

Earned Income Tax Credit Lessons Learned



THIS REPORT HIGHLIGHTS LESSONS LEARNED IN THESE BROAD AREAS:

- EITC and Asset Building
- Engaging Policymakers
- Improving Quality and Evaluating Results
- Building Scale and Sustainability
- Using Innovative Strategies
- Developing Partnerships



Since 2003, the Annie E. Casey Foundation has worked with foundations, nonprofit groups and other organizations around the country on a wide-ranging tax-preparation campaign designed to encourage low-income workers to file for the Earned Income Tax Credit (EITC).

This credit serves to lessen the tax burden for them and their families and provides an income supplement for low-wage workers. Created by Congress in the 1970s, the EITC is widely viewed as the tool that has been most effective at moving working families out of poverty in America. In 2006, the EITC returned an estimated \$40 billion to low-income tax filers, with some families receiving as much as \$4,400. In all, the EITC lifted 5 million Americans above the poverty line.

Several related issues spurred the Casey Foundation's involvement in the issue. First, many eligible low-income workers were not taking advantage of the EITC. At the same time, an increasing number of these workers were resorting to private tax-preparation firms to handle their taxes, paying high fees and often taking out high-cost refund anticipation loans, which significantly reduced the benefit of the EITC. Finally, the foundation, along with many other allies, saw that it would be possible to encourage low-income families to strengthen their financial situation by devoting some of the proceeds of their EITC refunds to long-term asset building.

Today, hard work by many partners is producing impressive results. In 2006, Casey-affiliated sites around the country prepared more than 223,000 tax returns, nearly all of them at no cost to the client. These campaigns helped clients obtain more than \$137 million in EITC payments and more than \$343 million in total refunds — a major financial boost to these workers, their families and their communities. These numbers have climbed steadily over the past several years as more campaigns begin and learn how to work more effectively.

The Casey Foundation has supported tax preparation campaigns in urban, rural, and Native American communities, and at its Making Connections sites. And it has sup-



ported analysis and research to measure the effectiveness of these efforts.

Looking ahead, the foundation and its partners seek to serve as a catalyst to expand the scope and scale of the earned income tax credit by increasing the number of people that claim the credit and use it for asset building. The foundation hopes to guide this growth in a manner that is effective and sustainable so that every eligible low-income worker will utilize the EITC to stabilize their financial situation, begin to build assets and strengthen their communities.

The goal of this report is to document key lessons learned through the hard work of EITC-related tax sites around the country.

The future of such work is promising. This national network of EITC initiatives continues to spur important new work to meet the needs of working families, buttressed by good research and policy analysis. Integrating asset building with tax preparation services has proven to be a challenge. But these local sites are adapting and learning the most effective strategies to do just that.

Today, there is a broad infrastructure in place in many communities that brings together diverse partners — including nonprofits, United Ways, credit unions, banks, business, the Internal Revenue Service, social service agencies and others. These networks are finding ways to be more efficient, improve quality and grow. Around the country, new pilot initiatives are exploring how to increase the reach of this EITC-focused work, partnering, for example, with private employers, financial institutions and paid tax preparers.

Finally, a growing network of effective state and local advocacy coalitions are maintaining critical support for the federal EITC and building new support for state and local credits. These groups, which have on-the-ground experience, can speak credibly and persuasively about the value of the credit and can make the case for new state and local credits to further assist low-income working families.

Lessons Learned

EITC and asset building

The Annie E. Casey Foundation and many of its partners in EITC-related initiatives are committed to increasing the availability of free and affordable tax preparation services. They also are working with families to help them use the benefits of the EITC to build their financial assets. Initiatives around the country have shown that using the EITC to bolster asset building remains a worthy goal that is being met in different ways. Experience also has shown how difficult such initiatives can be.

Among the key lessons:

Know your customers. EITC sites must provide the services clients want in a manner that works for the clients. That means offering convenient hours and offices staffed by well-trained volunteers and paid workers. In some cases, sites have had success establishing themselves in social service agencies that receive steady client traffic. Sites also have been successful piggy-backing on other major events, such as church services.

Be culturally competent. EITC sites must have staff able to communicate effectively with clients of all racial and demographic backgrounds.

