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# The Role of Asset-Building Services for Community-Based Tax Preparation Programs

## A report for the Center for Economic Progress

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## Executive Summary

The Center for Economic Progress has been a leader in promoting access to asset-building services for over a decade. This report documents the potential for expanding asset-building services among community-based tax preparation programs. The report is based on interviews, a survey of tax preparation sites, and a review of the literature. Overall, this report reinforces the critical role of community-based tax preparation services for Earned Income Tax Credit (EITC)–eligible and other low-income populations. Poor financial literacy, a lack of understanding of available services, and the high costs of alternative tax providers have generated growing interest in promoting nonprofit tax preparation programs. Maximizing tax benefits and avoiding high-cost tax service providers are important first steps for building financial assets, but community-based providers can do more to promote savings and other positive financial behaviors.

The most frequently provided service at tax preparation sites is financial literacy education. This is typically provided on a referral basis, is low- or no-cost, and is relatively easy to offer and administer. However, clients frequently are reluctant to fully participate in educational opportunities, and such programs have had mixed success showing the impact of counseling and education services. The next most frequently offered service is providing easy access to set up a bank account and make an almost immediate deposit with a tax refund. By establishing accounts for the un-banked and/or promoting direct deposits, tax preparation programs not only can stimulate clients to retain portions of their tax refunds at least for a short period of time, but also can help them avoid high-cost refund anticipation loans. With the advent of refund splitting, there are greater opportunities to use the tax refund as a source of longer term savings, especially using savings bonds, certificates of deposit (CDs) and low-minimum retirement accounts.

Low-income tax filers use tax refunds for a variety of purposes. While savings or financial asset building is a goal for many tax clients, there are competing pressures on the use of these funds, especially paying for current bills and expenses. Only a small proportion of tax preparation clients can be expected to engage in savings programs due to logistical, economic and psychological reasons. Just because the share of tax clients enrolling in services is relatively low (generally between 1% and 10%), it should not be assumed that tax preparation clients are not building assets. Many families who do not take part in a savings program do use their refunds for activities which are effectively investments in their future, such as schooling, transportation or housing. While not financial accounts, these are investments that can lead to greater household stability, earning potential and ultimately lead to asset building. Efforts to counsel clients on budgeting and making effective credit choices can help guide clients to make better choices in these type of investments, even without opening a savings account. For clients with high debt levels, paying off high-rate loans will increase their overall net worth (although it may remain negative).

There is potential to also expand the proportion of tax clients using asset-building services at tax time. There are significant opportunities for programs to develop approaches that streamline the way services are delivered and overcome emotional

barriers by reframing opportunities to save. This includes establishing how much the client expects to receive in a refund and setting up savings for any "surplus" amounts, as well as reducing the time and complexity required to engage in a savings program. Interviews with practitioners suggest that a number of fairly simple strategies will help to improve client receptiveness to taking part in a savings or other asset-building program. This includes having a lead staff assigned to promote asset-building services, focusing on one or two key services (such as a savings account and credit counseling), training all tax preparation volunteers on the benefits and procedures involved for clients, and expanding the use of technology for screening and tracking clients. It is important to make services available as simply as possible, with minimal requirements from clients. In many cases clients should be presumed to participate in specific types of savings programs if their refund is significant and other criteria are met.

Most tax programs lack the financial and administrative support to greatly expand asset-building programmatic offerings, despite strong interest by program managers. This suggests that tax programs with a mission of asset building may need to "triage" clients, intentionally reducing the number of clients served in order to provide more intensive services for each client. Clients can be sorted primarily on when they come in for services, but the size of their refund in combination with their income, age and savings goals help determine likely participation in asset building. The design of the program and when and how it is presented will have the most significant impact on the likelihood of clients taking up services. Asset-building activities linked to tax filing are best viewed as part of a series of learning experiences, even if this year's savings account is depleted in a short amount of time. The strategy each program employs depends on if it is primarily a tax preparation operation — which the majority are — or part of a larger asset-building initiative.

As the Center looks to expand the role of asset-building services offered by community-based tax preparation programs, an important next step will be to initiate a national pilot to test and refine the most successful approaches. A model pilot program might include the following features:

- Focused training on asset activities for all volunteers, with one lead staff promoting savings options.
- Extensive use of refund splitting (using Form 8888), combined with a limited set of standardized service options (onsite savings accounts, savings bond, IRA, credit counseling), but avoiding a "one size fits all" approach.
- A standardized workflow process, including:
  - computerized intake and screening;
  - prioritizing clients with the highest probability of significant refunds;
  - establishing client expectations regarding refund amount prior to tax filing;
  - integrating savings recommendations into the tax information interview; and
  - mainstreaming savings options at the quality control review.
- Evaluation, including technology and information disclosures to track clients.
- Standardized systems to make referrals to other services as needed.

# Table of Contents

## 1.0 Introduction

Like much of the asset-building field, tax preparation programs are evolving and innovating every year. Community-based tax programs have had great success in getting lower-income families to use appropriate tax preparation services, expanding the use of the EITC and other tax-related programs, and recognizing tax time as a critical opportunity for managing financial asset. As this field matures, and new strategies such as refund splitting are implemented, the field can begin to replicate successful strategies and focus on overcoming the barriers that prevent many lower-income families from acquiring long-term financial assets.

Through funding from the Ford Foundation and the Citigroup Foundation, the Center for Economic Progress (the Center) commissioned this report to inform the tax preparation field about the opportunities that exist to expand services beyond the delivery of tax assistance to include such activities as personal financial planning, credit rebuilding, debt management, connection to public benefits, and access to mainstream financial accounts and services. The Center's goals are (1) to develop a new perspective on the financial needs and most appropriate asset-building strategies for low-income households seeking tax preparation services, (2) to comprehensively identify leading strategies, and (3) to develop recommendations of the best practices in asset-building strategies among community-based tax programs.

This report is based on a review of 80 articles taken from the academic literature, foundations and reports recommended by professionals in the community-based tax preparation field. In addition, an e-mail survey was conducted from May 7 to May 30, 2007, with 118 staff representing 89 National Community Tax Coalition programs nationally (see appendix for survey form). Based on responses to the Internet-based survey and recommendations from the Center, 22 telephone interviews were conducted with key informants in the community tax preparation field from June 5 to July 13, 2007, using a standardized protocol (see appendix for interview guide).

This report begins with a review of the existing literature on tax preparation programs and asset building, including a summary of key concepts regarding low-income households and their ability to save their tax refund. Next, this report summarizes a survey of tax preparation sites, and then provides findings from interviews with leading programs nationally. Finally, it provides a series of conclusions and recommendations as the Center begins the work of expanding and replicating best practices in tax preparation and financial asset building.

## 2.0 Review of the Literature

This section provides a brief review of relevant articles and reports that help inform strategies for delivering asset-building services within tax preparation programs. This section begins by examining why asset building is a worthy goal, how people save, and what prevents even the most well-meaning of us from saving as much as we would like. Next the issue of financial literacy education is addressed, followed by a summary of the use of the EITC as a savings mechanism. Finally, studies of programs piloting efforts to link savings accounts to tax preparation are reviewed, followed by a series of implications for program design.

### *2.1 Defining the Scope of Asset Building*

Antipoverty strategies have traditionally focused on income support models, providing needy families with subsidies to meet current expenses for food, shelter and other basic needs. In time these programs combined income support with workforce training and life skills education. Most recently strategies have been developed to help families build financial assets.

There have been many studies of the issue of asset building, and the positive impacts of asset building for low-income individuals (Beverly, McBride, & Schreiner, 2003; Beverly & Sherraden, 1999; Sherraden & McBride, 2006; Sherraden, Schreiner, & Beverly, 2003). These studies and others have been widely cited and generally conclude that the accumulation of assets has the potential to support low-income families in several ways. First, setting aside even a small amount of income provides precautionary savings (a "rainy day" fund) to get through unexpected life crises such as a job losses, income reduction, illness, disability or divorce. These are unpredictable events during which assets can be used to pay for current expenses, serving like insurance. Second, assets can be used as equity necessary for borrowing money, such as a mortgage, providing a foundation for risk-taking and supporting individuals to think about and plan for the future (Shobe & Page-Adams, 2001). Third, assets can be invested, both financially for retirement or other long-term needs, or to fund investments in human capital, such as a college education or job training. In the long run, assets also can provide an inheritance to pass on to children, changing the dynamics of intergenerational poverty.

Several papers suggest that holding financial assets boosts political participation, self-efficacy and the health and educational outcomes of children (Romich, 2006; Sherraden, McBride, Johnson, Hanson, Ssewamala, & Shanks, 2005; Shobe & Page-Adams, 2001). In general these studies are not conclusive, since many factors might also influence these outcomes. More controlled research is needed before these more global impacts can be verified. However, it is clear that having precautionary savings, the ability to efficiently borrow in credit markets and to save for retirement can have powerful impacts of the lives of low-income people and are laudable goals regardless of other social or economic effects.

Most of the literature defines asset building as savings, specifically having and maintaining a savings account at a financial institution. But assets include other financial assets,

such as a home or business, as well as defined pensions, retirement accounts, or investments. Assets also might include items that will help a household produce more income in the future, such as a car, equipment, clothing, tools or even job training and work-related education.

## *2.2 How Do People Save?*

First, households have to decide to *reallocate* their consumption into savings. For many low-income households, fixed necessities such as food, clothing, housing, utilities and transportation absorb most of their income. To save, households must find ways to reduce the cost of their consumption, or reduce consumption altogether. Second, after moving income into an account, the assets need to be *converted* from liquid forms, such as cash in a checking account, into a longer-term investment which earns a positive return and is more difficult to spend. Third, the funds need to be *maintained* over time until they need to be used for consumption, or investment in other types of assets (Beverly & Sherraden, 1999).

One study of low-income people shows a hierarchical pattern to financial behavior for clients in a financial counseling program. In that study, most clients suggested their priority was to reduce debt, not to save for retirement or other purposes. Age was an important indicator of the choice to contribute to savings, with the youngest clients *least* interested in saving. Overall, 89% of participants in this study, all of whom had budget and credit problems, were able to reduce their debt levels; 68% developed a budget; 52% started a savings account; and 17% worked with a financial planner (Xiao, Sorhaindo, & Garman, 2006). The authors suggest that this hierarchy is consistent among low-income populations: (1) pay down debt, (2) set up a budget, (3) begin to save and then (4) plan for retirement and other long-term investments. Of course paying down debts and developing a budget do contribute to asset building, and are important steps along the financial hierarchy for clients. The traditional focus of asset-building programs, savings, may not be the first priority for many low-income clients.

An earlier study by Xiao shows saving motives differ across households. Homeowners, married couples, families with children, people over age 45, people employed full-time, and those with some college education were the most likely to engage in significant savings behaviors. Lower-income minorities with children, the unmarried, and people under age 45 were most likely to engage in precautionary savings for short-term or emergency needs if they had some previous experience in saving and credit use. Married, higher-income and older households were more likely to save for purchasing a home or for retirement (Xiao & Noring, 1994). Use of retirement accounts shows similar demographic patterns. In one study, being nonwhite, under 35, unmarried, low-income, not working full time, not having health insurance and having only a high school education or less were all associated with lower levels of participation in retirement plans (Copeland, 2004).

Beyond the demographic or economic positions of potential savers, institutional issues can have a powerful impact on savings levels. Access to a bank account, financial education and direct deposit all have been shown to increase participation in savings

programs. In the last decade the evolution of Individual Development Accounts (IDAs) has created a strong institutional support system to facilitate savings. These accounts provide matches for each dollar saved, boosting the incentive for low-income people to save and increasing the size of their savings accounts. The larger the match for savings, the more IDA clients save (Schreiner & Sherraden, 2005; Sherraden, Schreiner, & Beverly, 2003).

However, the costs of setting up institutional frameworks to support savings behavior can be significant. A study of one of the first IDA programs, and therefore a program which had to invest most heavily in research and development expenses, shows the administrative costs of IDA programs can exceed the amount clients retain in savings accounts. In this study, each month the average client created $61 in administrative costs while he or she saved only $20. This program likely represents a more intensive, higher-cost delivery model, yet in general the costs of running any matched savings program will include recruitment, training, account set-up, and monitoring of the use of funds. Of course the benefits of the program may simply exceed the amount the client saves, but from a sponsoring organization's perspective, this may be immaterial unless grant funds are widely available and/or very high-volume, low-cost approaches can be used (Schreiner, 2002, 2004).

Other institutional mechanisms include easy-to-use bank saving accounts, stored value cards, and credit rebuilder loans/savings accounts, often in combination with financial education. All of these strategies are being tested in various contexts, with many finding some success in encouraging savings or asset building among lower-income individuals (Rubiner, 2006).

## *2.3 Overcoming Obstacles to Saving*

Why do people fail to save? This issue has been widely discussed in the literature. Classical economics, rooted in the idea that people weigh costs and benefits and make rational decisions in response to information, suggests consumers will save and spend according to their expectations for the future. In practice, savings rates are lower than are predicted by these classical "rational actor" models, however (Thaler, 1994). Newer theories have evolved to help explain why this might be the case, each of which is described below.

### Mental Accounts

The field of behavioral economics has developed over the last 20 years to help explain why consumers do not behave as classical (rational) economic theory predicts. Rooted in the experience of psychology, behavioral studies uncover when consumers diverge from classical theories, and then attempt to identify if these deviations can become predictable. Hersh Shefrin and Richard Thaler's work on the behavioral aspects of saving has highlighted many of the problems with the so-called life-cycle hypothesis common in mainstream economics (Shefrin & Thaler, 1988). The life-cycle model suggests that people foresee the need for their savings in the future and will invest accordingly over their lifetime. Shefrin and Thaler suggested that individuals use "mental accounts" to separate their current income, future income and assets. We may be unwilling to spend current

income on a certain item, yet a tax refund is considered being a different type of money with which we are more than willing to make a purchase. There is no difference between the source of the income to be spent in either case. But the refund is placed in a separate mental account and thus feels like "found money."

One study employing a social psychological approach suggests that people make distinctions between regular and unexpected or "windfall" income, as well as expected and unexpected savings or consumption. Moreover, these inflows and outflows are viewed differently in the long- and short-run (Winnett & Lewis, 1995). This is reflected in studies of IDA clients, showing distinctions between intermittent income and recurrent income (Sherraden, Schreiner, & Beverly, 2003).

Thaler and Benartzi have promoted the idea of "Save More Tomorrow," essentially getting workers to agree to save part of their future pay increases. They find that more than three-quarters of employees who rejected the advice of a financial planner to save more in their matched retirement accounts were willing to accept contributions to their accounts based on *future* pay raises. Employees who committed to saving part of future pay increases also were more likely to adhere to their savings levels over time. Further studies found similar results, with workers most likely to participate in saving future pay raises if they had some experience making contributions in the past, and also a modest positive effect of providing counseling on how to save for retirement (Thaler & Benartzi, 2004).

### Self Control

Another issue often mentioned in the literature is a lack of self-control; consumers strongly prefer to consume goods and services immediately than defer that consumption until later (Thaler, 1994; Thaler & Benartzi, 2004). Thaler notes that previous generations tended to accumulate savings through three mechanisms: employer-sponsored defined pensions, social security and home equity. All of these mechanisms require little input from the consumer and are largely automatic. Today's savings and retirement plans are more discretionary in nature, requiring consumers to actively reallocate their budget into savings. Such a structure makes spending income now more tempting and saving harder.

Ashraf and colleagues performed an experiment in the Philippines where men and women from low- and moderate-income families were able to use a savings account with a lockbox feature preventing them from accessing their funds without the banker's assistance. The study found that this form of a commitment to savings helped people save more in their accounts (although the effect was only for women, which may reflect different gender roles in the household). The authors conclude people prefer to pre-commit to savings because they know they will be tempted to spend (Ashraf, Karlan, & Yin, 2006). They describe a concept often discussed in the behavioral economics literature called hyperbolic discounting, meaning that people tend to discount the value of something very highly in the short run, but value it lower in the intermediate run. In other words, the value of a dollar today might be 50 cents next week, but 75 cents in six months (Laibson, 1997).

