. Some people simply don't know about the EITC or assume they are ineligible. Others feel too intimidated by the tax system to claim the credit. Still others do not take advantage of the EITC because their low earnings exempt them from having to file a return.

The large number of EITC-eligible workers that forgo the credit is one reason EITC outreach and education is so important. Here's another: Among workers who do claim the credit, many use tax preparation services that charge consumers various fees to access their refunds. The Brookings Institution estimates that each year consumers sink as much as \$1.75 billion into tax preparation costs. Volunteer-based taxpayer assistance could greatly reduce the amount of money low-income families spend on tax preparation fees. Helping more low-income filers leverage the convenience and processing advantages connected with having a bank account would also result in savings.

In "Making Work Pay: Building Incomes and Assets through the Earned Income Tax Credit," Alan Berube of the Brookings Institution explains how the EITC works, describes three challenges that prevent people from fully using the credit, and provides some practical solutions to raise EITC awareness and participation. In addition, he highlights recent initiatives involving public, nonprofit, and private-sector organizations that have helped low-income workers access and make full use of the credit.

Recognizing the EITC's importance to low-income communities, the Fannie Mae Foundation and the Annie E. Casey Foundation are supporting efforts in Washington, D.C.'s Ward 8 to provide residents there with free tax preparation assistance and connect those who apply for EITC refunds with mainstream financial services.

We hope this issue of *BuildingBlocks* gives other organizations ideas for raising EITC awareness and participation.



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Making Work Pay:
Building Incomes and Assets
through the Earned Income Tax Credit

By Alan Berube

In November 2002, when a local foundation invited area nonprofits to join its Earned Income Tax Credit (EITC) outreach campaign, Lisa Long was intrigued. She knew the federal income tax credit was designed to help the kinds of families she served everyday at Nation's Capital Child and Family Development (NCCFD), the largest nonprofit child and family development agency in Washington, D.C.

She also knew she would bring valuable skills to the effort. As NCCFD's assistant director of Self-Empowerment and Family Development, she had helped initiate a program offering Individual Development Accounts (IDAs) to eligible clients. These matched-savings accounts help low-income families save for homes, pursue education, and invest in small businesses. She knew her IDA experience would be useful in helping

clients understand and manage their EITC refunds. So she signed on to direct a site offering EITC education and services at one of NCCFD's centers.

Ms. Long received training in tax law and tax credit administration. She learned how to navigate the eligibility rules. Today, she is part legal advisor, part financial coach, and part motivator to the families that visit NCCFD's G.W. Carver School-Age Learning Center. Located in Deanwood, the center serves one of the poorest communities in Washington, D.C. Its EITC program educates people about the credits,



helps them establish bank accounts to manage their credit dollars, and teaches them to complete IRS tax forms. The center also plans to offer a financial literacy workshop to complement its EITC training.

Ms. Long—now director of Self-Empowerment and Family Development—says that the credit alone cannot eliminate economic hardship among low-income workers, noting that families sometimes need cash assistance to get through tough times. But she sees a morale difference between people who receive public assistance for a long time and people who work and claim the credit. “The EITC empowers people to help themselves. The ‘earned’ in the credit’s title says a lot; recipients’ hard work is getting recognized,” she says. Ms. Long is especially pleased that the credit has benefited dozens of families living in the Deanwood area. “The EITC brings resources to forgotten communities,” she adds.

Empowering People, Revitalizing Places

Ms. Long’s experience illustrates the growing importance of the EITC to programs that serve low-income families. Congress enacted a small version of the credit in 1975, and then expanded it several times in the late 1980s and early 1990s. Today, the EITC is the largest federal aid program targeted to low-income workers—those with earnings up to about twice the federal poverty level. In 1999, the EITC lifted more individuals out of poverty than did any other federal program—4.7 million people, including 2.5 million children.¹

Like other tax credits, the EITC reduces the amount of federal tax a

person owes. But while most other tax credits can only be used against income tax liability, the EITC is fully refundable. That means that when the credit amount exceeds the taxes an EITC recipient owes, the IRS refunds the difference. Even an eligible filer who owes no income tax can claim the full value of the credit and receive a refund. Income and family size determine the amount of the EITC. Families with two or more children qualify for the largest credits—up to \$4,204 in 2003. Childless workers are eligible for smaller amounts (see figure 1).²

The EITC helps low-income workers across the country and targets much-needed resources to poor urban, rural, and suburban neighborhoods alike. In Chicago, the high density of working poor families translates into more than \$2 million in EITC per square mile. Los Angeles County, an area where low-wage workers are located in the city and suburbs to

SIDEBAR 1

Who Can Claim the EITC?