Take advantage of opportunities to repair credit. In many cases, tax preparation sites have focused on basic asset-building strategies, beginning with credit counseling and credit repair. Over time, these sites can help low-income families take other important financial steps, such as saving for a home or contributing to an individual development account.

Asset building is a long-term proposition. Sites have found it challenging to get large numbers of tax-preparation clients to focus on asset building at tax time as most EITC recipients have already made plans for their refunds — often paying off debts or purchasing needed household items. Asset building is long-term work that requires a good relationship with clients.

Engaging policymakers

One key achievement of the EITC campaign movement has been educating policymakers at the local, state and federal level about the importance of the credit to working families. Members of Congress play a pivotal role in shaping the EITC program and campaigns have developed effective strategies for educating them and ensuring their support for the EITC.

State policymakers also are being educated on the value of state credits — both to low-income taxpayers and to the broader community. Today, the federal EITC is supplemented by state credits in 19 states and the District of Columbia, and local credits in three local jurisdictions.

In addition, several campaigns have been successful at securing state and local funding for EITC-related tax work.

RESEARCHING *the Market*

Some EITC campaigns have followed the lead of the private sector by doing market research to learn more about their customers and their financial needs.

Among them has been the Campaign for Working Families in Philadelphia, which has prepared tax returns that have generated \$65.7 million in refunds for low-wage families in Philadelphia over the past four years. The campaign, though, has struggled to engage clients in taking steps to use tax refunds to build assets. In 2004, the campaign began looking to understand why.

Using a series of focus groups, the campaign sought answers to key questions, including: Where do families get their taxes done and why? Why do families turn to costly refund anticipation loans? And what are people's savings habits and goals?

Among the findings: participants said they used commercial tax preparers largely because they offer convenient locations and hours and quick service. At the same time, participants in the focus groups were suspicious of free tax preparation, concluding that the quality would be poor or that there would be a long wait for service. Many participants also made clear they were willing to pay a substantial fee to receive a quick tax refund.

The research also showed that few participants save their tax refund. Rather, they tend to use refunds to pay off debt and bills, or to buy day-to-day items, especially for their children.

Finally, participants expressed interest in financial education, as long as it was focused on the problems they face, including credit repair, getting out of debt and paying off student loans.

The Philadelphia Campaign has since increased its work to help clients take steps to repair credit; in some cases, credit counselors work in the tax-preparation offices and meet with clients after they complete their returns.



To engage policymakers, the following lessons apply:

Stress the EITC's double bottom line.

The credit puts money into the hands of low-income families and, through them, into the overall community. It's also important to use firm figures to detail the financial impact of the EITC — within a county, congressional district or state. Policymakers can then see the direct effect on their constituents.

Make the case that the EITC is direct assistance that often goes uncollected. Without an aggressive EITC campaign to make sure eligible filers are obtaining their credits, these federal dollars would otherwise be "left on the table."

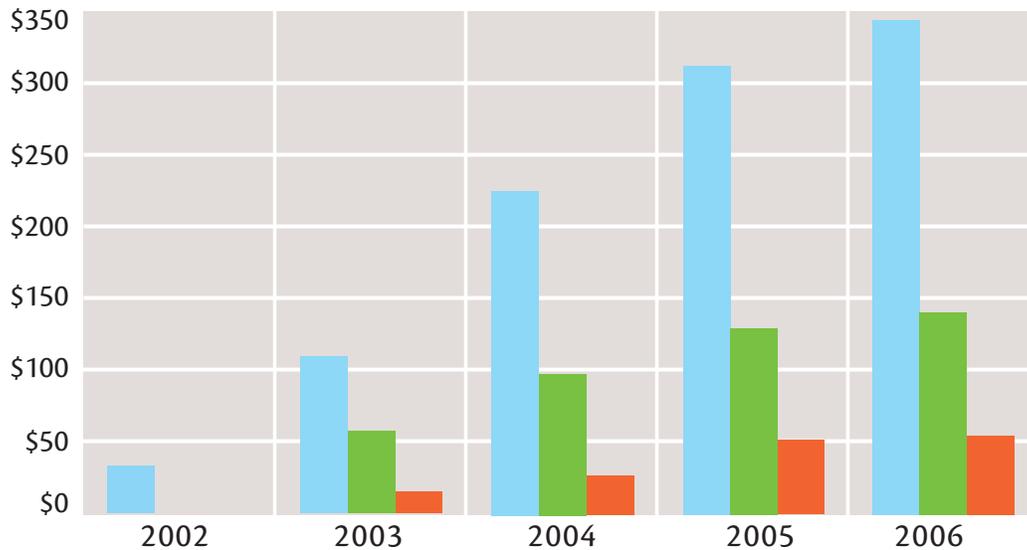
Emphasize that the credit rewards work.