### Loss Aversion

A Canadian experiment involving short-run and long-run risk trade-offs shows that low-income people who are cash constrained tend to be more risk-averse and more present-oriented. Essentially the need to survive financially in the very near term trumps any potential gains in the longer term (Eckel, Montmarquette, Johnson, & Cirano, 2004).

One leading theory as to why people fail to save at the optimal rate given their age, income and expectations for their future is that it is difficult to know how much to spend today and how much we will need to spend in the future. This is a thorny information problem, since we can never accurately predict the future. Because today's need is known with certainty, and the needs of the future are unknown, the low-income population studied in this experiment preferred to take payments today (Eckel, Montmarquette, Johnson, & Cirano, 2004).

Savings can be viewed as a loss by consumers — a loss from their paycheck if savings happens regularly — or a loss from their refund at tax filing. People tend to view losses more negatively than gains and want to avoid losses or even the risk of losses (Kahneman & Tversky, 1979). Since consumers cannot predict what will happen to them in the future, savings might be seen as resources that could be lost rather than utilized in the present. However, due to the mental accounting discussed above, when borrowers face an increase in income (such as a pay raise or a refund larger than they expect) they may not account for these funds in the same way they account for their previous salary or income and therefore not be as loss-averse with these funds.

## *2.4 The Role of Financial Literacy*

Many asset-building programs include strong components of financial literacy and credit counseling (Braunstein & Welch, 2002). Financial education may take the form of basic financial literacy, or focused classes on homebuying, planning for retirement, or savings and investing. Financial education may also be provided in schools or in workplaces. In the context of asset-building programs, education is viewed as a means to help clients to gain skills and take on greater responsibility for their financial situation in the future.

Although not an experimental design, Chang and Lyons evaluated a financial literacy initiative deployed by the Cooperative Extension Service in Illinois, and found that clients attending more education modules performed better along a series of knowledge and behavior measures. The authors suggest that low-income clients — those most in need of further financial skills — benefited most from the service (Chang & Lyons, 2007). The challenge with this study, like most evaluations, is separating the effect of the modules from the clients' motivation to receive more education. Nevertheless it provides a positive signal that financial literacy courses could be effective. A study by Clancy and colleagues of clients with IDA accounts in the American Dream Demonstration found that deposits into savings accounts increase along with the receipt of financial education, especially among low-income clients (Clancy, Grinstein-Weiss, & Schreiner, 2001). Another study shows low-income clients are among those most satisfied with financial education (Fry, Mihajilo, Russell, & Brooks, 2006).

The Family Links for Low-Income People (FLLIP) conducted an evaluation of a program offering combinations of financial education and asset-building accounts. FLLIP's 12-hour education program had positive impacts on participants' knowledge levels based on pre- and post-tests. In general, scores on the test, which covered basic financial issues, were very low initially, particularly in regards to knowledge of savings and investing, as well as of public benefits (Anderson, Zhan, & Scott, 2004a).

The FLLIP program also illustrates the issue of client retention in asset-building programs. About 40% of clients in financial education dropped out of the program, compared to 11% also taking part in a matched savings IDA program (Anderson, Zhan, & Scott, 2004b). Transportation and childcare were common barriers to continued participation among clients. Among clients completing the program, however, many exhibited improved financial behaviors, including reduced use of payday lenders and greater use of savings (Rand, 2004). These studies also highlight the "selection effect" that tends to dominate such programs — that is, the clients most motivated to improve are the most likely to sign up for programs. The IDA clients in FLLIP, for example, were among the more financially savvy clients in the program (Anderson, Zhan, & Scott, 2004a).

## *2.5 Tax Refunds as a Savings Mechanism*

Filing taxes is a key moment each year in most people's financial lives, a time to consider the last year in terms of income and expenses, to take advantage of tax deductions and incentives, and to plan for the next tax year. For low-income families the EITC and Child Tax Credit (CTC), among other tax benefits, offer significant tax advantages. The EITC was launched in the late 1970s as a way to pilot the idea of a negative income tax that had been pondered in academic and policy circles for years earlier. The concept was to create a refundable tax credit to stimulate people to work, especially those at very low income levels. Initially viewed as a replacement for welfare programs, over time the EITC expanded and has become a complement to welfare and other social service safety net programs. Couples with children receive the largest benefits, which phase out as income increases and generally disappear at around $40,000 in annual income.

### Advance EITC

Economic theory suggests we all would prefer to receive a payment today than wait until next year to receive the same payment. Unlike a savings account, overpayments to the IRS accrue no interest to the taxpayer. Since the beginning of the EITC, an advance EITC option has been available by filing a W-5 form with a taxpayer's employer. The W-5 changes the employee's regular withholding for federal taxes in their paycheck. Only EITC recipients with children can file for the advance, and only 60% of their expected credit can be advanced (Barrow & McGranahan, 2000).

If such a tool is available, why do taxpayers give an interest-free loan to the government? First, taxpayers receiving the EITC in the past may have developed an expectation of receiving a large refund check. Once the reference point of $1,500, for example, has been established, taking action to make next year's refund only $700 seems to result in a smaller benefit even if take home wages increase (Romich & Weisner, 1999). Second,

due to the loss aversion discussed above, people in general tend to avoid negative outcomes more than they favor positive outcomes. The fear of having to owe in the next year's tax period keeps them from reducing their withholdings. Third, for some taxpayers the refund becomes a way to force themselves to save. It is a commitment device that prevents them from spending money from their regular paychecks (Ayers, Kachelmeier, & Robinson, 1999). One qualitative study in Wisconsin suggests that EITC clients vastly prefer lump-sum refunds to spreading payments over the course of the year, with many citing "self-control" as the reason (Romich & Weisner, 2000). Another study of tax filers in Boston shows that clients who responded to survey questions in a manner that suggests low self-control are more likely to spend more of their refund (saving less), to incur debt and to have lower credit scores (Benton, Meier, & Sprenger, 2007). Finally, the advance EITC takes time to fill out and can be administratively burdensome (Beverly, Romich, & Tescher, 2003). Lack of use of the advance EITC also simply may stem from employers' unwillingness to cooperate with the process of filing a W-5 and clients not wanting the employer to know they receive the EITC (Smeeding, Ross Phillips, & O'Connor, 2000). It should also be noted the amount of interest on savings foregone by overwithholding in the 2007 rate environment is not significant. The value of $1,500 withheld at the rate of $120 per month would generate $34 in interest by January's tax filing (at 5% interest).

Regardless of their intentions or motivations, taxpayers clearly use the tax-withholding structure as a mechanism to accumulate income. If they owe less in taxes than they have had withheld, there is an opportunity to potentially save all or part of the refund.[1]

### Uses of Refunds

Smeeding and colleagues conducted one of the first surveys of EITC recipients, focused on taxpayers in Chicago (Smeeding, Ross Phillips, & O'Connor, 2000). The authors find that the EITC refund is an important source of financial resources for making ends meet, to pay off bills or to make a needed purchase of a durable good. They also suggest that almost half of EITC recipients intended to save at least part of their refund for future use. Further, the authors find as many as half of EITC recipients use their refunds to pay for items that might be viewed as contributing to asset building, including transportation, schooling and improving or moving to different housing. The authors note, as is frequently discussed in the literature, that asset limits in Food Stamps, Medicaid, SSI and other programs may serve to discourage clients from saving their refunds over longer periods of time (Smeeding, Ross Phillips, & O'Connor, 2000).

A similar study of EITC recipients in Wisconsin found that refunds tended to be used for larger purchases, to pay off bills or to purchase or repair a vehicle. The lump-sum payment served a key role in making purchases or investments to help the household in the future (Romich & Weisner, 1999). Furniture was the most common post-tax check purchase, along with appliances. Transportation and housing costs or repairs were the

[1] Clearly the size matters. Not using the advance EITC means waiting to use each paycheck's withholding funds for many months. Yet taxpayers who take out refund anticipation loans (RALs) receive their lump-sum refunds only a few weeks faster, at best, with a reduction in the value of the refund by several hundred dollars.

next two most common uses of the refund. One in four EITC recipients planned to use his or her refund on an automobile (Romich & Weisner, 1999).

## *2.6 Combining Tax Preparation and Asset Building*

The rising use of the EITC in the 1990s created a market opportunity to sell tax preparation services. Firms competed on completing tax forms more quickly and earlier in the process. More than two-thirds of EITC recipients rely on a paid tax services, compared to less than half of all taxpayers (Berube, Forman, Burns, & Kim, 2002). In time private firms began to offer refund anticipation loans (RALs) in anticipation of large refunds. RALs have been widely criticized for extracting large fees and very high effective interest rates (Berube, Forman, Burns, & Kim, 2002). Community-based free tax preparation programs have expanded in the last decade in part to offer an alternative for low-income tax payers. These programs, many of which are supported by the IRS's Volunteer Income Tax Assistance (VITA) service, exist in most parts of the country, serving 800,000 to 900,000 tax filings per year (Milbourn, 2004; O'Connor, 2001).

Nine studies of EITC tax preparation programs were reviewed for this report. The findings from each are briefly described below, as well as summarized in Table 1.

**Romich (Romich & Weisner, 1999, 2000)**
These studies used ethnographic and other techniques to provide descriptions of families using the EITC. The programs studied did not include specific asset-building services, although clients were part of a larger social service system. The authors show that most families prefer the lump sum to the advance credit and those families used the funds to make up for financial shortfalls during the rest of the year. The authors find clients in the program used withholding as a form of self-control and also engage in mental accounting, viewing the refund as a different form of income than other income. The authors suggest that financial education might facilitate the use of funds for uses beyond current consumption. The authors also report that families expressed an increased sense of control and well-being during the time when they receive their refund checks.

**Smeeding (Smeeding, Ross Phillips, & O'Connor, 2000)**
This is also a largely descriptive study of a program providing free tax preparation, but not necessarily promoting asset-building services. The study included 826 EITC clients (208 in a follow-up survey) in Chicago. The authors find that uses of the EITC are divided into those that improve "social mobility," such as housing or transportation, and those that primarily help to make ends meet, such as paying bills. The authors find most EITC recipients know they qualify for the tax benefit, expect a refund and in many cases have plans for how to use it.

**Beverly 2003 (Beverly, Romich, & Tescher, 2003)**
This study was the first to report on an attempt to provide tax preparation services linked with savings accounts. Tax services were provided by the Center for Economic Progress at a ShoreBank branch, and filers could open a low-cost account and have their refunds deposited rapidly and electronically. Participants' accounts earned interest, included free ATM cards, and earned an additional 10% bonus on funds remaining in the account by

the end of the year (up to $100). The authors found that while 20% of clients used the program, most did not retain substantial savings deposits. The primary effect of the savings accounts was to help participants spend money more slowly and more thoughtfully, and in some cases became a steppingstone for taxpayers to begin using other bank products. Combining electronic filing and direct deposit to a bank account offered onsite was considered a success. Clients opened accounts in order to receive their refunds faster, but this process also served as a precommitment device to encourage them to exercise more self-control over their spending. The bonus feature appeared to have no incentive effect, due to its small size, timing or the clients' need for the funds in the current period. Most clients spent their refund, depleting the average account within four months.

**Beverly 2005 (Beverly, Schneider, & Tufano, 2005)**

This study included 516 clients in Tulsa as part of an early refund splitting experiment called Refunds to Assets. These results helped to provide support for implementing refund splitting in the tax year 2006. Beverly and colleagues found strong demand for splitting refunds between availability for immediate spending and placement into a savings account, especially for larger refunds. The amount in the savings account diminished rapidly over time, raising questions about whether this is asset building or slightly deferred consumption. But taxpayers splitting their refund tended to spend down their refund more slowly, and managed their accounts more frugally. The authors speculated that taxpayers may engage in better financial management each year, as they gain experience. The authors also highlighted the need to modify ChexSystems, a screening tool many financial institutions use to identify consumers with a history of overdrafts. About one in four clients could not open a savings account unless ChexSystems reviews were waived. But much like the findings of the previous study, the ability to immediately open an account onsite greatly facilitated deposits, even among clients who already had accounts. Finally, the authors suggest that the fact clients spent down their accounts should not be viewed negatively. Such spending has to be viewed in the context of the clients' needs and financial goals; in some cases this spending could be asset enhancing.

**Chiou (Chiou, Roe, & Wozniak, 2005)**

This study, conducted by masters students as part of a thesis, also included a review of data from Refunds to Assets programs in Tulsa, as well as from Brooklyn, NY. Like the previous study, clients could open low-cost bank accounts and have their refund split so that a portion could be deposited in savings. Unlike the previous study, clients were randomly assigned to be offered refund splitting. Unfortunately, this study lacked access to tax-return data, so tax filer behavior remains unclear. However, take-up rates for having refunds split and deposited into savings were estimated to be in the order of 5% to 8%.

**Duflo (Duflo, Gale, Liebman, Orszag, & Saez 2005)**

This study is not of a community-based nonprofit tax program, but rather an experiment in which H&R Block offered matching incentives for IRA contributions as part of preparing tax returns in St. Louis. Clients were randomly offered a 20%, 50% or no match to an IRA contribution. As expected, the 50% match rate resulted in more participation and savings. Yet the highest take-up rates were only 17 percent, and even then only for the

50% match group. Both the matched offers garnered larger contributions than the control group. Importantly the authors suggest that workflow and process steps have a significant impact on savings choices. By making the process of enrolling and saving as easy as possible, taxpayers are more likely to participate. The ease of the matching program piloted here was compared to a Saver's Tax Credit, which appeared to be too complicated for clients to reasonably use.

**Spader (Spader, Ratcliffe, & Stegman, 2005)**

This study is specific to community-based tax preparation programs engaged in asset building. Spader and colleagues described clients at three VITA programs in North Carolina, including clients' intention to save and their actual savings. The authors found that more than half (55%) of clients with a refund who intended to save part of that money did not save any of it. The authors modeled which clients saved all or part of a refund, and found that saving any amount was positively associated with having more income. Taxpayers with incomes over $30,000 were nearly 12 times more likely to save than those with incomes under $10,000. The clients in the study used several products to save outside of tax time, including whole life insurance (36%), pension or retirement plans (30%) and money market accounts, mutual funds, stocks or bonds. Overall, 97% of clients in the study agreed that saving was important, but less than half were regular savers. When asked about having their paychecks automatically deposited, 80% agreed that direct deposit was a good idea. But barriers to saving were prevalent, with most saying that saving is difficult because "most money goes to necessities" (86%), that it is "hard to resist temptations to spend money" (53%) or that they "could not save enough to make a difference" (64 %).

**Rhine (Rhine, Su, Osaki, & Lee, 2005)**

Rhine and colleagues describe one of the largest tax preparation programs in the country, based in New York City. Forty percent of clients in these tax preparation programs lacked a bank account. By opening an account, clients could take advantage of an electronic refund and also potentially begin saving. Nine percent of clients without a bank account opened one at the tax site, as did 3.6% of clients who already had a bank account. Just under 11% of filers with a refund planned to save the majority of their refund; most planned to use their refund to pay off debt (25%), pay bills (20%) or pay rent (14%). Un-banked filers with a larger refund were more likely to open an account. Also, opening an account was positively associated with having a prior relationship with the organizations sponsoring the tax preparation program (Rhine, Su, Osaki, & Lee, 2005).