The EITC is a federal income tax credit worth up to \$4,200 for lower-income workers and families. To qualify for the credit in tax year 2003, both earned income and adjusted gross income must total:

- less than \$11,230 for a taxpayer with no qualifying children (\$12,230 if married and filing jointly);
- less than \$29,666 for a taxpayer with one qualifying child (\$30,666 if married and filing jointly); or
- less than \$33,692 for a taxpayer with more than one qualifying child (\$34,692 if married and filing jointly).

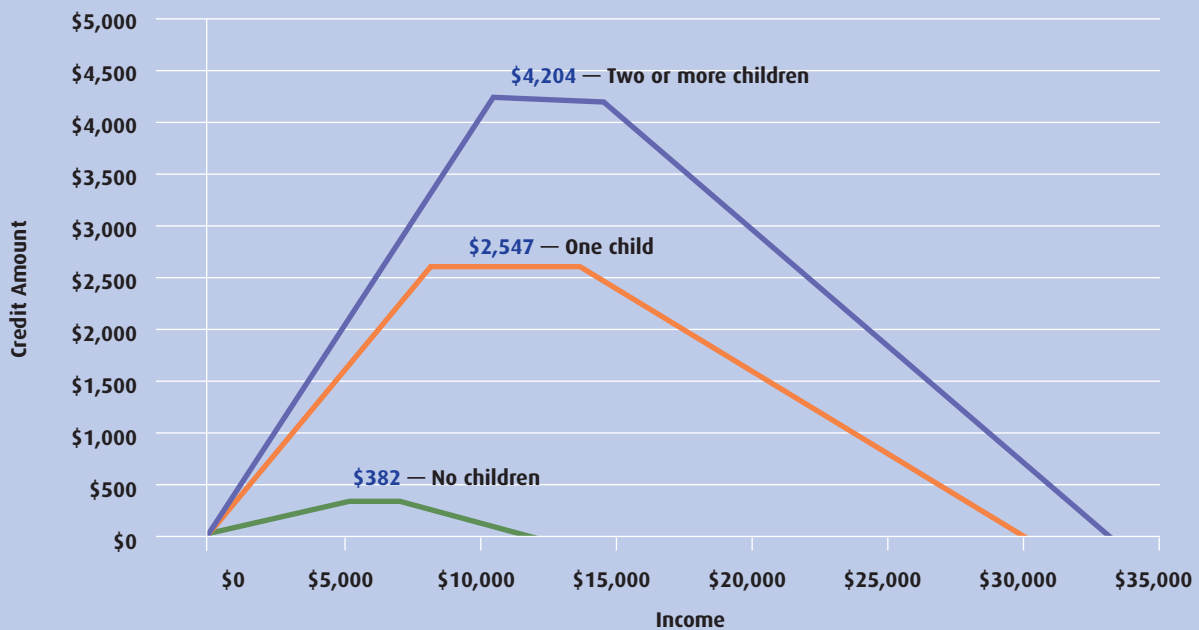
Taxpayers can turn to a number of free sources to figure out their EITC eligibility and to receive help in calculating their credit/refund.

- Publication 596 of the Internal Revenue Service (IRS) provides a detailed list of EITC eligibility requirements. This publication can be accessed via the IRS’s Web site at www.irs.gov.

- Taxpayers can estimate the credit due to them by using a special worksheet included as part of the EITC instructions in the IRS’s 1040, 1040A, and 1040EZ tax packages.

- Local Volunteer Income Tax Assistance (VITA) sites, sponsored by the IRS, offer free services to tax filers. To find the closest VITA site, taxpayers can call the IRS at 1-800-829-1040.