Only *working* taxpayers can qualify for the EITC. This argument has helped the EITC find bipartisan support for decades. It's also important to note that state EITCs can be instituted with little additional bureaucracy, but will provide an immediate financial stimulus in the community.

Be flexible and poised. EITC campaigns must be ready to take on threats from policymakers. The IRS' move to require EITC filers to "pre-certify" their eligibility, which was field-tested in Hartford, Conn., would have significantly increased the time required to complete a tax return. EITC campaigns made a strong case opposing pre-certification and the IRS put the idea on hold.

NATIONAL TAX ASSISTANCE FOR WORKING FAMILIES 2006 RESULTS REFUNDS CLAIMED

MILLIONS



■ TOTAL	2002: \$42	2003: \$115	2004: \$226	2005: \$311	2006: \$344
■ EITC		2003: \$55	2004: \$98	2005: \$130	2006: \$138
■ CTC*		2003: \$15	2004: \$28	2005: \$50	2006: \$53

(Numbers noted in millions of dollars)

* Child Tax Credit

Though new campaigns joined the national effort during the years of this study, no new campaigns were added to the figures compiled above.

Improving Quality and Evaluating Results

In the past several years, the EITC initiative has made it a priority to rigorously collect data to measure its efforts. Without such measures, qualitative improvements are unlikely. Analysts now collect important information about the demographics of those served by EITC sites, how these sites are viewed in the marketplace and what kind of services they are providing. For example, in 2006, data shows that clients at the EITC sites had a median household adjusted gross income of \$15,132, and that 30 percent of filers reported receiving public benefits such as Food Stamps or Medicaid in the previous year. Four out of five clients reported that they had a bank account, and 64 percent chose to receive their refund through direct deposit. This kind of data provides EITC sites with critical information about their clients and helps them shape their work. Measuring their results over time is essential to improving their services.

STATE AND LOCAL GOVERNMENTS *see the benefits*



Around the country, a number of state and local governments have realized that helping with EITC campaigns is a sound investment.

In Iowa, bipartisan arguments from advocates convinced the state legislature to appropriate \$200,000 this year to help with a state EITC campaign. In North Carolina, the state banking commissioner has provided funding, with a goal to get more low-income customers to open bank accounts.

At the local level, Chicago was among the first cities to provide city funding for EITC campaigns — spurred by the desire to help Chicagoans collect federal refunds that otherwise would not come back to their local communities. Smaller cities have followed suit. In Lewiston, Maine, for example, the city manager's office is providing phones and public relations services to help the Lewiston-Auburn Tax Credit Awareness Coalition.

Today, the National League of Cities has made the EITC a priority for its member cities. The League created a toolkit for city leaders to help them understand the value of the EITC to their communities and guide them on establishing a program to help low-income families in their cities file for the credit. (www.nlc.org/nlctoolkit/html)

The following lessons apply to improving quality:

Large tax preparation sites tend to have better quality. These sites usually have better training, staffing and technology.

Take advantage of the existing knowledge base. As part of the Casey Foundation's national campaign, sites have access to data collection software that can extract and analyze important tax data that will give sites consistent data about their customers. Attention to data collection and evaluation has helped sites build compelling business cases and is essential to improving the quality of their operations.

Investing in technical assistance is worthwhile. A relatively small investment in such assistance can lead to higher quality and ensure that sites are reaching the target group of families.

Take advantage of past lessons. Sites should reach out to others with trial-and-error experience to sort through technological and other issues. Much information is available at no cost. National conferences and high-quality research give EITC work credibility and demonstrate to the private sector and policymakers that these initiatives are determined to improve results.

Training is critical. Local programs should review their training procedures regularly and supplement training with high-quality site practices and on-site reviews.



Building Scale and Sustainability

Many sites have worked to increase their reach and to make their programs sustainable over time.