**Flacke (Flacke & Zinsmeyer, 2007)**

This working paper describes a pilot conducted in 2006 in which clients at five VITA sites were offered split refunds with the ability to make a deposit into a U.S. savings bond. The preliminary findings suggest that 6% of tax filers with a refund purchased a bond, saving $185 on average. The authors find that savings bonds have a good reputation with tax clients, have a low minimum ($50) and are generally easy to use, including no need to deal with ChexSystems. Bonds serve as an important "steppingstone" for the unbanked. Importantly, 84% of bonds were purchased with co-owners. Clients liked the ability to save for their children or others. In fact, bonds proved far more popular with clients who had dependents, as well as those with marginally

higher incomes and larger refunds. When clients were offered a match in order to buy their bonds at a 20% discount, take-up rates increased to 15% to 18%, significantly higher than IRA savings programs with the same match. Bonds must be held for one year, although they can be cashed due to ill-defined emergencies. The authors suggest that clarifying the rules regarding withdrawals and developing simple messages for clients will boost participation. The only drawbacks to bonds were related to the need for a Social Security number, which immigrants may not have, and the need to set up the systems to purchase the bonds electronically. Further reports are forthcoming from this pilot and a similar pilot with H&R Block.

**Table 1: Summary of Studies of Community-Based Tax Preparation Programs Providing Asset-Building Services**

| Study | Location | Date | Summary |
|---|---|---|---|
| Flacke and Zinsmeyer (2007) | Baltimore, Denver, Tulsa, New York City, Boston | 2006 TY | 6% with refund of $50 bought a bond; 68% bought for their children or grandchildren; 53% said they would have saved less if the bond was not offered. |
| Rhine, et al. (2005) | New York City | 2003 TY | 15% of unbanked with refund opened an account. |
| Spader, et al. (2005) | Greenville, Henderson, Raleigh, NC | 2003 TY | Follow-up interview 7–8 months after tax filings show 19% of respondents with refund saved all or part; higher income more likely to save; actual savings lower than intended savings. |
| Duflo, et al. (2005) | St. Louis (H&R Block) | 2004 TY | Simply designed, express IRA with 50% match generated strongest take-up rate (17%); married filers among most likely to enroll. |
| Chiou, et al. (2005) | Tulsa, Brooklyn | 2004 TY | 5–8% take-up rates for savings accounts. |
| Beverly, et al. (2005) | Tulsa | 2003 TY | 15% of filers opened savings accounts; more than half used split refunds. Most filers liked refund splitting and would do it again. |
| Beverly, et al. (2003) | Chicago | 1999 TY | 20% of filers open accounts; within 4 months accounts mostly depleted, even though a $100 bonus could be earned. |
| Smeeding, et al. (2000) | Chicago | 1997 TY | EITC refunds used for current expenses and investments in housing, transportation and schooling; paying bills highest priority. |
| Romich and Weisner (1999, 2000) | Milwaukee | 1997–98 TY | Qualitative study; few use advance EITC; forms of self-control and mental accounting. |

In general, these studies suggest that EITC recipients and other taxpayers with a positive refund can engage in savings as part of the tax preparation process. The studies on refund splitting, match rates and savings bonds are among the most robust, but more studies still need to be conducted in this area. Random assignment with careful tracking of data, especially over time after the taxpayer leaves the tax filing program, needs to be conducted. The relative effects of refund splitting with and without account access, the complementary effects of offering education services, and the role of alternative savings vehicles need to be better understood. The field is new, and studies currently being conducted will help develop new ideas and clarify the impact of programs.

## *2.7 Implications for Programs*

Bertrand and colleagues suggest several lessons from behavioral economics and psychology that can be used to design programs to deliver savings and asset-building programs. First, acknowledge that clients have mentally compartmentalized their finances. Their refund is thought of as being different from their paycheck. It is "found money" in some ways, which means that applying it to savings might be less costly in the clients' eyes than using money from their paychecks. But they also may have already spent that money, either literally in the form of credit card or other debt, or mentally by allocating that money for another form of consumption. Another issue Bertrand discusses is how to frame the opportunity to save. People want to avoid losses more than they want to seek gains. Thus, framing *not* saving as a loss will generate a stronger response. Default options are another aspect of behavior programs should consider. Having the client opt in requires them to process more information and consider more choices than opting out. Making the default option to save will engage more clients than making it a choice to opt to set up an account — the same decision framed in a different way. Finally, these authors suggest that time management is a challenge for all families, but especially for working, low-income families. Any barriers that increase the time involved in getting a service essentially increase its costs and reduce utilization (Bertrand, Mullainathan, & Shafir, 2004, 2006).

Thaler and Benartzi's "Save More Tomorrow" concept has several implications for tax programs. First, taxpayers could be asked to estimate the amount of their refund. Then they could be asked to agree to save all or part of any amount of their refund that exceeds their expectation. The taxpayer is likely to view the "surplus" amount differently than the expected amount (saving that might feel like a loss). Second, for programs with multi-year relationships with clients, taxpayers might be coached to agree to save part of next year's refund that is larger than the current tax year. Third, taxpayers using the advance EITC for the first time might agree to save part of the increase in their regular paycheck (of course the advance EITC has many other challenges described above).

It is unclear from the literature which populations will be most likely to enroll in asset-building services. Clearly tax filers with larger refunds have more resources to work with, and one form of market segmentation would be to focus on couples with children at the peak of the tax credit value schedule, since they potentially have the largest refunds. Outside of factors that influence the amount of the refund, the literature offers few clues. Younger filers are less likely in many studies to engage in savings. Lower education also may have a negative effect on savings. But these are not useful factors for targeting programs.

It is clear from the literature that simple program offerings that are easy to understand can help overcome information barriers and improve client responses to services. The client's perceptions of the costs and benefits of enrolling must be considered if take-up rates are lower than expected. But take-up alone is an unsatisfactory outcome measure. Even clients who do not deposit refunds in a savings account may be building assets. Paying off debt may be the top priority for many tax clients.

Refund splitting, implemented for the first time in the 2007 tax filing season, clearly has potential to encourage use of savings accounts. The use of savings bonds, based on a very recent pilot, also seems to hold great potential now that refund splitting is available. While not a substitute for savings or retirement accounts, bonds are a useful option that complement other savings tools, especially for the unbanked and taxpayers who want to save for their children or extended family members. It seems that financial education, training and counseling can play some role, although the literature does not offer specific guidance on the form and content of the education process.

### *2.8 Take-up Rates for Asset-Building Services*

Take-up rates for social services have long been studied, in part due to the fact that relatively significant numbers of eligible individuals fail to enroll in programs like Food Stamps, welfare or child health-care programs. Key factors include clients' perceptions of the costs of applying versus the expected benefits of the program, any stigma related to the program, and a lack of information about the program (Dahan & Nisan, 2006). Of these, information barriers can be significant, and relatively low-cost mechanisms to educate people about their options can increase participation significantly. In fact, some tax preparation sites refer clients to services for which they might be eligible, boosting their income or reducing their expenses and thus potentially facilitating asset building.

Tax preparation programs must also overcome information barriers about the availability of asset-building services. Clients need to understand what is available, what the costs are in terms of time, energy and resources, and the benefits. But even if this information can be successfully conveyed, a large portion of clients will not sign up for further services. Take-up rates for a matched savings program that was part of an experiment by H&R Block in St. Louis were only 3% for a control group, 10% for a control group offered a 1 to 5 (20 cents per dollar saved) match and 17% for those offered a 1 to 2 match, where every dollar was matched by 50 cents (Duflo, Gale, Liebman, Orszag, & Saez 2005). This study shows that even with a strong matching incentive, take-up rates are much less than might be expected. Of course keeping programs simple and providing clear and effective information about savings options helps, but lower-income clients were among the least likely to participate in the savings program, as were those without any bank account. Clients with larger refunds were more likely to enroll, but the effect tended to be small. It should be remembered that IRS data shows that among low-income taxpayers, IRA savings are also low, with less than 4% of filers using these well-established savings tools. Importantly, however, the more the experience the tax preparer had in this study, the higher the take-up rates, suggesting the skill level of the staff the client works with has an impact on further engagement.

Defining take-up rates is important. While the number of clients using asset-building services divided by the total number of clients is most commonly used, the denominator might more appropriately be the number of clients with a refund, or EITC filers with a refund over $500. In a study in North Carolina, only 55% of tax filers received a refund (Spader, Ratcliffe, & Stegman, 2005). This suggests that true take-up rates (if this study is representative of other community-based tax preparation sites) are nearly twice as large as those based on all clients as the denominator. Also, the demographics of the client pool

at each site will also influence take-up rates. A study of IDA participants showed that clients with a college education, older clients, those with a checking account, those with no debt, and those who were married were most likely to adhere to a savings program (Schreiner & Sherraden, 2005). Comparisons across sites without controlling for race, income, age and employment and marital status may be problematic.

Take-up rates for clients taking part only in tax preparation can be expected to be lower than take-up rates for programs offering year around asset-building services. Moreover, the scale of some programs is so large that even a relatively low take-up rate can result in hundreds of clients receiving asset-building services. While outcome measures in the tax preparation and asset-building field are still being developed, focusing on take-up rates may produce an uneven assessment of the success of various strategies.

## 3.0 Findings from Program Surveys

### *3.1 Background*

The Center sent out a survey to over 400 individuals by e-mail on May 7, 2007. The survey was open for three weeks, collecting 118 responses from 89 unique organizations. On May 15, 2007, a largely qualitative follow-up survey was sent to a subset of responders to the first survey. A total of 48 individuals responded to the follow-up survey, representing 44 unique organizations.

The goal of the 22-question survey was to develop a profile of the community tax preparation field's use of asset-building services integrated into tax filing programs. The survey included multiple choice and free text questions, and took an average of 12 minutes to complete. Overall the survey is representative of organizations involved in community-based tax preparation nationally. The typical program is focused on lower-income working families eligible for the EITC or Child Tax Credit (CTC). A few programs also mentioned being focused on immigrants, moderate-income families, ethnic neighborhoods or certain minority groups.

Table 2 indicates that the average program in the survey was established between 2000 and 2003. About 14% were established before 2000, and 35% established in the last three years. Several organizations responded that their program was new or just starting, and therefore could not respond to many questions in the survey. This distribution of program age seems generally consistent with the current state of the community tax preparation field (Brown, 2005).

**Table 2. Years Tax Preparation Program in Operation**

| Years in Operation | % of Respondents |
|---|---|
| 0 – just starting | 4% |
| 1–3 years | 31% |
| 4–6 years | 50% |
| 7–9 years | 3% |
| More than 9 years | 11% |
| | 100% |
| *n = 87 organizations* | |

Most tax preparation programs deliver services using volunteers. As a result, the number of paid staff assigned to the tax preparation service area tends to be low; two-thirds have three staff or fewer. Yet about 22% have more than 10 staff, reflecting the variation in program scale, as shown in Table 3.

**Table 3. Number of Paid Staff in Tax Preparation Service Area**

| Number of Paid Staff | % of Respondents |
|---|---|
| 1–3 | 64% |
| 4–6 | 10% |
| 7–10 | 5% |
| 11–19 | 12% |
| 20 or more | 10% |
| | 100% |
| *n = 85 organizations* | |

Community tax programs are typically delivered through partner organizations in neighborhood settings. As a result, Table 4 shows most programs provide tax preparation services from a number of locations. The majority utilizes 10 or fewer locations, but 10% use more than 20 locations.

**Table 4. Number of Physical Locations**

| Number of Physical Locations | % of Respondents |
|---|---|
| 1–2 | 20% |
| 3–5 | 26% |
| 6–10 | 15% |
| 11–20 | 19% |
| 21–50 | 16% |
| 51 or more | 4% |
| | 100% |
| *n = 86 organizations* | |

Table 5 shows that the sponsoring organizations for tax preparation programs vary in size significantly. Almost half have fewer than 10 full-time staff, including the tax preparation program staff. Yet more than one in five has more than 75 staff, reflecting large, multi-service organizations or government agencies.

**Table 5. Number of Paid Employees in Entire Organization**

| Number of Employees | % of Respondents |
|---|---|
| 1–10 | 46% |
| 11–25 | 16% |
| 26–50 | 8% |
| 51–75 | 3% |
| 76–100 | 5% |
| 101 or more | 21% |
| | 100% |
| *n = 85 organizations* | |

Table 6 also shows that, as in other organizational measures, the typical community tax preparation program varies in budget. While 40% have budgets of $25,000 or less, more than one-quarter have budgets over $100,000, including 8% with budgets over $500,000. Again there is a wide range in program size and presumably capacity to deliver services.

**Table 6. Total Operating Budget for Tax Preparation Program**

| Operating Budget | % of Respondents |
|---|---|
| $0–$25,000 | 40% |
| $25,001–$50,000 | 11% |
| $50,001–$75,000 | 12% |
| $75,001–$100,000 | 10% |
| $100,001–$500,000 | 18% |
| Over $500,000 | 8% |
| | 100% |
| *n = 86 organizations* | |

When asked about the type of geographic area served, about one-third of organizations responded that they serve more than one type of area, such as urban and suburban, or rural and suburban. Most frequently programs serve taxpayers in urban areas, although more than one in three responded that they serve rural areas. These results are summarized in Table 7.

**Table 7. Service Area Type**

| Service Area Type | % of Respondents |
|---|---|
| Urban/central city | 78% |

| | |
|---|---|
| Suburban | 26% |
| Rural | 37% |
| *n = 89 organizations* | |

## *3.2 Use of Asset-Building Services*

In terms of asset-building services, the majority of programs offer some kind of service beyond free tax preparation. The most common services offered include financial education and access to savings or checking accounts. Table 8 shows that the type of service appears related to the sponsoring organization; larger organizations tend to offer more services and more intensive services. Low-cost refund anticipation loans, while frequently discussed in the field, are not widely available.

**Table 8. Services Offered**

| Services Offered | % of Respondents |
|---|---|
| Free Tax Preparation (no charge to client) | 97% |
| Financial Education or Training (group) | 64% |
| Savings, Checking Account Access | 58% |
| Credit, Budget or Debt Counseling (individual) | 45% |
| Matched Savings Programs | 37% |
| Help Getting Public Benefits | 31% |
| Credit Reports | 31% |
| Job Training/Workforce Development | 15% |
| Financial/Retirement Planning | 9% |
| Investment Accounts | 8% |
| Low-Cost Tax Preparation (some charges to client) | 6% |
| Low-Cost Refund Anticipation Loans | 4% |
| Life Insurance | 0% |
| *n = 87 organizations* | |

Table 9 shows that the median (midpoint) program served 1,273 taxpayers in 2006, an increase of 63% over 2005. The median organization then provided 244 of these clients with non-tax services related to asset building, or 7% of tax clients served.

Because there were a large number of programs with low numbers of clients served, yet a few serving very large numbers, the average (mean) and median calculations are very different. The average number of tax clients was 3,390 in 2006 and the average number of clients receiving any non-tax service was 521, resulting in an average tax client/asset-building service ratio of 15%. This may not reflect take-up rates of tax clients, however. Interviews with program staff suggest that take-up rates of tax clients using asset-building services during the tax preparation session are in the order of 1% to 10% at the maximum. In any case, the use of asset-building services appears to be growing at a rate similar to tax-filing services — which based on this two year period shows strong growth

for the organizations surveyed. Financial education and accounts are the most frequently used programs outside of tax preparation.