Figure 1. Structure of the Earned Income Tax Credit in Tax Year 2003, Unmarried Workers*



Source: Internal Revenue Service.

* Married couples filing jointly are eligible for slightly higher credit amounts in the phase-out range of the EITC.

similar degrees, receives more than a billion EITC dollars annually. Working families in rural Georgia claimed \$267 million in credits in tax year 2000.

The credit's local economic impact does not end when a family cashes its tax refund check. Low-income workers spend EITC dollars on immediate needs like rent and utilities. Studies show that they also buy other consumer goods for themselves and their families.³ Refund dollars spent at local retailers get converted into revenues, which, in turn, fuel wages, supplier purchases, and other investments. At the end of the day, one dollar in EITC can translate into far more than one dollar in local economic impact.

The tax relief can also help workers build assets and financial independence. Many credit recipients use their refunds to pay off high-cost debt, freeing up household resources. Others put EITC dollars toward investments like school tuition,

deposits on a new place to live, and saving toward long-term goals such as homeownership.⁴

Despite the boost a cash refund gives to income, as many as 15 to 20 percent of families eligible for the EITC fail to claim it,⁵ forgoing hundreds—sometimes thousands—of dollars. Often these workers do not know the credit is available. Other families that do claim the credit pay high fees to access their refund dollars.

If the EITC can help households stay afloat and strengthen local economies, why do millions of EITC-eligible individuals fail to claim the credit? And of those who do claim the credit, why do so many people sacrifice part of the credit to unnecessary fees and high-interest loans?

Three major challenges have kept eligible workers from making full use of the EITC: lack of information about and knowledge of the credit; high tax filing fees and use of “fast-cash” loans; and poor access to banking and other

mainstream financial services. Local political leaders, nonprofit groups, private businesses, and community volunteers are pursuing strategies to tackle these challenges one by one.

Strategy 1: Spreading the Word about Tax Credits

Lack of awareness about the EITC and uneasiness about claiming the credit are serious roadblocks to participation. Many families who qualify for the credit don't have to file a return, because their low incomes effectively exempt them from the income tax. But by not filing and claiming the credit, they may forfeit thousands of dollars in assistance. In addition, eligible families who qualify for both the EITC and the

continued on page 7

Other Credits Build on the EITC

The EITC is not the only tax code support available to low-income families. The federal **Child Tax Credit (CTC)** now augments the EITC for low-income workers with children. For tax year 2003, families are eligible for a child credit refund equal to 10 percent of their earnings in excess of \$10,500, up to a maximum of \$600 per child. For instance, a single mother raising two children who had \$16,000 in earnings in 2003 could claim a CTC of \$550—even though she owes no income tax.

The combined spending on the refundable portions of the EITC and CTC—that is, the amounts transferred directly to working families in the form of tax refunds—rivals most of the other traditional and visible federal income support programs (see figure 2). In 2004,

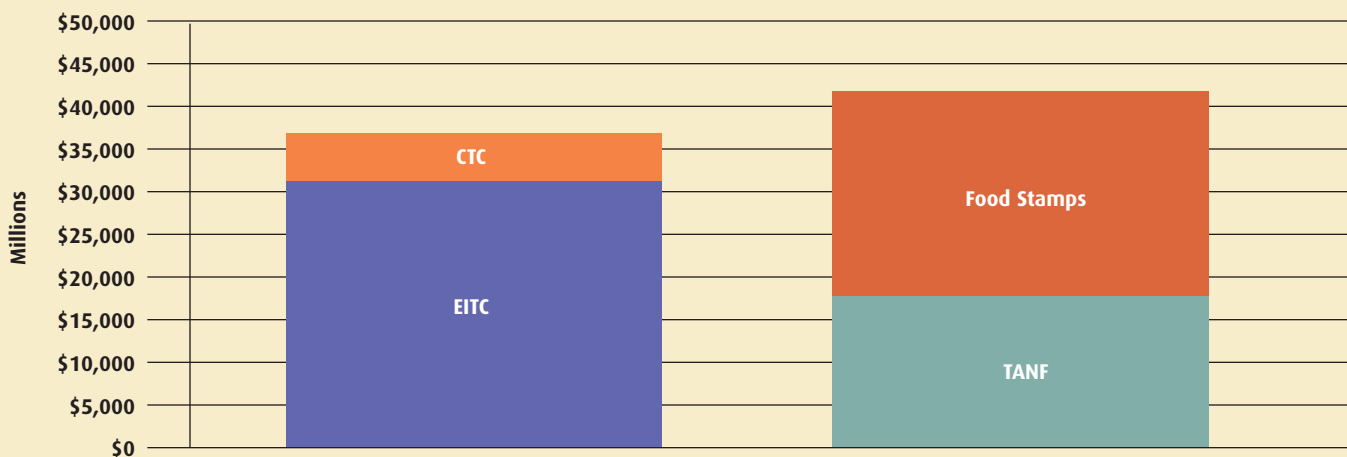
the “refundable” portions of the EITC and CTC will provide a projected \$37 billion to working families, nearly as much as the \$43 billion the federal government expects to spend on Food Stamps and welfare (Temporary Assistance to Needy Families) combined.