Leaders of these efforts have learned important lessons about meeting this challenging goal:

Build a strong infrastructure. That includes establishing a variety of committed partners and supportive funders.

Build a business case. New tools developed by the Brookings Institution and others allow sites to analyze the market to measure the need for EITC services and help sites make the case for funding and partnerships.

Develop a compelling message. As with any service provider, marketing is important. The Casey Foundation's "Earn It, Keep It, Save It" campaign emphasized the key benefits of filing for the EITC.

Standardize operations. Programs seeking to increase their scale should standardize their operations, where possible, to allow for replication.

Design programs to grow. Leaders seeking to take programs to a larger scale must design programs with such growth in mind from the beginning.

Be efficient. Organizers must do accurate budgeting and reduce operating costs if expansion is to be viable.

Get a strong commitment from partners. Partners, including those in the private sector, must see a clear value for their investments. Good will is not enough.





COLLEGE CREDIT *for Volunteer Tax Preparers*

Tax Help New Mexico is a network of community colleges and non-profit organizations that provide free tax preparation assistance to low-income and elderly filers statewide.

Central New Mexico Community College began a project preparing taxes three decades ago. Four years ago, instructor Fred Gordon launched TAX HELP New Mexico, and the college continues to play a vital and innovative role in training.

Volunteers who want to provide tax preparation services can be trained at the college through the Accounting 150 course, which provides two credits to enrolled students. A second course, Accounting 151, gives an additional credit to participants who spend at least 33 hours preparing tax returns through Tax Help New Mexico.

More than 100 people are enrolled for the 2007 tax season at four different campuses. The extensive classroom training provides uniform instruction for volunteers, which leads to higher quality.

Using Innovative Strategies

In recent years, several tax sites have tried new approaches to expand their reach and solidify their efforts. For example, initiatives have offered tax-preparation services within business or union offices, workforce development agencies and in other settings.

The results have provided important lessons:

Tailor products to meet client needs. One size does not fit all in EITC work. Some sites are using stored value cards to handle refunds quickly, without bank accounts. Such an approach can be helpful to clients who do not have bank accounts and allows them to avoid high check-cashing fees.

Screen clients for other benefits. Some sites are working with tax filers to see if they are eligible for other government benefits, such as Food Stamps or child health insurance. Such an effort requires good computer software and training of staff.

Consider small fees for service. At some sites, clients have been willing to pay an affordable fee in exchange for good service. Proceeds help support the site's work, although a trade-off is that the IRS does not support tax-preparation sites that charge fees. Some sites charge a fee on a sliding scale based on clients' income. In Texas, La Union de Pueblo Entero charges all clients a tax-preparation fee.

The introduction of refund splitting shows promise. Beginning in 2007, taxpayers will be able to divide their federal tax refunds between as many as three accounts, including checking, savings and retirement accounts. Pilot sites have found that as many as 15 percent of tax filers take advantage of this opportunity to put part of their refunds into savings.

A NEW KIND OF PARTNERSHIP in San Francisco



The EITC work was prompted in part by the emergence of private-sector tax preparers who were charging high fees and offering high-cost refund anticipation loans to low-income tax filers. Those private sector preparers continue to charge these fees and offer expensive loans that sap the value of a filer's EITC refund.

However, one prominent private tax preparer, H&R Block, has entered into several partnerships with local EITC campaigns. In the most high-profile of these partnerships, Block contributed \$1 million to help the city of San Francisco fund a new local earned income credit, to boost the value of the federal credit. In its first year, the new credit provided an average local tax benefit of \$220 to about 9,600 filers in San Francisco in 2005. As part of the agreement, Block scaled back its advertising for refund anticipation loans. An evaluation by the Brookings Institution found that the number of such loans made by Block in San Francisco declined by 16 percent in 2005.

The evaluation also noted the important financial benefit tax filers received from the credit. But the study could not determine whether the initiative was achieving its key goals: increasing the number of people filing for the EITC, promoting asset building and retaining low-income families in San Francisco.

It seems clear that such partnerships with Block have generated benefits for taxpayers and helped EITC campaigns expand their work. Moving forward, leaders in the free and affordable tax-preparation field are looking carefully at how — or, in some cases, whether — nonprofit tax-preparation providers should enter into such partnerships.