**Table 9. Number of Tax Clients Served**

| | 2006 Tax Year | | | 2005 Tax Year | |
|---|---|---|---|---|---|
| | Mean | Median | | Mean | Median |
| Tax Preparation | 3,390 | 1,273 | | 3,084 | 779 |
| Financial Education/Training | 304 | 100 | | 168 | 40 |
| Financial/Retirement Planning | 14 | – | | 9 | – |
| Credit, Debt or Budget Counseling | 101 | 23 | | 52 | 2 |
| Access to Savings, Checking Accounts | 311 | 35 | | 225 | 11 |
| Access to Matched Savings | 82 | 9 | | 59 | – |
| Access to Life Insurance | – | – | | – | – |
| Access to Credit Reports | 82 | 20 | | 41 | – |
| Other Services | 696 | 100 | | 651 | 63 |
| | | | | | |
| Any Non-Tax Service | 521 | 244 | | 349 | 150 |
| % of Tax Clients | 15% | 7% | | 10% | 5% |
| *n = 86 organizations* | | | | | |

Table 10 shows more specifically the use of each type of asset-building service for 2006 and 2005 tax years. Most services were more frequently used in 2006, with the strongest growth in financial education, which doubled from 8% to 16% of all tax clients. Access to savings or checking accounts, credit reports and IDAs were also mentioned, each for around 10% of tax clients. Life insurance, an asset (or asset preserving tool) many low-income people hold, was not part of any of the services that programs surveyed delivered.

**Table 10. Percent of Tax Clients Receiving Services**

| | 2006 | 2005 |
|---|---|---|
| Financial Education/Training | 16% | 8% |
| Access to Savings, Checking Accounts | 13% | 10% |
| Access to Credit Reports | 11% | 11% |
| Access to Matched Savings (IDAs) | 9% | 6% |
| Credit, Debt or Budget Counseling | 6% | 4% |
| Financial/Retirement Planning | 3% | 3% |
| Access to Life Insurance | 0% | 0% |
| *n = 86 organizations* | | |

## *3.3 Client Needs and Demand for Services*

Respondents ranked each of a number of financial needs they see among tax clients. Most needs were highly ranked, making prioritization difficult. The average score for high

consumer debt, lack of financial skills and lack of financial knowledge were among the highest. General economic issues, such as employment opportunities and housing costs, were nearly as highly rated. Only lack of life insurance was clearly lower rated than other factors, as shown in Table 11.

**Table 11. Financial Needs, Unrelated to Tax Issues, Among Tax Clients**

| **The most important financial needs, unrelated to tax issues, among tax clients** *(3 = very important; 2 = somewhat important; 1 = not important)* | |
|---|---|
| High consumer and other debt | 2.57 |
| Lack of financial knowledge | 2.55 |
| Lack of financial skills | 2.53 |
| Lack of income/job opportunities available | 2.52 |
| Housing costs | 2.52 |
| Poor credit rating/status | 2.46 |
| Lack of financial confidence | 2.44 |
| Other unexpected/unpredictable expenses | 2.40 |
| Job instability | 2.36 |
| Unaffordable medical-related expenses | 2.35 |
| Lack of health insurance | 2.32 |
| Lack of life insurance | 1.59 |
| *n = 90 respondents* | |

## *3.4 Needed Support for Expansion*

In terms of support for expanding into more asset-building activities, the majority of survey respondents suggested subsidies for matched savings or IDA programs. Nearly as many mentioned the need for training and operational support. Software and access to research were among the least frequently mentioned, as detailed in Table 12.

**Table 12. Needs for Expanding Asset-Building Services**

| **What would most help your program to expand asset-building services for tax preparation clients?** (select all that apply) | |
|---|---|
| Subsidies for matched savings | 54% |
| Quality training | 49% |
| Operational support | 46% |
| Quality materials | 43% |
| Opportunity to network with similar programs | 41% |
| Technical assistance or consulting | 38% |
| A standardized service delivery system | 37% |
| Software systems | 23% |
| Access to relevant research | 18% |
| *n = 76 respondents* | |

## *3.5 Barriers to Asset Building*

The survey included six free response, or essay-style, questions. The largest number of responses, and the most detailed responses, were provided regarding the barriers and challenges that prevent tax programs from providing more asset-building services. These barriers can be grossly grouped into three categories: (1) barriers related to clients, (2) barriers regarding the local marketplace or environment, and (3) operational barriers. These distinctions are not absolute, but help to analyze the issues mentioned by respondents.

**Client Barriers**

- Clients lack interest and motivation to use added services
    - families have major time constraints and cannot commit to services
        - "there *to file taxes only*…do not want to distract their mind with other things than their tax returns and refunds"
- Clients' sense that "budgeting and financial planning are only for the rich"
- Clients' low incomes mean they just cannot save given their budgets
    - "focused on today and not worried about tomorrow"
- Clients spend beyond their means and have massive credit problems

**Marketplace Issues**

- Access to alternative sources of tax assistance and high-cost credit products is much easier than community-based (free) services
- Lack of support from financial institutions to promote savings or credit products
- Cannot do enough marketing to get clients in the door in the face of private-sector marketing
- Lack of employer support and partnerships with local firms

**Operational Issues**

- Need to provide additional services in order to support asset-building
    - childcare to serve families
    - transportation to locations
    - must streamline all systems to be extremely easy to use
- The timing is difficult
    - preparing volunteers during holidays to launch in January is difficult
    - adding more training on new services is unlikely
    - services are not operational year around
- Lack of staff, training and funding
    - volunteers cannot deliver services beyond tax preparation
    - language and culture of volunteers and clients are divergent
- High administrative costs of non-tax programs
    - one-on-one services are too costly
- Tax preparation sessions are short
    - clients do not return consistently year after year
    - no relationships are being formed

When asked what asset-building strategies are unlikely to succeed or have been tried and failed, respondents offered a few suggestions. The most common response was that financial education, or any training for clients in group setting, has *not* worked well. While clients may sign up for workshops while preparing their taxes, only small minority will follow through and attend classes. The effect of such classes was also mentioned, with one respondent conveying a story of a typical client who after completing a financial education class asked what interest was on a loan. Another tactic that was mentioned as having little success is providing brochures or educational materials to clients either while they wait or during their tax preparation session. A few respondents suggested referrals to public benefits rarely result in clients following through to actually sign up for other services.

### *3.6 Potential Innovations in Delivering Asset-Building Services*

Despite the skepticism evident in many survey respondents' answers, a common comment was that tax season is a "teachable moment" and "great opportunity for asset building." Respondents seemed to convey that although expanding services is difficult, it is possible to provide asset-building services under certain circumstances for at least a subset of tax clients. Suggested approaches include:

1) The marketing of asset-building services is an important element of success. Most programs do little marketing, outreach or advertising. Low-cost strategies to promote the services include brochures mailed with city water bills and with school report cards. Partnerships with public institutions such as the city and school system provide a low-cost way to deliver information through a trusted community-based source. Materials can be timed to be delivered in January as taxpayers begin to focus on tax filing issues. Marketing materials also can be developed to promote savings and asset-building services onsite in the intake process, during waiting periods and as part of client packets.

2) Co-locating representatives from financial institution onsite makes access to savings, checking, retirement and other account products easy. Respondents suggested these representatives have the expertise to quickly set up accounts and answer questions from clients. An alternative approach is to use technology to make account applications online or via the telephone while the client is still at the tax preparation site.

3) The advent of refund splitting, the use of savings bonds and other newly emerging strategies are mentioned as being innovative in the field, but most sites are not offering these services. Many survey respondents suggested they are interested in these type of innovations, but currently lack the time and support to implement them.

4) Training volunteers and staff on asset-building services, including developing specific messages to promote a simple menu of additional services is vital. Some sites offered that a subset of staff or volunteers might be trained to be experts on certain programs to support other volunteers. Some programs have specialists assigned to serve as coaches to promote asset services with customers and volunteers. Several respondents mentioned success in providing very focused staff training to help them embrace the

need to promote asset building. When staff believed in the idea, it tended to filter down with more success. Computer-based training can be effective and efficient, especially across multiple sites.

5) Developing employer partnerships by working with larger firms in the area and/or the Chamber of Commerce is promising. These partnerships can help to recruit volunteers, recruit clients (with human resource departments) and may open up service delivery locations. Larger employers can sometimes see the benefits to their employees of tax filing and related asset-building services, while Chambers of Commerce can understand the economic-development benefits of keeping tax refunds in the community.[2]

6) Some respondents suggested several workflow changes. These included setting up a permanent year-round site so that clients know they can come back for follow-up services. Having services available for a few months from ad hoc locations does not engender client confidence in additional services. Another respondent suggested deferring clients without dependents until later in the tax filing season (March) in order to spread the volume of clients more evenly. This would reduce the strain during peak periods and allow for more intensive work on asset-building services. Finally, several respondents suggested technology tools, from online enrollment and assessment systems, to software that helps highlight needs and available services. (One specific system suggested was "Nets to Ladders," a system which can be used to train staff and volunteers, among other features: www.netstoladders.com/solutions/taxsites/index.html.)

**Using Technology**

H&R Block conducted a pilot in 2007 in which student financial aid (FAFSA) could be generated by the tax preparer. The form could automatically be produced from the tax form information. The client simply signed the form to apply for their own or their dependent's education costs.

With the concern for time, similar technological innovations can be used for establishing bank accounts, IRAs, savings bonds, insurance or other products and services.

[2] Corporate Voices for Working Families may be a potential partner; www.cvworkingfamilies.org/index.shtml.

# 4.0 Interview Findings

## *4.1 Interview Process*

A total of 21 telephone interviews were conducted with practitioners of community-based tax preparation programs between June 5 and July 13, 2007. Each interview lasted approximately 45 minutes and was documented by handwritten notes. The interviews started with a core of approximately 15 key informants identified through the survey of community tax preparation programs and recommendations from the Center's staff. Each interview used a "snowball approach" to identify additional practitioners as key informants. Interviews continued until the same ideas were consistently mentioned (or "saturation" was achieved).

The primary goal of the 16-question interview guide (see appendix) was to identify innovative, replicable strategies for asset-building that could be implemented at tax sites. Interview subjects included practitioners from nonprofit organizations or municipalities who coordinate city- or statewide tax preparation and/or asset-building coalitions. Other interview subjects included practitioners from municipalities, nonprofit organizations and Cooperative Extension units that administer tax preparation and asset-building services.

Table 13 shows the organizations included in the interviews by the type of asset-building services currently offered. This table also highlights the several key innovations of these programs.

## Table 13: Asset-Building Services and Innovations of Interviewed Community Tax Programs

| Community Tax Program / Organization | Description / Scale | Asset-Building Services | | | | | | | | | Innovations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Financial Education* | *Financial Counsel-ing or Coaching* | *Savings Accounts* | *Matched Savings* | *Bonds* | *Low-Cost RALs* | *Credit Reports* | *Public Benefits Screening* | *Other* | |
| ACCESS Miami / City of Miami Community Development | Asset-building initiative of the city that is implemented through public-private partnerships in Miami / 9,200 returns | | X* | X | X | | | | X | Micro lending | • Public-private partnership with H&R Block to deliver low-cost tax preparation services.<br>• Internet-based software (Benefit Bank) to help clients access benefits online.<br>• Online database of employment opportunities. |
| AccountAbility Minnesota | Nonprofit organiza-tion providing free tax assistance in Minneapolis/St. Paul metro area and greater Minnesota / 11,000+ returns | | | X | X* | | X | X | | | • Low-cost RALs plus free savings accounts through partnerships with two local credit unions.<br>• Onsite pro bono financial planners from the Minnesota Financial Planning Association to help clients access their credit reports and scores and offer financial planning assistance. |
| Baltimore CASH Campaign | Central office of tax preparation and asset-building coalition that includes service providers and others in Baltimore / 7,200 returns | X | X* | X | X* | X | | X | X | | • "Money Power Day," a one-day citywide financial fitness fair at the end of February.<br>• Savings bond program. |
| Boston EITC Coalition / City of Boston | Leading public agency of tax preparation coalition that includes nonprofits and corporations / 9,500 returns | | X* | X | | | | X | X | | • Credit repair pilot in partnership with American Consumer Credit Counseling.<br>• $50 lottery for participating in individual time preference survey.<br>• "Ambassador" program that recruits 8 community leaders to do outreach, recruitment and education for program and asset-building services. |
| CASH / Empire Justice Center | Coordinating agency of tax | | X | X | | | X | X | X | | • Onsite "volunteer advisors" to review areas of interest indicated |

| Community Tax Program / Organization | Description / Scale | Asset-Building Services | | | | | | | | | Innovations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Financial Education* | *Financial Counsel-ing or Coaching* | *Savings Accounts* | *Matched Savings* | *Bonds* | *Low-Cost RALs* | *Credit Reports* | *Public Benefits Screening* | *Other* | |
| | preparation program in Rochester, NY / 12,000 returns | | | | | | | | | | on intake surveys.<br>• Split refunds for savings accounts.<br>• 10-month one-on-one CASH coach program to set and achieve financial goals.<br>• Low-cost RALs accompanied by counseling through partnership with local credit union. |
| Campaign for Working Families / Greater Philadelphia Urban Affairs Coalition | Coordinating agency of tax preparation and asset-building coalition in Philadelphia / 11,000 returns | | X | X | X* | | | | X | | • CASH coaches to promote split refunds into CDs.<br>• Working with Community Financial Resources to develop a prepaid debit card account for direct deposit of tax refunds for the unbanked. |
| Community Tax Program / Alternatives Federal Credit Union | Community development credit union that administers a variety of asset-building and financial services In Ithaca, NY / 1,212 returns | | X | X | | | X | | | | • Low-cost RALs that are open-ended.<br>• Screening tools for asset-building services (client "wish list" and staff "refunds to assets" worksheet). |
| Earn It! Keep It! Save It! / Tax-Aid | Direct tax prepara-tion service provider and lead nonprofit organization in United Way's asset-building coalitions in San Francisco and San Mateo counties / 9,500 returns in San Francisco | X | | X | X* | | | | X | | • Coordination between Bank on San Francisco, a jointly sponsored initiative of the City of San Francisco and the Federal Reserve to improve access to accounts for the unbanked, the City of San Francisco's Working Families Credit, and free tax preparation services. |
| EITC Campaign / Co-opportunity | Nonprofit organiza-tion that provides a range of asset-building services and is the lead | X | X | X | X | | | | | Housing counsel-ing | • Financial education dinners.<br>• Budget coaching program over three one-on-one meetings. |

| Community Tax Program / Organization | Description / Scale | Asset-Building Services | | | | | | | | | Innovations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Financial Education* | *Financial Counseling or Coaching* | *Savings Accounts* | *Matched Savings* | *Bonds* | *Low-Cost RALs* | *Credit Reports* | *Public Benefits Screening* | *Other* | |
| | agency in the Hartford Asset Building Collaborative in Hartford, CT / 3,672 returns | | | | | | | | | | |
| EITC Carolinas / MDC | Parent nonprofit organization that supports a network of community tax programs in North and South Carolina | X | X | X | X | X | | X | | Workforce development | • Asset-building coaching program.<br>• Working with the North Carolina Commissioner of Banks to do onsite tax preparation and financial services with a large employer. |
| EITC and Free Tax Assistance Campaign / FoodChange | Nonprofit organization that provides a variety of nutrition and asset-building services in New York City / 43,000 returns | X | X* | X | X | | | | | Workforce development | • In-house credit class with referrals to credit counseling through other agencies. |
| EITC VITA Program / Community Action Project of Tulsa County (CAPTC) | Agency that administers a variety of asset-building services / 14,642 returns | X | | X | | X | | | X | Housing counseling | • Split refunds for savings accounts and/or savings bonds.<br>• Western Union refund product.<br>• Applications for free state college tuition program.<br>• Online application for intake, data collection and reporting. |
| H&R Block | Private-sector financial services firm that provides tax preparation services nationally / 20,000,000 returns (65% low-income) | X | X | X | | | | | X | Retirement accounts, FAFSA forms | • Split refunds.<br>• Saver's Tax Credit as incentive for retirement accounts.<br>• Transaction account based on pre-paid card platform with affordable fee schedule. |
| Manchester Community Resource Center / Greater Manchester Asset Building Coalition | Direct service provider who is a member of asset-building coalition in Manchester, NH / 500 returns | X | | | X* | | X | | | Workforce development | • Asset-building "menu" of resources, where clients can place "orders" for more information.<br>• Low-cost RAL accompanied by counseling through partnership with Chase. |