Besides the EITC and CTC, both of which are refundable credits, a host of other *nonrefundable credits* in the federal tax code can alleviate the tax burden of working poor families with some income tax liability. A single parent raising two children, for example, may owe federal income tax when her income exceeds \$16,150. Several credits can reduce that tax liability before the EITC and CTC are calculated: the **Hope Scholarship and Lifetime Learning Credits** for college tuition expenses; the

Saver’s Credit for contributions to a qualified retirement plan; and the **Child and Dependent Care Credit** for day care expenses. Claiming these credits does not disqualify a family for the EITC and CTC; in fact, every dollar collected through one of these credits can effectively *increase* the size of the refund the family receives after claiming the EITC and the CTC.

The success of the federal EITC and its positive implications for local economies have encouraged many state governments to adopt their own version of the credit within their income tax codes. In 2003, 16 states (including Washington, D.C.) offered low-income families who qualified for the federal EITC and who filed a state income tax return a state EITC based on their federal credit.

Figure 2. Projected Federal Expenditures on Income Support Programs, FY 2004



Source: FY 2004 Budget of the U.S. Government.
 Note: EITC and CTC amounts include refundable portions only.

continued from page 5

child tax credit (CTC) often fail to claim the CTC, because its benefits for low-income filers are new and because the CTC makes the filing process more complicated.⁶ EITC participation may be especially low in immigrant communities, where many families with low incomes are unfamiliar with or intimidated by the U.S. tax system.

Spreading the message about refundable tax credits is one of the most straightforward, high-return strategies local leaders can pursue to help low-income workers (see case study 1). Outreach can be as simple as distributing literature about the EITC or calling eligible clients to tell them about the credit. More elaborate efforts rely on public and private

partnerships to spread the message to a wide audience. Outreach campaigns have generally incorporated the following key elements:⁷

- A recognizable public figure, such as a mayor or business leader, uses the “bully pulpit” to bring attention to the issue and to mobilize public and private resources on behalf of the campaign.
- A broad-based tax credit outreach coalition, involving state and local agencies, large employers, retailers, universities, public schools, community-based organizations, and the IRS, helps the campaign reach a maximum number of filers and engage a wide range of partners.
- Because lower-income immigrants are less likely to know about and

file for tax credits, targeted outreach initiatives to non-English-speaking populations—through community groups, churches, and retailers serving immigrant families—help maximize a campaign’s impact.

If more organizations got involved, EITC outreach could raise the share of eligible filers who claim the EITC (as well as the CTC and state EITCs) and boost the incomes of millions of families and workers.

Although tax season is here, it’s not too late to spread the word about the EITC and other credits. Most families who qualify for tax credits receive their W-2s in late January and early February. Even such simple materials as flyers to nonprofit clients listing IRS contact information could help more eligible people claim the credit.

Even such simple outreach materials as flyers to nonprofit clients listing IRS contact information could help more eligible workers claim the EITC.