Developing Partnerships

Tax sites have gotten started and flourished due to strong partnerships with key community players. These partners have been diverse — social service agencies, housing agencies, local and state government officials, banks, credit unions, private companies, AARP, United Ways, religious organizations, colleges, universities and others.

Among the lessons:

Broad-based partnerships are critical. Having a variety of partners from across the community gives coalitions credibility and exposure.

Committed core partners provide stability. Strong support for the goals of the project leads to strong action. A broad-based steering committee can be an effective model for governance.

Buy-in from the top is essential. When working with private employers, it's critical that top officials of the company understand and support the project. If so, the company is more likely to stay engaged with the project, even as personnel changes take place.

Workforce development agencies can be partners. Campaigns that provided tax services within workforce development agencies had mixed results. Larger agencies provided a better opportunity to reach clients. To succeed, these efforts must provide convenient services.

Looking Ahead



Around the country, a wide array of campaigns has been able to provide free or affordable tax preparation services, saving low-wage filers money and increasing the number of low-income families reaping the benefits of the Earned

Income Tax Credit. They also have successfully made the case for new state and local credits.

These efforts have produced significant real-world impact, benefiting working families in many communities throughout the country.

At the same time, many in the field recognize that EITC-related initiatives are serving only a small fraction of low-income working families. Much more can be done and this report has sought to provide guidance to those who are involved in the work moving forward. There are challenging issues to face.

The system of free and affordable tax-preparation providers must continue to explore its relationship with for-profit tax preparers. These firms continue to charge excessive fees for many services. However, many in the nonprofit sector are considering ways that private businesses and nonprofit providers can work together efficiently and in a way that is fair and beneficial to tax filers.

The field will continue to change. Already, the Free File Alliance, made up of private-sector preparers, offers free tax preparation and serves between 4 million and 5 million filers annually — while also offering often costly financial services and loans. Meanwhile, many in Congress are pushing for changes, particularly in the rules for refund anticipation loans. The federal government also is considering creating an online filing system that would allow taxpayers to file returns directly with the IRS, which could alter the work of EITC-related campaigns.

In any case, there will remain a major need to educate low-income families about the value of the EITC and to assist many in filing returns while avoiding costly services in the private market. Sustaining this important work will require renewed commitment from the nonprofit sector.

Moving ahead, improving low-income working families' asset building also will remain an important goal of EITC campaigns. Local campaigns are trying new approaches and experts in the field continue to analyze and discuss the most effective approaches to make that goal a reality for more families.

There remain important opportunities to fund and build EITC-related campaigns to assist low-income working families and their communities. As that movement continues, it is critical that the next steps are built firmly on the lessons learned through many years of work.

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs. For more information, visit the Foundation's website at www.aecf.org.

For more information about this report and the Casey Foundation's work on the Earned Income Tax Credit, please contact Bonnie Howard, Annie E. Casey Foundation, 410-223-2898 or bhoward@aecf.org.

Acknowledgements

This report was funded by the Annie E. Casey Foundation. It is based on interviews with key participants in communities across the country, as well as previous evaluations and analyses.

The report was researched and written by Tom Waldron, senior associate, The Hatcher Group, Bethesda, Md.

The report gratefully acknowledges the insights provided by the following individuals:

Amy Brown, Consultant
Steven Dow, Community Action Project of Tulsa County
Theresa Feeley, SFWorks
Lucy Gorham, EITC Carolinas
Abby Holsclaw, National League of Cities
Steve Holt, Holt & Associates Solutions
Jean Hunt, Philadelphia Campaign for Working Families
David Marzahl, Center for Economic Progress
Diana Matier, Tax Help New Mexico
Kirsten Moy, Aspen Institute
Chuck Palmer, Iowans for Social and Economic Development
John Wancheck, Center on Budget and Policy Priorities
Florence Young, Casey Family Services

At the Casey Foundation, the following people provided insights and supervision:

Bob Giloth, Bonnie L. Howard, Miriam Shark and Irene Skricki

Photography: Nancy Morris, N2 Studios
Design: Elizabeth DiPalma Design
Project Manager: The Hatcher Group

The Annie E. Casey Foundation

701 ST. PAUL STREET
BALTIMORE, MD. 21202
410 547 6600
www.aecf.org