| Community Tax Program / Organization | Description / Scale | Asset-Building Services | | | | | | | | | Innovations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Financial Education* | *Financial Counsel-ing or Coaching* | *Savings Accounts* | *Matched Savings* | *Bonds* | *Low-Cost RALs* | *Credit Reports* | *Public Benefits Screening* | *Other* | |
| Maryland CASH Campaign | Nonprofit intermedi-ary that supports tax preparation pro-grams across Maryland | | | X | X | X | | | | Youth services | • ShareBuilder CD with low initial deposit and ability to add funds over time.<br>• Savings bond demonstration.<br>• Targeted ITIN outreach and implementation plan to reach new market segment. |
| New York City EITC Coalition, EarnFair Alliance, East River Development Alliance / United Way of New York City | Nonprofit organiza-tion involved in several tax prepara-tion initiatives in New York City | X* | X* | | X* | | | | X* | Legal services, youth services | • Comprehensive services for youth aging out of foster care (work-force development, benefits screening, financial education, IDA program).<br>• Mobile tax sites at public housing complexes.<br>• Financial clinic at credit union offering one-on-one financial counseling and legal services. |
| Penn State Cooperative Extension VITA | Cooperative Exten-sion tax preparation program in four rural Pennsylvania counties / 176 returns | X | | | | | | | | | • Packets of financial education materials for all clients. |
| Progress Through Business / Center on Business and Poverty Law at the University of Wisconsin-Madison | University Center's tax preparation program in Wisconsin, with a mostly rural focus / 2,000 returns | X | | X | | | | | X | | • Using Nets to Ladders' software tools linked to tax forms to help increase the take-up rates on various asset-building services.<br>• Service delivery through partner-ships with employers. |
| Prosperity Campaign / United Way of Palm Beach County | Coordinating agency for tax preparation, IDA program and prosperity centers (one-stop neighbor-hood resource centers) in Palm Beach County / | X | X | | X | | | | X | Housing counsel-ing | • Year-round prosperity centers with a variety of service providers present onsite. |

| Community Tax Program / Organization | Description / Scale | Asset-Building Services | | | | | | | | | Innovations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Financial Education* | *Financial Counseling or Coaching* | *Savings Accounts* | *Matched Savings* | *Bonds* | *Low-Cost RALs* | *Credit Reports* | *Public Benefits Screening* | *Other* | |
| | 10,000 returns | | | | | | | | | | |
| San Antonio Coalition for Economic Progress' VITA program / City of San Antonio's Department of Community Initiatives | Public agency in six-member coalition that provides tax preparation services in San Antonio / 35,000 returns | X | X* | | X | | X | | | Housing counseling | • Auto refinance referral program through partnership with local credit union.<br>• 0%-interest RAL through partnership with local credit union.<br>• Matched savings program for auto purchase through partnership with Ford Motor Company. |
| San Antonio Coalition for Economic Progress' VITA program / United Way of San Antonio and Bexar County | Nonprofit organization in six-member coalition that provides tax preparation services in San Antonio / 35,000 returns | X | | X | X* | | X | | X | | • Funding for three year-round hubs with asset-building programs that have financial coaches (modeled after prosperity centers in Florida). |
| Tax Counseling Project / CEP | Nonprofit organization administering tax preparation and asset-building services in Chicago and greater Illinois / 30,000 returns | X | X* | X | | | | X | | | • Free credit reports and scores with reviews from financial coaches through partnerships with Centers for Working Families. |
| United Way of King County Free Tax Campaign | Coordinating agency for tax preparation and IDA program in Seattle / 11,288 returns | X* | X | | X | | | | X | | • IDA programs for special populations, like foster youth, homeless and persons with disabilities. |

* Indirect services available through referrals to partner organizations.

## *4.2 Innovations in Asset Building and Tax Preparation*

Based on the interviews conducted, there are a number of innovative approaches that community tax programs are using to link their clients with asset-building services. These approaches generally fall into 10 categories as described below.

**Low-Cost RALs (Refund Anticipation Loans)**

Several programs, typically in partnership with a community bank or credit union, have developed low-cost RAL programs as a way to attract clients desiring rapid refunds and offering them an affordable alternative. These programs often require financial counseling to access the product, which frequently results in clients forgoing the loan or obtaining a loan that is smaller than the full refund amount. For example, at the CASH program in Rochester, NY, 600 clients expressed interest in RALs this past tax season, but only six obtained them. Clients are informed that e-filing and direct deposit will ensure that their returns will arrive within 10 days, a key factor that the staff interviewed attributed to the high rate of clients deciding not to use a RAL.

*Mini-Case Study 1: Low-Cost RALs*

The city of San Antonio offers an RAL at zero percent interest through a partnership with a local credit union. The alternative RAL (ARAL) has a $10 flat fee, where $5 is used to establish a mandatory savings account at the credit union. The city made 1,100 ARALs totaling $2.8 million this past tax with almost no advertising. The program was initiated only a couple of weeks before the tax season. The ARAL was modeled after a program started by Alternatives Federal Credit Union in Ithaca, NY, that was publicized by NCTC. The city used the report to approach a number of financial institutions; only one credit union agreed to provide no-interest loans.

**New Financial Products**

Several programs interviewed worked with nonprofit or financial partners to create new financial products to better meet the needs of tax clients. In Maryland, a special CD from ShareBuilder, an online brokerage, is available at some tax preparation sites. This CD has a low initial deposit requirement and allows for additional funds to be deposited at later dates. The city of San Antonio worked with a local credit union to develop a system to refer clients with high-cost car loans to special automobile refinance loan products. The average *monthly* savings for clients who refinanced was $100. H&R Block reassembled a prepaid card platform into a transaction account with an affordable fee schedule and no overdrafts. This

*Mini-Case Study 2: Financial Product Innovation*

In Philadelphia, the Campaign for Working Families is collaborating with Community Financial Resources, a nonprofit in Oakland that specializes in developing financial services for low-income people, to develop a prepaid debit card account for direct deposits of tax refunds for use at the campaign's tax sites. This flexible tool is being developed specifically to serve the local unbanked population, which is composed largely of single parents with limited time and immigrants who operate in a cash economy. The account features a savings portion, allows for overseas remittances, and can be used as a phone card. It is based on a credit card platform and accepts tax refunds or paychecks. This concept has been tested with different focus groups, including employees of companies that provide financial education, and has received positive feedback.

past tax season, H&B Block opened 2.1 million of these accounts — up from 110,000 accounts opened the year before.

### Refund Splits

As a relatively new tool available to the field, splitting refunds is being used by several programs to encourage saving or investing part of a tax client's refund. Products include traditional savings accounts, CDs and U.S. savings bonds. The Community Action Project of Tulsa County (CAPTC), which started offering split refunds four years ago through a pilot program with D2D, offers clients two options for refund splits — a regular savings account or a savings bond.

### "One-Stop" Sites

As a way to make it easy for clients to access a variety of community resources related to asset building in one physical location, a handful of programs have developed, supported or affiliated with "one-stop" sites. In Baltimore, for example, the Baltimore CASH Campaign holds a one-day citywide event each February entitled "Money Power Day." Sponsored by local financial institutions, this event includes free tax preparation, a "credit café" for credit reports and one-on-one counseling, a series of workshops on saving and retirement, and an exhibit hall featuring financial institutions and nonprofits that provide

*Mini-Case Study 3: Refund Splitting*

For the last four years, CAPTC has been trying different strategies for splitting refunds with tax clients. The first year, the refund splits were done in-house, and there was a relatively low take-up rate. Between 75 and 80 refund splits were made at the largest tax site. During the second year, the Bank of Oklahoma did the processing of the refund splits at the site that served the population in the lowest income brackets, and there was a higher participation rate. During the third year, CAPTC used the Nets to Ladders software to do the refund splitting at the same site as the year before. More Bank of Oklahoma staff were onsite to help open accounts. For each year, the number of uptakes for refund splits has increased.

For all three years, the only product that was available for the refund splits was a regular savings account with no drawdown fees. The product was marketed as a way to get a refund faster and start thinking about the future, and the selling point was the quick receipt of a refund.

CAPTC conducted a follow-up study with clients after the second year to see why clients split their refunds and if they were still using their savings accounts. Clients generally took advantage of the opportunity because they viewed CAPTC as a trusted source for tax preparation, and thus, financial advice. Most clients still had money in their accounts, with only 10 percent no longer holding their accounts. Some clients had even deposited more money into their accounts. This finding was surprising, as these accounts only offer regular interest rates, and so are generally the least appealing type of savings product.

During this past tax season (year four), CAPTC completed over 200 refund splits (out of total of only 1,400 total nationally). Refund splits were offered at multiple sites. The site at the Exchange Center's main office completed 134 of the refund splits. This year, CAPTC was also part of the savings bond pilot, so clients could choose to split their refunds into either the regular savings account or into a savings bond. CAPTC provided tax services to 14,642 clients, and 216 bonds were purchased by 134 clients for a total of $26,280 through split refunds. The savings bonds were only available at one site, and there was no advance advertising. CAPTC used a soft-sell approach by hiring a college student to tell clients about the opportunity during regular business hours.

onsite financial counseling, benefits screening and youth activities. Other programs, such as those in San Antonio, Chicago and Palm Beach County, offer tax preparation services at one-stop neighborhood resource centers that operate year-round to deliver a broad spectrum of asset-building services to both tax and non-tax clients.

*Mini-Case Study 4: One-Stop Services*
In Palm Beach County, the local United Way opened five year-round prosperity centers as part of its prosperity campaign that includes one-stop neighborhood resource centers along with tax preparation services and an IDA program. The idea for the center arose in response to there being a variety of local service providers who were disconnected, fragmented and had turf issues — making it a difficult and confusing system for clients to navigate. Thus, the United Way contracted with credit counseling services, legal aid, health-care providers, crisis-management agencies and others to create a one-stop site for asset-building services. Approximately 700 clients are served annually throughout all the centers in Palm Beach County.

**Financial Coaching**

Another emerging strategy is financial coaching programs to provide high-touch services to clients as means of affecting their financial behaviors in positive ways. The role of financial coaches is still being defined, but generally refers to specialists offering ongoing supportive financial advice to clients. As Joanna Smith-Ramani from the Baltimore CASH Campaign said, "Low-income households are not less ready for savings and assets; however, they may be more emotional about making financial changes in their lives. One-on-one counseling matters."

Coaches are either paid staff at local non-profits, as with the Centers for Working Families in Chicago and the Experiment in Self Reliance in Winston-Salem, NC, or volunteers from the private sector, as in Minnesota, Rochester, NY, and Hartford, CT. Coaches who are paid staff tend to work with multiple clients throughout the year, while coaches who are volunteers normally are assigned one client at a time over a specified time period. The exception to this is in Minnesota, where Account-

*Mini-Case Study 5: Financial Coaching*
CASH in Rochester, NY, runs a "cash coach" program that is in its second year. CASH recruits volunteer coaches and clients to form partnerships. The pairs meet on a monthly basis in a public place during the course of the 10-month program. The purpose of the program is to set specific financial goals, and then identify the resources and next steps needed to achieve them. That way people can save money and better manage it. During the first year of the program, 25 teams started in the program, and 10 completed it without any special funding. This year, 30 teams were started, and 17 completed the program.

CASH is working with another local nonprofit, the Credit Education Bureau, to deliver the training for coaches for this program. Coaches are required to attend two four- to six-hour sessions of training. Clients who say they are interested in the program are prescreened by the program's senior associate. The program is staffed by two people: one person from CASH and the executive director of the Credit Education Bureau.

Ability was able to recruit pro bono planners from the Minnesota Financial Planning Association to help clients access their credit reports and scores and to offer financial planning assistance at some of its tax sites.

*Mini-Case Studies 5 and 6: Targeted Financial Education*

After many unsuccessful attempts at delivering a variety of financial education classes, the EITC Campaign in Hartford, CT, organized financial education dinners, called "It's Your Money," two years ago based on an investing model. The campaign hosts four dinners a season at upscale restaurants. Every client gets invited to attend a one- to one-and-a-half-hour seminar over a free dinner. The first year 100 clients attended the dinner, and this year over 200 came. Oftentimes, clients' participation in these dinners serves as a springboard for other classes or asset-building services.

Six years ago, H&R Block launched the "Block Advantage," a four- to five-page customized advice package that is reviewed within seven to 12 minutes during each tax preparation appointment. The package provides advice based on a rules-based library of 1,000 options, including occupational advice that could be leveraged through public policy and the tax code. H&R Block has found that this strategy improves clients' satisfaction and perception of the "value" of the tax preparation services.

### Targeted Financial Education

Lengthy financial education programs providing general information tend to have low participation rates from tax preparation clients. Community-based tax programs have developed targeted methods to deliver financial education. These approaches include printed packets of educational materials offered onsite during the tax preparation session. Clients might also be referred to training outside the tax session, such as financial education dinners and workshops on specific, popular topics, like credit. Providing education onsite is challenging, since clients are generally very focused on their taxes and not interested in prolonging their time at the tax program. Providing education at a later time generally results in very low completion rates, even if incentives such as food or gifts are offered.

### Technology

Technology has the potential to enhance the efficiency of community-based tax preparation programs, can facilitate the take-up rates for asset-building products and services, and can help provide links to multiple resources. For example, CAPTC has developed an online intake and tracking system that allows for timely and accurate program reporting. Progress Through Business uses Nets to Ladders' software programs to link tax forms to enrollment in asset-building opportunities, thus increasing the odds that clients will use those services. ACCESS Miami uses Web-based software to help clients find and apply for benefits online and has created an online database of employment opportunities to help tax clients find better employment opportunities. H&R Block has implemented a system to download tax information into student aid application forms, a system that could be replicated at community-based tax sites.

**Public-Private Partnerships**
In some cases a strong public-private partnership can help to create unique programs for tax clients. A local government, typically a city, can provide linkages to public services, infrastructure and financial resources, as well as support for collaboration across nonprofit agencies and financial institutions. Miami and San Antonio are examples of cities playing an active role in delivering tax preparation services, leading communitywide collaborative efforts.

*Mini-Case Studies 7 and 8: Public-Private Partnerships*
In partnership with Ford Motor Company, the city of San Antonio runs an auto purchase program that provides a 2:1 match through funding from Ford. The company came to the city looking for ways to help working families. There are currently 50 clients in the program, which is a one-year pilot program. A minimum of three months of savings is required to purchase a vehicle using the matched down payment funds. Ford agreed to offer fixed pricing for its new vehicles, which is one step above employee pricing, and honor all dealer and manufacturer rebates. This program is administered and managed by the city.

In partnership with H&R Block, the city of Miami offers low-cost tax preparation services. The city negotiated a five-year agreement with H&R Block to reduce its fees by 75 percent, have only promotional materials for city programs onsite, and not promote or solicit for RALs. The program has saved clients over $2.4 million in fees over the past three years and increased the take-up rates for new savings accounts to 30 percent.

**Employer-Based Services**
Only two programs have emerging partnerships with employers to offer tax preparation, asset-building services and/or financial products at the workplace for employees. This approach offers a number of benefits to both employers and their employees. For employers, it creates stronger relationships with employees, thus increasing retention rates and reducing turnover costs. For employees, it is easy and convenient. It can also be incorporated into the existing benefits package for employees as a recruitment strategy. EITC Carolinas is currently working with the North Carolina Commissioner of Banks to deliver onsite tax preparation and entry-level financial products for employees of a major local employer. In Wisconsin, Progress Through Business works primarily with employers across the state to deliver tax preparation and asset-building services in mostly rural areas.

**Onsite Outreach Techniques**
Onsite outreach techniques include focusing on a niche population for service delivery, having an outreach specialist at a tax site and/or using customized outreach and screening tools for triaging asset-building services. There are several programs that have developed products that are designed for and marketed to a niche market. For example, the United Way of King County has special IDA programs for foster youth, homeless persons and persons with disabilities.