Case Study 1: The Model for Outreach—Mayor Daley’s Chicago EITC Campaign

In 1998, Chicago Mayor Richard M. Daley learned that his city was leaving as much as \$300 million “on the table” because eligible families had failed to file for the EITC. In response, he launched one of the most visible and successful municipal EITC outreach campaigns in the nation.

At the center of the annual Chicago campaign is a broad citywide coalition to inform low-income families about the EITC and other tax credits. Each fall, the Chicago Tax Assistance Center, the nonprofit directing the program, contacts major businesses, local govern-

ment agencies, social service organizations, community groups, and federal and state agencies to urge them to sign up for the campaign.

In January, the city gives participants promotional materials to distribute, recruits tax assistance volunteers, and conducts outreach. Businesses include EITC information with employees’ paycheck stubs. The electric, gas, and telephone companies include EITC information with customer utility bills (a strategy that brings the message to more than 3 million Chicago-area households). The Chicago Public Schools sends tax credit information home with children, and area supermarkets advertise the EITC on shop-

ping bags. Myer Blank, executive director of the Chicago Tax Assistance Center, notes that these publicity efforts aim to package the same information in different ways. “We’re hoping to hit eligible families at least five or six times with our message,” he says.

The Chicago Tax Assistance Center partners with two nonprofit organizations to provide free tax services to low- and moderate-income families in 21 sites in Chicago and 15 sites in the surrounding suburbs. Last filing season, the larger of the two nonprofit organizations, the Tax Counseling Project, completed more than 11,000 federal returns for Chicago residents.

Strategy 2: Offering Workers Free Tax Preparation and Education Services

Although many states offer free tax assistance to low-income workers, more than two-thirds of taxpayers who claim the EITC pay a tax preparer to complete their returns. For these families, the products and services offered by preparers, and the fees they charge, reduce the credit's ability to make work pay. An informal survey in the Washington, D.C., area found that a typical EITC earner could expect to pay at least \$100 to have a preparer complete and file his or her federal and state income tax forms.⁸

In addition to tax preparation fees, the growing popularity of "rapid-refund" loans siphons away EITC dollars from eligible recipients. Lenders offering rapid-refund loans set up a temporary bank account in the taxpayer's name, then advance the taxpayer the refund amount minus the loan fees. This arrangement expedites refunds for individuals who lack a bank account and permits filers to pay their tax preparation fees directly from their refunds. An EITC earner, on average, pays roughly \$100 for a refund loan. Because the IRS processes most tax refunds within one to two weeks, the annual percentage rate on these short-term loans often exceeds 200 percent.

Refund loans are especially popular among lower-income tax-payers. An alarming 43 percent of taxpayers who received an EITC refund purchased a

refund loan in tax year 1999, compared with only 6 percent of higher-income refund recipients. By one estimate, recipients sunk a total of \$750 million EITC dollars into these loans in 1999.

The high use of commercial tax preparers confirms that once families are made aware of their eligibility for tax credits, many need help claiming the credits. A local EITC campaign can offer high-quality, low-cost filing assistance to lower-income filers. In fact, most communities have free Volunteer Income Tax Assistance

(VITA) sites. VITA is an IRS-sponsored program to help low-income workers complete their tax forms. These programs are run by local organizations, typically between January and April, and are staffed by volunteers who complete tax returns on a first-come, first-served basis for low- and moderate-income clients.

The IRS can help organizations set up VITA programs in their communities. In the many places that already have such programs, public and private sector organizations can support VITA initiatives in three ways:



Publicize the Sites—Compared with commercial tax preparers, VITA sites are rarely used by low-income filers, largely because few people know about them. Local campaigns can publicize the availability of free assistance at these sites, in particular by setting up a hotline that refers callers to a local VITA site.

Encourage Volunteerism—Volunteer tax preparation programs rely on the efforts of, above all else, volunteers! Local organizations can recruit volunteers to be trained to staff tax assis-

tance sites. Businesses can make it easier for employees to donate their time. Colleges, law firms, accounting firms, and civic groups can provide likely VITA volunteers.

Increase Capacity—Volunteer tax assistance programs can benefit greatly from donated in-kind resources. Local businesses, schools, libraries, churches, housing developments, and nonprofit agencies can provide space—especially during nights and weekends—where working families can come for free filing assistance.