*Mini-Case Study 9: Marketing and Outreach Techniques*
The Boston EITC Coalition has an ambassador program in which community leaders are cultivated to conduct outreach and to recruit and educate clients. This year, the program recruited eight bilingual volunteers who were trained in ITINs, tax preparation, community resources and asset-building services. These volunteers perform deep and rich community outreach, bring clients to tax sites and provide translation services.

FoodChange offers comprehensive support services to foster youth. Alternatives Federal Credit Union in Ithaca, NY, has created a series of tools to help identify which clients would be most interested and ready to participate in asset-building services. These tools include a "wish list" to help clients identify their financial goals and a "refunds to assets" worksheet to help staff identify motivated clients based on a variety of criteria. CASH in Rochester has "volunteer advisors" at tax sites to review and discuss areas of interest based on clients' intake surveys.

## *4.3 Implications for Program Design*

The interview findings have a number of implications for the design of programs that combine tax preparation services and with asset-building activities. These implications include:

### Service Delivery

- *There remain many implementation questions.* Staff of community tax programs who were interviewed expressed a strong desire to expand more into asset building, but are struggling with identifying the best way to deliver the services to tax preparation clients. They are frustrated by what they view as relatively low take-up rates after a year or two of implementation. Many also feel challenged on how to either balance or connect seasonal tax preparation activities with year-round asset-building programs. Dave Sieminski from the United Way of King County framed the question as, "how do we shape the service of tax preparation to link with year-round relationships, such that clients understand that tax preparation is only part in a continuum of asset-building services?"

  Related questions raised by key informants include:
  - **Who** should deliver these services: in-house staff, volunteers or staff from partner agencies?
    - What skills, ability and expertise of staff or volunteers are most important in delivering the services?
  - **What** are the right services to deliver based on the types of clients being served?
    - Some practitioners suggested that it might be best to focus on only one to two key services.
  - **How** could services be delivered: face-to-face, online or via telephone?
    - Which services are best delivered through each mode?
  - **When** is the right time to deliver asset-building services: in the waiting area, during preparation, during the quality control review, or right after the service is completed?
    - Most tax sites are set up a on first-come, first-served basis, and clients do not want to lose their place in line by engaging in other activities.
    - OS Owen from The Center for Economic Progress suggests using a "deli counter" approach, where clients receive a ticket number to hold their place in line and are served when their ticket number is called. This would free them up to participate in activities in or

around the waiting room area — such as watching an educational video, reviewing educational materials, talking with an advisor, or pulling a credit report for a computer kiosk — without losing their place in line.

- *Client demand is strong.* According to intake surveys from clients and estimates from practitioners, approximately 20 percent of tax preparation clients are interested in asset-building programs. Clients appear to be most motivated to participate in asset-building activities when they have clear goals and the hope to achieve them. Engagement is moderated by age, household type, income level, and the amount of the refund. But equally important is the capacity of the person "selling" the product or service, or if the person is a returning tax client. Barriers that prevent clients from participating include financial issues, as well as market forces, such as lack of access to mainstream financial services, inappropriate financial products and a confusing infrastructure for locating community resources.

- *Getting to scale is a challenge.* Take-up rates for various types of asset-building products may seem relatively low as compared to the number of tax preparation clients being served; however, what is a realistic expectation for clients participating in asset-building services in terms of the capacity of tax preparation programs? Most asset-building services require skilled labor, and some year-round programs, like IDAs and financial counseling, are extremely labor-, time- and resource-intensive. Many practitioners noted the difficulty in running tax programs alone in terms of logistics, manpower and oversight. While there has been a lot of movement in the tax preparation field over the last few years toward developing year-round asset-building services, the capacity to deliver such services appears to be fairly limited. Even H& Block, which appears to have ample capacity, finds that it takes time to get to scale. John Thompson noted that any new asset-building program that H&R Block introduces requires at least three years to ramp up — to make the necessary cultural and procedural changes internally and to introduce (repeat) clients to the service. For example, this year H&R Block opened 2.1 million transaction accounts, for an uptake rate of 11 percent. The year previously only 110,000 accounts were opened, and the year before that only 450 accounts were opened.

- *There are sustainability issues.* It costs money to deliver asset-building services, and some programs cost a lot more to run than others. However, the potential for client fees or earned program revenue appears to be low. Asset-building programs are difficult to maintain without public subsidies and private philanthropic funds. Are there fee-for-service models through nonprofit-private partnerships that are used in other nonprofit fields, such as housing counseling, that can be tailored for the tax preparation field?

- *There is a lack of standard outcomes metrics for asset-building services.* Through their relationships with the IRS, tax programs track and report on a standard set of

outcomes measures. Notwithstanding, there is very little data being tracked across asset-building programs. In addition, programs are uncertain about what the right measures are, as well as the best way to track them.

- *Broad-based partnerships are critical.* Delivering asset-building services to low-income individuals requires partnerships with a variety of entities, including community-based organizations, financial institutions and public agencies. Partnerships with community-based organizations help to create a seamless set of services for clients, reduce service duplication, leverage organizational capacity and facilitate cross-marketing and referral relationships. Partnerships with financial institutions offer funding, volunteers and opportunities for creating new financial products. Partnerships with public agencies bring funding, clout and additional services for clients. Partnerships with employers are an emerging trend, as they provide access to clients and space. These partnerships could present funding opportunities as well.

- *More training and capacity building for providers are needed.* Currently, there is a lack of standardized training available on the content and delivery of asset-building services. Practitioners tend to piece training together through local community-based organizations, in-house workshops, and national conferences. And this training may only be provided to a select number of key staff and volunteers. Related to the lack of training is a lack of proven service delivery models and documented best practices.

- *Ongoing relationships with clients are tough.* Tax programs operate only for a brief period of time and rely heavily on volunteers for service delivery. According to Robin McKinney of the Maryland CASH Campaign, it is very difficult to move people. When clients have received tax services for several years in a row, she has found it to be a little easier to encourage clients to use other services. She thinks it is because it takes time to build trust with clients. A technique that has worked at a few sites is to co-locate tax sites at organizations that provide year-round asset-building services. Another is to recruit paid or volunteer advisors or outreach specialists who are knowledgeable about asset-building programs to serve as "ambassadors" for those programs. Clearly, it is important to have a lead staff person assigned to promote asset-building services on an ongoing basis.

- *Technology has potential*. Using technology can create a number of efficiencies for programs with regards to tracking, referrals and benefits screening. These efficiencies can reduce operating costs, increase organizational capacity, improve customer service, increase take-up rates, enhance client tracking and streamline reporting to key stakeholders.

**Products**

- *It is important to be selective about product offerings.* A basic set of products, including savings accounts, bonds and IRAs, is emerging based on suggestions from key informants. Together these products serve the needs of the majority of

clients at tax sites interested in using their refund for asset-building services. Savings accounts provide a depository function for refunds, in addition to providing a highly liquid savings function. Bonds are ideal for taxpayers who want to save on behalf of others, such as children or grandchildren. Savings bonds carry the trust of the U.S. government and offer modest returns and constrain the temptation to convert savings into consumption. IRAs are a longer-term asset, used to support the taxpayer in retirement, and offer the strongest potential for financial returns. However, none of the key informants has used this set of three products as an established "menu" at tax sites.

| ***Product*** | ***Target*** | ***Goal*** | ***Benefit*** |
|---|---|---|---|
| **Savings Account** | Clients with short-term expenses | Avoid use of RAL; access to banking services; slower spending of refund | Faster refund; some ability to defer consumption; minimal interest earning; highly liquid |
| **Savings Bond** | Clients with dependents or others they want to save for | Easy way to save on behalf of others | Modest return, constrained use (less liquid) |
| **IRA** | Clients saving for longer-term needs | Invest for retirement | Potentially strong return, more constrained use (less liquid) |

- *Much innovation is occurring around new financial product development.* Tax programs have partnered with credit unions and other financial institutions to offer innovative new products, although the time required to create these products and the extent to which they can be replicated can both be challenging. One area of interest are low-cost RALs. In many ways RALs serve as marketing tools to attract clients, even if few actually use the product. Funding RALs is not without capital costs or risks; unless grant funds are available, partnering with a financial institution is required. Thus, community-based credit unions are frequently an important partner in the delivery of RALs. Another approach is prepaid debit card accounts, in order to provide unbanked clients with transaction products. Yet another approach are specially designed CDs with unique deposit and withdraw features, including the ability to borrow to initially fund the CD. Because many clients with significant tax refunds use the proceeds to buy a car, referrals to auto loan products programs can be used to meet the unique needs of clients. As these and other innovative products are developed and tested, it is likely some will be suitable for broader use in the tax preparation field in the future.

- *General financial education has low participation rates.* Community tax programs have found that while clients may express interest in attending financial education workshops offered outside of the tax preparation clients, very few actually attend such classes. Programs need to be creative and strategic about the content and delivery of financial education at tax sites. Literature, videos, online resources and mini-training sessions on specific topics are some of the more effective approaches. For example, PJ Kim noted that last year, FoodChange offered an eight-week financial education program that only 40 to 50 people

attended. Participants raved about the credit content portion of the course. Based on this feedback, FoodChange offered a workshop just on credit at tax sites this season, and 170 clients enrolled. Interested participants were referred to credit counseling at a partner organization.

- *Refund splits hold promise.* While this practice is still emerging, there have been some positive responses at tax sites in Philadelphia for CDs and in Tulsa for savings accounts and savings bonds. Together, these two sites completed almost 300 of the 1,400 refund splits that were done nationally. The most positive responses tend to be from clients with higher incomes who are receiving relatively large refunds, although this may also be because many clients were buying bonds for relatives or dependents. Linking various types of savings accounts to split refunds can help clients overcome their barrier to saving all of their refund. There are remaining implementation issues with completing Form 8888, which should improve next tax year.

- *How programs are promoted is important.* How programs are "pitched" matters. Most clients make the choice to save onsite, at the point when they know their refund amount. In Philadelphia, the Campaign for Working Families received funding to train and pay for four cash coaches who were stationed at community-based tax sites to split refunds into a low-deposit CD of $250 with a four percent interest rate. One of the four coaches was responsible for almost all of the clients who used the product. According to Jean Hunt, "She was a real wiz that convinced almost anyone she counseled to do it. This showed us that the right person in the right way in the waiting room makes a difference. It's critical to appeal to what someone wants."

- *Financial coaching is a powerful, long-term service delivery model.* As mentioned above, a financial coach is not a well defined role, but is generally an individual who offers supportive services to clients by imparting perspective, encouragement and insight to help them reach their financial goals and providing guidance to overcome financial difficulties or setbacks along the way. Coaching associated with tax programs tends to be delivered by paid staff of a participating community-based organization or volunteers recruited from the private sector. These programs are generally developed to create longer-term relationships with clients and facilitate changes in their financial behaviors to increase asset building.

- *Credit counseling is a great need.* Practitioners cited high debt and negative credit issues as the top financial barriers that prevent more tax clients from participating in asset-building services. Credit counseling is an important step on the asset-building continuum as it helps clients to free up their income or improve their credit scores so that they can participate in other kinds of activities like saving or investing.

## 5.0. Synthesis and Conclusions

This report included a canvas of the relevant literature on savings, asset-building strategies and tax preparation services, as well as a survey of community-based tax preparation programs and interviews with leading practitioners. Overall, the evidence suggests that tax preparation programs have the potential to help some lower-income tax filers enhance their financial position by avoiding costly services, paying off debt, engaging in savings and investing for the future. Such strategies are not applicable for all tax filers, but for some families next year's tax season may become less of a chore and more of a step toward greater financial independence.

This report documents the generally held beliefs among leaders in the arena of tax preparation and asset building, finding that while the potential exists for a greater role of savings programs integrated into community-based tax services, there are many steps involved in implementing such an approach at scale.

The Center is planning to launch a national initiative to support tax sites that want to implement the most replicable strategies identified. With continued refinement, it is hoped that the following ideas can guide the development of the next phase of the Center's efforts to support asset building through community-based tax preparation.

### *5.1 Targeting Services*

Ideally programs will strategically weigh the mix of clients in their service delivery system. Adherence to core values and the nonprofit mission will likely drive administrators to serve the neediest clients for whom savings or asset building is highly unlikely in the absence of a targeted program. Certainly the needs of these clients are profound, and serving some of these clients is important. However, programs focused on these clients are likely to become "boutique" operations, serving a small number of clients with very intensive needs. Operating at scale requires substantial costs (and therefore subsidies) per client. A more efficient approach would be to target the bulk of the program's effort at those clients most receptive to engaging in asset-building services, while still serving some clients with more intensive needs.

#### Refund Size

Currently the characteristics of clients mostly likely to engage in asset-building services remains somewhat unclear; more study of this issue is warranted. Based on the evidence from the literature and interviews with key informants, several factors seem to play an important role. First, the size of the refund **in combination** with the relative income of the taxpayer drive many taxpayer choices. The refund must be positive, although other services such as tax planning and financial literacy may be useful to taxpayers who owe taxes. Depositing a refund in a savings account, or using refund splitting to save part of a refund, is more practical when refunds are larger. As income from work increases, the value of the EITC increases and then plateaus and disappears as income approaches $40,000. But having more income signals that a client has more capacity to save and can better meet current expenses. Conversely, clients with very low incomes, such as those under $10,000, are the most likely to be unbanked. There is a positive but not completely

linear relationship between a larger refund and likelihood of signing up for asset-building services. The relationship is moderated by income level and number of dependents. At very-low-income levels, even a $5,000 refund may not compel a client to save part of his or her refund. There are too many competing needs for these funds. But as income rises, especially between $20,000 and $35,000 (in markets with average costs of living), the interest in asset building increases more as the size of the refund increases, especially if the taxpayer is motivated to save for the future needs of other family members. A taxpayer with dependents under the EITC and CTC may be more likely to have a larger refund in any case. But parents or guardians also may be more future-oriented and interested in asset building as a way to plan for schooling or other needs. A secondary consideration is the taxpayer's age. In general, the older the taxpayer, the more interest and capacity he or she will have in taking advantage of asset-building programs. Younger clients may be more in need of access to basic accounts, as well as financial training or credit counseling.

### Timing

Clients with the largest refunds (usually those with dependents) are also the most likely to file in January or early February. One of the easiest triaging techniques sites are using is to reserve access to services from January 15 to March 1 for taxpayers with dependents. This can be accomplished by using an appointment scheduling system or a simple intake screening form. If sites offered asset-building services only during this six-week period, the vast majority of likely asset-building clients can be reached.

### Meeting Clients' Savings Goals

Beyond demographics, programs have to consider the clients' motivations: what are they saving for? No single savings or asset-building strategy will be appropriate for all clients, even if they have identical incomes, ages and refund sizes. If a client's financial goal is to provide support for his or her children or grandchildren in the distant future (a decade from now), savings bonds may an ideal choice. Bonds are a tangible, secure and low-cost way to put aside money for someone else. If the goal is to save for their own retirement, an IRA may be more appropriate. The restrictions on these accounts can be a challenge for households in need of cash before retirement, but also can help to enforce leaving these funds alone for as long as possible. If a client simply wants to save for emergency, than a low-cost/high-yield savings account maybe more appropriate. If a client wants to save for a short-term but defined period (for example, until tuition is due in September), a CD may be in order.

In other cases the client's goal may not be financial asset accumulation, but simply to accelerate a refund without paying the fees of a refund anticipation loan. For these clients a simple, low-cost transaction account will be most appropriate. For still others their main goal may be to try to alter their personal balance sheet by paying off loans. If debt reduction is a goal, all of the refund may be applied to repaying loans or refinancing with creditors, and credit counseling may be a vital asset-enhancing service.

Clients may have additional issues that require other strategies and services from the provider. For example, does the client have a Social Security number? Clients with only ITINs may not buy savings bonds and may need access to special savings accounts.