Offer Other Free Options—In places where VITA capacity and planning time are limited, local organizations can still expand access to free tax help by linking low-income taxpayers to free filing options available through the IRS Web site (see “Resources”). Armed with computers and Internet access, organizations can help lower-income families prepare and file their tax returns over the Web for free, potentially saving them hundreds of dollars in fees they would pay a commercial preparer.

An alarming 43 percent of taxpayers who received an EITC refund purchased a refund loan in 1999, compared with only 6 percent of higher-income refund recipients.

Case Study 2: Connecting Taxpayers with Education and Opportunity—The DC CASH Coalition

In 2002, a group of nonprofit agencies launched the DC Creating Assets, Savings, and Hope (CASH) Coalition to help EITC-eligible filers get free tax services through a VITA program. The mix of clients surprised the group: Nearly 150 received a federal EITC, for an average credit of \$1,503. But 247 clients received federal refunds and 229 clients received state refunds unrelated to the EITC. “When we began our outreach campaign last fall, our focus was almost entirely on EITC-eligible workers and their families,” says Colleen Dailey, coordinator for the DC CASH Coalition. “So it was surprising to find that so many other tax filers also benefited from the program.”

Although EITC-eligible filers are a primary customer base for VITA sites, other filers take advantage of the free tax preparation services. They include single filers with no dependents earning \$25,000 or less, retired workers struggling to make ends meet, and college students who live with their

parents and work part-time to pay for their education.

The elements of the DC Cash Coalition’s campaign include:

- educating employees about payroll taxes, exemptions, and paycheck withholdings;
- teaching self-employed and contract workers about quarterly estimated taxes and expenses that can be deducted from taxable income;
- educating workers about nonrefundable credits that reduce the income taxes they pay, such as the Child Tax Credit, Child and Dependent Care Credit, HOPE and Lifetime Learning Credits, and the Saver’s Credit; and
- connecting residents with free financial education and other programs and services to help them weather financial blows and improve their earning and saving potential.

Last year, the DC CASH Coalition operated five tax centers, filed a total of 303

federal and District tax returns, and brought \$508,367 back to working families through income tax refunds. In 2004, the DC CASH Coalition hopes to help at least twice as many taxpayers. “It’s a great way to let residents know about our rental assistance program, family counseling services, financial education workshops, and all the other services that we and our CASH Coalition partners offer throughout the year,” says Yolanda Windear, manager of the East River Family Strengthening Collaborative tax center, which the CASH Coalition uses as one of its VITA sites. “Many low-income families in the neighborhood have no idea what kind of help is out there, so we want to let them know—while giving their incomes a boost.”

The CASH Coalition is one of more than 20 groups participating in the National Tax Assistance for Working Families Campaign, an initiative launched by the Annie E. Casey Foundation in 2002. The campaign brings national attention to the importance of the EITC, free and low-cost tax preparation services, and asset development for low-income families.

Strategy 3: Helping Low-Income Workers Access Basic Banking Services

The heavy use of tax-refund loans is symptomatic of a larger problem: Many low-income workers are not connected to the financial services and products they need to access their refunds quickly, to save on converting those funds to cash, and to put their dollars to use over the longer term.

An estimated 5 million EITC recipients lack a bank account of any kind. These filers are unable to designate their tax refund dollars for direct deposit—which speeds up refund processing—on their tax form. Instead of waiting an additional six weeks or so to receive their refunds, many EITC recipients opt for a refund loan. Other EITC earners pay about \$50 to \$60 each to cash their refund checks at a

commercial check casher. Together, these individuals spend hundreds of millions of dollars converting their tax refund checks to cash. Access to a bank account would help these families avoid sacrificing additional dollars to cash their refund checks.⁹

Increasingly, EITC outreach campaigns have recognized that connecting working families to tax refunds presents an opportunity to help those families gain access to a broader array of financial services. Organizations working on these asset-building strategies match products and services with a family's financial needs.