Additionally, clients with past payment problems listed in ChexSystems may have further complications in opening accounts. Clients who own a home will have different credit issues and savings motivations from renters hoping to buy in the near term. All of these factors create complexity in how and what services to offer. Clients with no refund or who owe taxes may be good candidates for financial education and counseling. In cases of self-employed clients, counseling to set up a budget and make quarterly payments may avoid the need to make a payment in the proceeding year.

Recognizing there is no "one size fits all" approach, table 13 attempts to summarize how programs can be targeted, using a simple list of asset-building services. This table includes two educational strategies and one coaching/mentoring strategy. The first is a referral to financial education. Follow-through rates are likely to be low, but tax time still represents an opportunity for some taxpayers to take more control of their financial situation by gaining knowledge. Credit counseling is not widely available at tax preparation sites, but telephone-based models of credit counseling are well established. Clients could receive counseling on the phone at the tax site, while their financial information is conveniently available. Wealth coaching is best reserved for clients who are part of year-round asset-building programs, rather than once-per-year tax preparation programs. But by engaging in a longer-term relationship with a financial coach or mentor, clients can learn financial management skills and receive help in making savings and spending decisions.

The table also includes four financial asset-building products: savings bonds, savings accounts, IDAs and IRAs. All are facilitated by refund splitting, although bank accounts might be established to deposit the entire (unsplit) refund simply to promote bank access and accelerate the refund process (competing with RALs). Bonds have proven a successful way to save on behalf of children and family, especially among middle-aged and relatively higher income clients. While IDAs are a proven way to create incentives to save, especially for lower-income, unbanked clients, they are costly to administer. IRAs are a well-established tool, but not currently in high demand among clients at community tax preparation sites.

**Table 13: Strategy Matrix**

| | | | | Likely Clients | | | |
|---|---|---|---|---|---|---|---|
| | | Refund Status | Banking Status | Previous Customer | Income | Refund Size | Notes |
| | Refer to financial education classes outside site | Any | Any | ++ | $–$$$ | — | Low follow-through rates |
| | Credit counseling onsite via telephone | Positive | Any | + | $$–$$$ | Any | Untested in tax setting |
| | Refer to 1:1 wealth coaching | Positive | Banked | + | $–$$$ | Any | Best as part of year-round asset-building program |
| Refund-Splitting (Form 8888) | U.S. savings bond | Positive | Banked | ++ | $ | >$50 | Best for savings for dependents; must have SSN; no ITIN |
| Refund-Splitting (Form 8888) | Open savings account | Positive | Any | +++ | $$$ | Any | Faster refund; slower spending; must have ChexSystems work-around |
| Refund-Splitting (Form 8888) | IDA matched savings | Positive | Unbanked | + | $ | Any | High costs; best for existing IDA sites |
| Refund-Splitting (Form 8888) | IRA savings for retirement | Positive | Banked | +++ | $$$ | >$500 | Best for savings for self; most established; low take-up rates |

*+ = somewhat likely to engage*
*++ = more likely to engage*
*+++ = most likely to engage*

*$ = lowest income*
*$$ = middle income*
*$$$ = higher income*

## Meeting Clients' Other Needs

According to focus groups that were conducted with tax preparation clients in April and May 2007 in Tulsa, New York and Hartford, clients experience significant financial hardships when burial and funeral expenses are incurred and are very interested in life insurance to lessen the financial burden for their children and other family members upon their death. However, none of the community tax programs surveyed or interviewed provides access to low-cost life insurance.

There are several options for community tax preparation programs to partially bridge this service gap. First, community tax programs could develop targeted financial education materials and workshops on life insurance. The Insurance Information Institute (www.iii.org), an organization dedicated to improving public understanding of insurance, has a consumer-oriented section on life insurance basics on its Web site.

**Partnerships with Insurance Companies**
A coalition of insurers, including State Farm, St. Paul, Travelers Property Casualty and Nationwide, worked with NeighborWorks America and the NeighborWorks network to develop the National Home Safety Partnership, a program for increasing home safety and reducing insurance losses through education on home safety, access to affordable home repair loans and access to affordable homeowners insurance. This program was piloted in six cities and served approximately 3,000 individuals. Initial evaluations show that this program both enables the insurance companies to increase the profitable sale of homeowners insurance in these neighborhoods and mitigates the risk for insurers by improving the safety and security of these homes.

Secondly, just as many community tax preparation programs have partnered with financial institutions to offer low-cost bank accounts, they should consider partnering with local insurance companies to provide access to low-cost life insurance. However, while arranging life insurance for clients will help to avoid funeral and burial costs for their surviving families, it will not protect those clients from incurring expenses if another family member who lacks insurance dies.

For the Center, there may be an opportunity to create a national partnership program with insurance companies, similar to NeighborWorks America's NeighborWorks® Insurance Alliance (NIA), which includes more than 20 insurance companies, trade associations, regulatory agencies and educational institutions. The NIA aims to develop partnerships between the insurance industry and NeighborWorks organizations (a network of more than 240 community-based organizations focusing on neighborhood revitalization) to market better the products of services of both, for the benefit of the customers and the communities they serve. While the NIA focuses on property insurance, not life insurance, it may offer the Center a national partnership model and lessons learned for collaborating with insurance companies. For more information, see www.nw.org/network/neighborworksprogs/insurance.

### *5.2 Supporting Community Tax Programs to Expand Asset-Building Services*

Respondents to the survey and in interviews generally suggested that the best way to support more asset-building services was simple: secure more funding. Specifically, respondents would like additional funding to hire more professional staff, to develop stronger marketing materials and for matching funds for savings. Of course, more funding is always a concern for nonprofit programs under pressure to expand. More federal funding for VITA is an issue for policy advocates. Private funding for tax preparation and asset-building services is always precarious, but in recent years has been resilient. There are many advances than can be achieved within existing resource constraints, however, by changing how savings programs are offered.

Other ideas survey respondents suggested included providing technical support to expanding programs, and guiding the development of partnerships with financial institutions. Many respondents suggested a need for training for volunteers and staff, training for onsite trainers, and more effective educational materials for clients. A number of tools were suggested to help train staff and especially volunteers on how to promote asset-building services, including video, conference call and Web-based sessions. Issues of training and partnerships are being addressed to varying degrees currently. The D2D Fund successfully worked with H&R Block to develop a system for buying savings bonds for five VITA sites in different states. Working with D2D, Nets to Ladders developed a computer-based training for staff and volunteers that may prove to be effective at scale. The Consumer Federation of America (CFA) has supported the development of advertising and outreach materials and has supported partnerships with financial institutions. These strategies can be expanded to support a larger set of tax preparation organizations to use more asset-building services.

### Training and Technical Assistance

Training for staff and volunteers on tax preparation is in-depth and highly structured. The training is generally based on content from the IRS and is conducted in a classroom setting locally, or online (e.g., Link and Learn Taxes), or through a combination of these two delivery modes. It is offered on an annual basis for all preparers to keep them abreast of any tax law changes. The length of the training ranges anywhere from several hours for refresher trainings to 40 hours for new recruits.

On the other hand, training on the content and delivery of asset-building services tends to be less structured and less uniformly provided. As previously mentioned, community-based tax programs normally cobble together training related to their asset-building services through local community-based organizations, in-house workshops, and national conferences, and then only to a select number of key staff and volunteers.

Nationally, there are a handful of sources for training on asset-building services. Most of these trainings are general and not geared specifically to the tax preparation field. The major training sources include:

- *National Community Tax Center's national conference*, which offers one-and-a-half-hour workshops on a variety of asset-building strategies for community tax programs at its annual national conference.

- *NeighborWorks® Training Institute,* which offers one-, two-, three- and five-day courses on asset-building programs and generic nonprofit service delivery for the community development field four times a year.

- *Corporation for Enterprise Development's IDA learning conference*, which offers one-and-a-half-hour workshops on matched savings programs every two years.

- *Association for Financial Counseling and Planning Education*, which offers a certification curriculum of two self-study courses on financial counseling.

- *Private-sector training*, such as training on credit reports from credit reporting agencies; financial planning certification through an education program registered with the Certified Financial Planner Board at a local college or university; or insurance education and certification through the National Alliance for Insurance Education and Research.

- *Public-sector training*, such as training on public benefits from state and local government agencies.

Below is a catalog of the training pertinent to the content and delivery of asset-building services from the major sources listed above.

**Table 14: Major Training Sources for Asset-Building Services**

| | NCTC | NTI | CFED | AFCPE | Private Sector | Public Sector |
|---|---|---|---|---|---|---|
| **Products and Content** | | | | | | |
| Financial Education/Training | | X | X | | X (FDIC) | |
| Savings, Checking Account Access | X | | | | | |
| Credit, Budget, Debt Counseling | | X | | X | | |
| Matched Savings Programs | | X | X | | | |
| Help Getting Public Benefits | | | | | | X |
| Credit Reports | | X | | | X (CRA) | |
| Job Training/Workforce Development | | X | | | | X |
| Financial Planning, Retirement Planning | X | | | X | X (CFP) | |
| Investment Accounts | | | | | X (CFP) | |
| Low-Cost RALs | X | | | | | |
| Life Insurance | | | | | X (NAIER) | |
| Refund Splitting | X | | | | | |
| **Delivery** | | | | | | |
| Marketing and Sales | X | X | X | | | |
| Partnership Development | X | | X | | | |
| Fundraising | | X | | | | |
| Program Evaluation | X | X | | | | |
| Customer Service | | | | | | |
| Program Design | | | | | | |

Standardized training on asset-building content and delivery geared toward community tax programs can be most efficiently supported at a national scale. Through the Community Tax Coalition, the Center already provides training and technical services to tax preparation sites. These efforts could be expanded to focus more on asset-building services, including:

- planning for including asset building in next year's tax season;
- how to become an asset-building specialist or coach;
- training-for-trainers of local tax site staff and volunteers on specific asset-building services;
- models of delivery systems for promoting and enrolling clients in asset-building services;
- standardized materials and training on or modifications of software systems to increase take-up rates and improve client tracking for asset-building services;

- client tracking and evaluation techniques; and
- marketing and sales tools and strategies for tax preparation and asset-building programs

These trainings could be provided at national conferences hosted by the National Community Tax Center or other organizations, or on a regional or local basis. Sessions might typically last one to two days, with sessions for asset-building specialists taking two to four days and including some form of testing or certification. As a supplement to training sessions to build local organizational capacity, the Center could document and publicize case studies of successful programs and coordinate one-on-one technical assistance to sites through consultants or peers.

The Center should look to the NeighborWorks Training Institute as a model for how to develop its training program. It offers courses in eight content areas, with curricula developed collaboratively by Training Institute staff and community development practitioners. Some of the courses are certification courses with online course exams that require recertification through continuing education every three years. If the Center were to consider offering certification, it would be important to gather input from seasoned practitioners on the curriculum's design early in the process and to develop a standardized test as part of the program.

**Process Improvements**

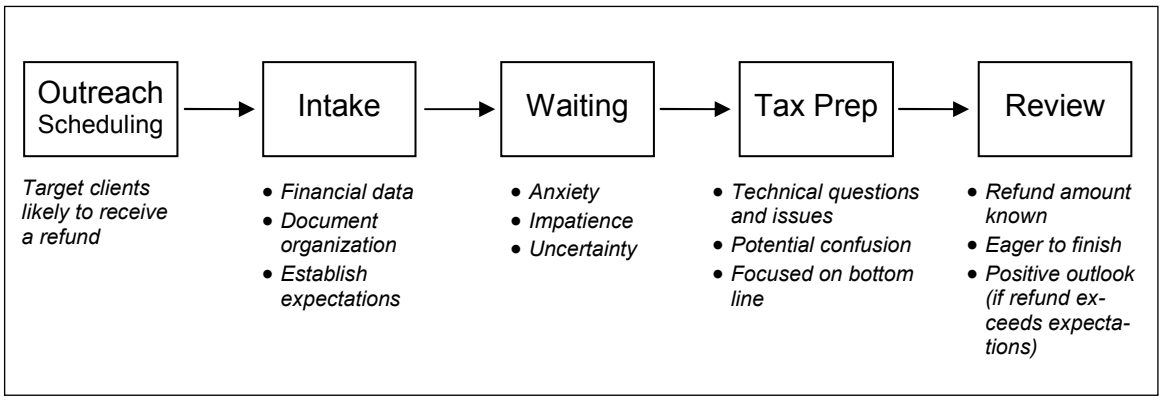
Just as there is no "one size fits all" solution for clients, there is not one model for all tax preparation sites. However, there are a few simple procedures that tax sites can consider that might improve take-up rates. These improvements in processes can be standardized into the Center's training and support services:

- Triage and prioritize asset-building clients for the first 6 weeks of tax season, at least partially using scheduled appointments;
- Offer an overview of services at intake;
- Establish refund expectations and savings goals at intake;
- Use a floating asset-building specialist or coach to answer client questions during the waiting period (this will be most efficient if sites are high-volume, which may mean consolidating multiple locations into fewer sites);
- Use a numbered system for walk-in clients during the wait period to alleviate their fear of losing their place in line;
- Offer education materials and onsite credit counseling to clients during their wait period;
- Ensure that key staff are practiced at delivering a good "pitch" to encourage clients to sign up, since most clients make the decision to save onsite;
- Consider using group incentives for awards or group meals for reaching asset-building targets if most VITA volunteers are not interested in selling services;
- Minimize the need to sell services, instead making refund splitting standard for all refunds over $100 and offering clients the option of how to save (including the option of not saving);

- Finalize the savings decision at the quality review stage, offering online or other onsite means of opening accounts or buying bonds; and
- Offer referrals for clients to educational services and use tax client mailing lists to during the post-tax season to promote other asset-building services, including next year's program the following December.

The following diagram illustrates how clients might travel through a tax preparation process. The process begins by targeting clients with dependents (those most likely to have significant refunds) during the first six weeks of tax season. Ideally most clients will be scheduled for a date and time in advance, although some may still walk in. At intake, clients are in "data dump" mode, prepared to organize documents and fill out forms. At that time, clients' expectations for their refund can be established as well as their savings goals.

**Tax Preparation Process with Asset-Building Services**



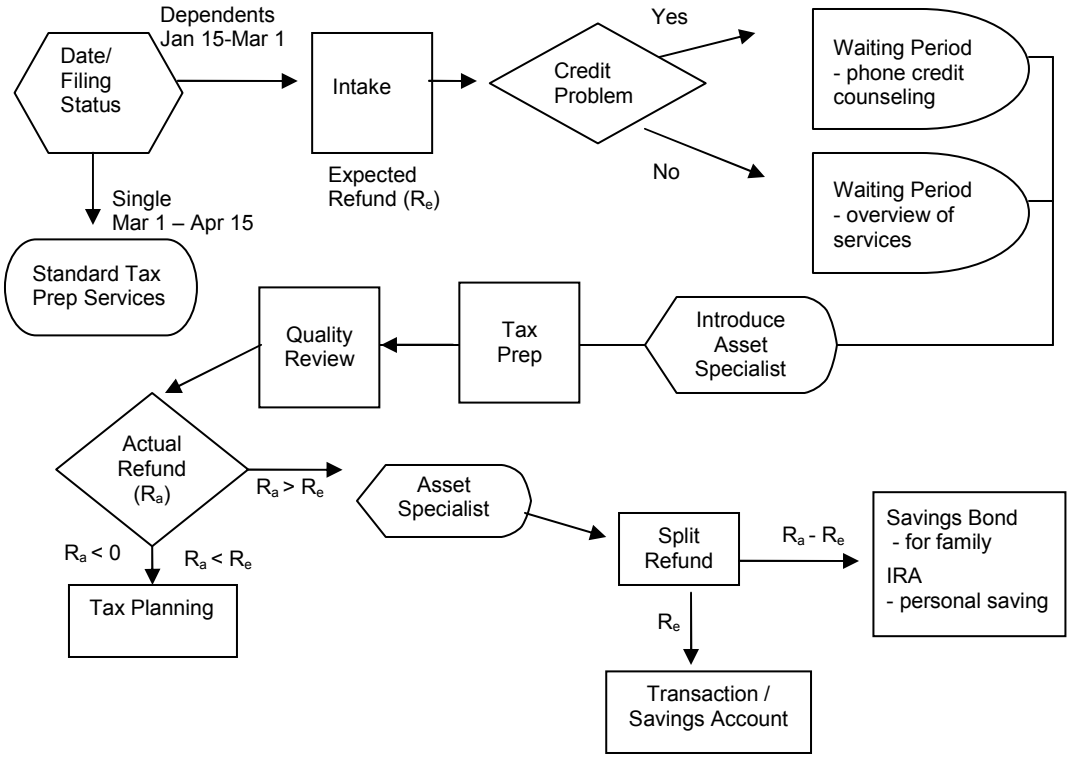

During the waiting period, even if queuing systems are used, many clients will be anxious. At this time materials can be available, as well as a floating asset-building specialist offering an opportunity to ask questions.