Savings accounts may represent the best entry point for low-income filers who lack a bank account altogether. Such accounts, if opened at the time that the tax return is completed, can help a filer take advantage of IRS direct deposit, significantly shortening the time he or she must wait to receive the refund. In addition, these accounts may make it easier for filers to save small amounts over time, helping them to weather financial emergencies and avoid the high price of short-term payday loans. Data on the number of EITC filers in a community—and the significant tax

refunds they receive—can help convince financial services providers to bring additional basic banking services to lower-income families at tax time (see case study 3).

Individual Development Accounts (IDAs) use public and private funds to match account holders' deposits for specific medium-term savings goals, such as a down payment on a home, start-up capital for a small business, or school tuition. By saving all or part of their tax refunds, low-income filers can find themselves well on the way to their savings goals within a short time. Local organizations that coordinate IDA programs may find new clients among the lower-income tax filers who use VITA sites. They can also refer program participants to those sites.

Financial education about basic budgeting, homeownership, savings, and credit can help workers plan to use their refund dollars in ways that better secure their families' financial futures. Campaigns that have been successful in connecting clients to financial education and related services typically assess clients' interest at tax time; volunteers then follow up to enroll them in classes or to schedule consultations.

Case Study 3: Making the Banking Connection—Nehemiah Gateway CDC and PNC Bank

In 2003, volunteers in Delaware's Earned Income Tax Credit Campaign, coordinated by Nehemiah Gateway Community Development Corporation (NGCDC), completed more than 2,800 tax returns for free—saving low-income workers as much as \$600,000 in tax preparation fees and generating \$4 million in refunds to those families. The campaign gathered a wide array of public, private, and nonprofit partners, including Delaware's governor and treasurer, the mayor of the City of Wilmington, the United Way of Delaware, and a number of private financial institutions. In addition to helping taxpayers get their refunds,

the partners have introduced tools and training that help low-income workers connect to, and stay connected to, mainstream financial institutions.

The most innovative aspect of the Delaware campaign is its financial services component, delivered with the help of PNC Bank Delaware. PNC Bank Delaware dedicates an 800 number to opening savings accounts by phone. Volunteers working with a tax-filing consumer call the number, and a bank customer service representative helps the tax filer open a savings account. The tax assistance volunteer then enters the newly assigned account number on the individual's tax return. This system allows the taxpayer to opt for direct deposit of the refund

and connects the filer to an important savings tool.

In 2003, this service helped 180 taxpayers open savings accounts. In addition, the campaign connected 100 clients to Individual Development Accounts for longer-term savings goals. NGCDC Executive Director Mary Dupont notes: "By helping 'unbanked' workers get bank accounts, we can save them thousands of dollars on check-cashing services over time, and help keep more of their earnings and tax refund dollars circulating in our community." In the coming year, NGCDC plans to connect low-income workers to a wider array of financial products—including consumer loans—through the campaign's tax sites.

Conclusion

An increasing number of communities are organizing coalitions to help connect eligible families to benefits available through the federal and state tax codes. These initiatives have not only helped enhance the economic security of millions of working poor families but also improved the economic vitality of the areas in which low-income families live. Leaders in the public and private sectors can spearhead campaigns to inform more filers about the Earned Income and Child Tax Credits, initiate free tax assistance programs that reduce the amount of money families spend to receive the credits, and set up programs that help recipients use their refunds as gateways to long-term financial security. Together, these efforts represent an emerging way to “make work pay” for low-income families in all kinds of communities.

Notes

¹ The EITC program has faced some criticism for having a high error rate; according to IRS estimates, in 1999 a significant portion of EITC dollars were delivered to individuals and families who were not technically eligible for the credit. (See Internal Revenue Service. 2002. *Compliance Estimates for Earned Income Tax Credit Claimed in 1999 Returns*. Department of Treasury.) A recent study, however, has questioned the accuracy of the IRS's estimates. (See Robert Greenstein. 2003. *What Is the Magnitude of EITC Overpayments?* Washington, D.C.: Center on Budget and Policy Priorities.) Moreover, recent and ongoing improvements in program administration have likely reduced EITC error. Proposals to simplify the program's eligibility rules could also improve credit administration.

² <http://www.irs.gov/individuals/article/0,,id=96406,00.html> (accessed October 31, 2003).

³ Lisa Barrow and Leslie McGranaham. 2000. “The Earned Income Credit and Durable Goods Purchases.” *National Tax Journal* 53(4): 1211-1244.

⁴ Timothy M. Smeeding, Katherin Ross Phillips, and Michael O'Connor. 2000. “The EITC: Knowledge, Use, and Economic and Social Mobility.” Working Paper 13, Syracuse University Center for Policy Research.

⁵ Internal Revenue Service. 2002. SB/SE Research, “Participation in the Earned Income Tax Credit Program for Tax Year 1996.”

⁶ The eligibility requirements for the CTC and the EITC are somewhat different regarding the residence of qualified children, immigration status, and the types of income considered. To claim the refundable portion of the CTC, the taxpayer must file an additional schedule (Form 8812). See Center on Budget and Policy Priorities. 2002. “Facts about the New Child Tax Credit: A Bigger Paycheck Boost for Many Families.”

⁷ For more information on these strategies, see Center on Budget and Policy Priorities, “The 2003 Earned Income Tax Credit Outreach Kit.”

⁸ Alan Berube et al. 2002. “The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC.” Brookings Institution.

⁹ Lacking a bank account not only complicates receiving and converting tax refunds but also makes it more difficult for families to save their refund dollars for future purchases or financial emergencies. The lack of even small savings among lower-income families has given rise to the burgeoning “payday loan” industry, whose members charge triple-digit interest rates for extending small amounts of short-term credit to cash-strapped workers. Providing new mechanisms for EITC earners to save for financial contingencies could thus save them even more money in credit costs over the long run.

About the Author

Alan Berube is a senior research analyst at the Brookings Institution Center on Urban and Metropolitan Policy. He is responsible for the Center's Neighborhood Initiative, which examines the impacts of policies and programs for lower-income families in urban areas. Prior to joining Brookings, Alan was a policy advisor in the Office of Community Development Policy at the U.S. Treasury Department, where he worked on community reinvestment policy and fostering access to mainstream financial services for lower-income populations.

Resources

A number of national organizations provide research and assistance that can help local organizations publicize the EITC and other tax benefits and connect families to these programs.

The Center on Budget and Policy Priorities was the first national organization to conduct EITC outreach and publishes the authoritative outreach guide and related research on the credit at www.cbpp.org/pubs/eitc.htm.

The National Community Tax Coalition provides technical assistance to local organizations on conducting tax credit outreach, coordinating free tax assistance, and linking clients to other benefits and asset-building opportunities. Visit www.tax-coalition.org.

The National League of Cities Institute for Youth, Education, and Families helps local governments to undertake or expand outreach

around the EITC and other federal programs for working families. Visit www.nlc.org/iyef.

The Brookings Institution Center on Urban and Metropolitan Policy publishes reports on the local economic impact of the EITC and provides access to several years of data on EITC claims at www.brookings.edu/urban/eitc.

The Internal Revenue Service provides a portal to a number of commercial Web sites that offer free online tax preparation and filing to certain categories of filers, including low-income families who qualify for the EITC. Visit www.irs.gov/app/freeFile/welcome.jsp.

Contact information for selected organizations mentioned in this article:

Chicago Tax Assistance Center
City Hall
121 North LaSalle Street, Room 100
Chicago, IL 60602
Contact: Myer Blank, Executive Director
E-mail: ctac@cityofchicago.org

Tax Counseling Project
Center for Economic Progress
29 E. Madison, Suite 910
Chicago, IL 60602
Contact: J.C. Craig, Director
E-mail: jccraig@centerforprogress.org

DC CASH Coalition
Creating Assets, Savings, and Hope
c/o East River Family Strengthening Collaborative
3732 Minnesota Avenue, NE
Washington, DC 20019
Contact: Colleen Dailey, Coalition Coordinator
E-mail: info@dccash.org;
Web site: www.dccash.org

Nehemiah Gateway Community Development Corporation
201 W. 23rd Street
Wilmington, DE 19802
Contact: Mary Dupont, Executive Director
E-mail: mary@marydupont.com



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