During the tax preparation process, volunteers focus on the tax filing process, but can suggest both asset-building and tax-minimizing strategies. Volunteers will not be expected to sign clients up for savings programs, but should support clients as they face that choice in the final stage.

The quality review stage is when clients sign off on their return, as well as sign up for various savings accounts and services.

## Client Flowchart

The flowchart below introduces the significant decision points in the service delivery process using the stylized model discussed in this report. The screening process begins the process where clients with dependents enter the program in the first six weeks of tax preparation season; single clients are deferred to March and asset-building services are only offered as is feasible. Clients targeted for asset building (those entering in the first six weeks) at intake are asked to estimate their refund amount. Clients also perform a brief credit assessment (a short set of questions about having multiple unpaid bills, creditors calling weekly, feeling stress about paying utility and rent, etc) to determine if they are candidates for credit counseling, which can be performed on the telephone during waiting periods of 20-40 minutes, or after the tax preparation is complete in other cases. Clients without major credit problems will be able to take advantage of other services during the waiting period, including reviewing promotions for asset building programs. During this time clients can meet the asset specialist, who ideally will escort clients to their tax preparation volunteer. Tax preparation continues through the standard process, although volunteers may highlight the benefits of asset building services as is appropriate. During the quality review stage the client's refund is assessed. Clients with no refund (or who owe) receive tax planning advice. Those with a refund meet with the asset specialist (who also may be the quality reviewer or work in tandem with the reviewer). The specialist will promote refund splitting for all clients as the default option. For clients with refund amounts greater than their expected refund, this amount is targeted for a savings bond if the client desires to save for a family member, or an IRA if they want to save for themselves. The remainder of the refund is routed into an existing or new savings or checking account.



## *5.3 Focusing Asset Building By Tax Preparation Model*

Not all programs follow the same model for delivering asset-building services as part of tax preparation services. The most common model is that clients come in for services in January or February with the goal of filing their taxes and receiving a refund quickly. Many of these clients will never have come to the organization for any services before. These clients are motivated to obtain free tax preparation, saving them fees, and to receive their refund (typically due to the EITC and/or CTC). Programs will then try to convince these clients to use at least part of their refund for asset-building products like a savings account, IDA or other vehicle. They will also promote financial literacy education or counseling.

A second model are programs already delivering asset-building services, such as an IDA program. These programs then promote free tax preparation programs to their existing clients to help them avoid the high costs of paid preparers and refund anticipation loans.

**Models of Linking Asset Building with Tax Preparation**

| | | |
|---|---|---|
| **1. Free Tax Preparation** (with refund) | → | **Asset-Building Services / Financial Education** |
| **2. Asset-Building Services** | → | **Free Tax Preparation** (avoid high-cost providers) |

These models are not necessarily discrete. Within the same organization or coalition of organizations, clients might enter the process in various ways. The strongest results seem to come from tax programs that have interconnections to other supportive services. Clients have trust and feel more of a relationship to the provider. Tax time remains a critical annual opportunity to address financial and asset-building services. But these services can be linked to access to benefits and financial education or counseling outside of tax time. Matched savings programs provided one of the strongest ongoing connections to clients beyond tax season, as well as a mechanism to compel clients to engage in financial education services.

Clearly, however, it is the annual April 15 deadline that drives the vast majority of new clients into programs. It allows asset-building services to be offered to a much larger client base than any existing IDA or financial education program. Tax preparation programs benefit from being part of service delivery coalitions, but also serve a key role as a means to reach and bring in clients with asset-building needs. The vast majority of clients in a community will enter the service delivery system through the first model, with the goal of filing their taxes. This represents casting a wide net; the expected rate of clients engaging in savings or other services will be low for this reason. Programs offering matching savings or ongoing financial education are rare and will represent a small share of all tax preparation clients. On the other hand, these clients will be far more likely than a typical walk-in tax client to engage in asset-building services.

Based on the surveys and interviews conducted for this report, The Center's best strategy may be two-fold. First, support existing tax preparation programs to provide a basic set of

services that encourage asset building. Second, support a relatively small number of agencies that engage in year-round asset building to integrate more asset-building services into their tax preparation programs. Organizations providing high-volume tax preparation services can offer thousands of clients asset-building services in the form of access to a few key savings products (typically onsite savings accounts, bonds and IRAs) and referrals to financial education, credit counseling, and in some cases wealth coaching. This approach will reach a large number of clients, although take-up rates will be relatively low (perhaps 10% with workflow and process improvements implemented) and the effect of any one savings strategy is unclear. The Center can support tax sites to develop a basic framework for asset building, including training and technical assistance. The second strategy is cost prohibitive and beyond the capacity of most programs devoted to tax preparation, but very practical for sites with ongoing asset-building programs. Many of the innovations described in this report were in fact developed by year-round asset-building programs applying existing strategies to tax clients. The Center can both learn from these sites as well as help disseminate innovations.

## *5.4 Key Features*

Any attempt to expand asset-building services into tax preparation programs must be based on a few principles: (1) simplicity, (2) targeting, and (3) partnerships.

### Simplicity

Clients' interest in asset-building services is hard to gauge from our interviews with program staff, but appears to be low for economic and psychological reasons.[3] Clients have a lot on their minds when having their taxes prepared. They may have their children in tow, be facing pressures from work- and home-related tasks, and generally have limited patience for even well-intentioned efforts to "help." Meanwhile, tax programs are under pressure to process a high volume of clients as quickly and cheaply as possible, largely using volunteers and relatively low-paid staff. The only way to effectively deliver any additional services in this environment is to offer only a limited menu of services. These services must be extremely simple for volunteers to communicate and for clients to understand. Refund splitting and direct deposit should be automatically provided, unless clients opt out. Low-cost RALs, benefits screening and other services are laudable, but for a pilot, a focus on basic financial services, savings accounts, bonds and IRAs may be most efficient and measurable. By keeping the process and product offerings simple and standardized, training systems will be easier to establish and workflow process protocols more easily documented.

The Center should develop a framework for tax preparation programs to create or select three products: an onsite savings account, savings bonds and IRAs. All should be offered through refund splitting. While national partners might be able to help develop and implement these products, may sites will have existing local partners and will not use nationally developed products. Nevertheless, establishing guidelines for product types and characteristics will encourage the use of either local or national savings vehicles.

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[3] *"If I had asked people what they wanted, they would have said faster horses." — Henry Ford*

### Targeting

Tax preparation programs with a goal of promoting asset building need to prioritize services to taxpayers most likely to use asset-building services. This implies that filers with dependants should be a key area of focus for January and February appointments, with other clients welcome as services are available in March and April. The intake process should include standardized questions outside those required for tax preparation, including:

1. How much was your refund last year?
2. How much do you expect this year?
3. If you have excess funds, how do you plan to use them?
4. What savings goals do you have for emergencies? for your children? for retirement?

Answers to these questions, as well as modest incomes and positive refunds, will direct how likely the client will be to sign up for asset-building services and how much staff should promote the services. Clients indicating credit problems or a goal of paying off debts may need credit counseling in order to guide how and when they approach their credit choices.

Clients can be segmented not only by if they *will* engage in savings, but also by *how* they will save. Those planning to save on behalf of children may be best suited to savings bonds. Those looking for long-term investments for retirement may be ideal for IRAs. Some clients may have multiple goals, and therefore use bonds, IRAs and savings accounts.

### Partnerships

Systems to train staff and volunteers, track clients, provide counseling, and offer financial products are beyond the capacity of most community-based tax providers. These services will require support from intermediaries and financial institutions. Most community-based programs already represent strong coalitions of partners working together toward common asset-building goals. National partnerships will be able to efficiently offer support for local programs to expand their tax services into the asset-building arena without duplication across sites.

## *5.5 Issues of Sustainability*

Tax programs generally offer their services for low or no fees, while receiving support from local foundations, the United Way and other charities, as well as state and local government grants and the federal VITA program. Expanding beyond tax services will increase the cost per client. Programs will be under more pressure to fundraise. During the testing of a pilot, the costs of service delivery need to be documented carefully. To the greatest extent possible, programs need support to develop the infrastructure to lower the costs of delivery, including using technology and self-service methods. While tax programs have greater efficiency than many nonprofit programs due to use of volunteers, the cost of managing screening, promoting and administering savings and other accounts can be significant. As more sophisticated, full-time specialists are needed, funding sources beyond VITA will be critical to expanding asset building. There is some risk this

effort might reduce the number of filers served or otherwise jeopardize the appearance of VITA's effectiveness, bringing potentially negative public relations or policymaker attitudes.

Private-sector tax programs charge fees. Millions of even very-low-income taxpayers willingly pay these fees. Community-based tax programs could charge even minimal fees, based on a sliding scale, and given the volume of clients involved might well be able to generate substantial revenue that could be used to augment other service offerings. Nonprofits in other fields have grown rapidly based on expectations of future support from foundations or other funders, only to find this support insufficient. As the tax preparation field assesses its expansion into a new market niche, it would be wise to carefully consider the long-term financial implications of such an approach. Several program staff interviewed suggested the issue of giving up VITA funding in order to charge fees has been discussed internally in their operations. Other programs have explored ways to serve some non-VITA clients for a fee while using VITA support for qualified clients.

One factor that affects the efficiency of a tax preparation's asset-building program is the number of clients seen per site. Programs with a few large-scale sites can employ one asset-building specialist and focus training for a larger number of volunteers. Multiple sites require a duplication of the floating asset coach role, as well as more training sessions, scheduling and system development. The experiences at Tulsa and other leading tax preparation sites suggest that consolidation does not reduce client volumes overall; clients are not wedded to a particular location if they value the service. By concentrating more clients in fewer sites overall, the cost per client can be reduced.

Another method of restraining costs is to focus asset-building services during key time periods, particularly the first 3 to 6 weeks of tax season. This opening period is when the majority of clients seek tax assistance, including those with the largest refunds.

Ultimately, programs have to calculate how many clients they can support to provide tax preparation and how many can also receive asset-building services in addition to tax preparation. For a given budget, perhaps only a part-time asset specialist and one savings product can be supported. Most of the implementation steps suggested in this report require preplanning and will incur management and administrative costs. Given the fixed costs of these investments, offering partial programs may not result in significant cost savings. The costs of including new asset-building services will be greatest the first year of implementation, with efficiency (and client take-up) increasing over the following two to three years.

## *5.6 Research Components*

As development of a national pilot is planned, it will be important to include a strong evaluation component. Programs implementing support services from the Center should share a common set of approaches, including systems to track data useful for evaluation purposes. To the extent that local programs include unique approaches, these can be compared across sites. All programs should include standardized systems to track client

characteristics at intake, through the tax filing and then six to nine months after tax filing. Ideally this would include permission to monitor accounts or credit reports, in addition to follow-up client surveys. Because it is expected that repeat clients will be more likely to engage in asset-building services, ideally this tracking will be longitudinal in nature, lasting three years, with the evaluation extending across clients for the full testing period of the pilot.

Key measures that could potentially be tracked at all sites include:

**At intake:**

- ✓ expected refund amount
- ✓ actual refund amount
- ✓ basic demographics
- ✓ income and estimated savings
- ✓ services offered & accepted
- ✓ survey questions of financial knowledge & attitudes
- ✓ bank account use/access
- ✓ credit report: use of accounts, delinquencies

**Follow up:**

- ✓ actual uses of refund
- ✓ current income and estimated savings
- ✓ recent use of additional asset-building services
- ✓ survey questions of financial knowledge & attitudes
- ✓ expectations & plans for next tax year
- ✓ credit report: use of accounts, delinquencies

Some of these measures are already tracked as part of tax preparation activities. Others have been used in other programs and can be readily applied to the tax preparation setting. In order to reduce the costs and administrative resources required, these data could be collected on a random basis at larger sites, such that only one in ten clients is selected to be part of the data collection. Ideally clients would also receive an incentive for cooperation over time, such as a gift card for a local grocery store each time they complete a survey (at intake and at follow-up).

Practitioners typically recoil at the prospect of collecting additional data and burdening their clients with more paperwork. In some circumstances data gathering can be streamlined to minimize these problems, but engaging in research will certainly require additional time and resources. However, having better data has the potential to be useful evidence regarding the most effective practices in asset building. The upfront investment could result in greater efficiencies across the field, as well as bolster the advocacy efforts of tax preparation and asset building programs.

## *5.7 Conclusions*

Community-based tax programs provide a leading opportunity for low-income families to engage in asset building. Programs currently have limited capacity to offer programs not related to tax preparation, but are expanding their capacity and could expand further with systematic support. Expansion requires additional training and creating partnerships to deliver financial products. While clients appear reluctant to engage in asset-building services, the method of delivering services may have a powerful impact on take-up rates.

Only a subset of all tax clients are likely to take on asset-building services when offered. Efforts can be refined to focus on a limited set of services and products, framing the options to take part in asset building in such a way that clients are more likely to participate. Most programs should include only a limited set of services, including credit counseling, savings accounts, savings bonds and IRAs. Operational factors will be key to success: how and when the client is offered services are likely to be as critical to success as what services are offered. The Center for Economic Progress is in a strong position to support tax preparation programs nationally through training, technical services and the promotion of a standardized service delivery model.

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# APPENDIX

## *1. Guiding Research Questions*

- What determines whether low-income households treat savings as short-term deferred consumption, or as a long-term asset?
- To what extent do emotional barriers versus informational barriers prevent low-income households from actively participating in savings strategies or related programs?
- How does increasing savings by low-income households substitute for various types of credit use?
- How do low-income savers view their investment time horizon? To what extent do they desire constraints that restrain consumption or access to their assets?
- What are the educational needs of low-income households regarding savings, investing and credit? To what extent do evaluations in this arena suggest any form of training or education may help to address these needs?
- How do low-income taxpayers perceive nonprofit providers of tax and other programs? How does this differ from financial planning and investing services, banking and other financial services providers?
- How do low-income households navigate financial decisions in the absence of nonprofit programs?
- What asset-building strategies have been evaluated? To what extent are these evaluations informative? What evaluations have been conducted in similar fields (such as credit counseling, insurance, benefits access) that might inform this field?
- What other "teachable moments" exist outside of tax preparation time? How might partnerships with employers or community organizations capitalize on other points in the year when people refocus on their finances?
- What financial services do low-income households utilize outside of tax season? What services might be in demand that are currently underutilized? What is the technical capacity of community-based tax programs to diversify services?
- What is the relative efficiency of community-based tax preparation programs, compared to private firms, other nonprofits or public programs? What scale is required to reach a greater degree of sustainability, defined as generating fee income, while addressing the most pressing needs of low-income households? What competitive pressures will organizations confront, if any?
- What is a new perspective on the financial needs and most appropriate asset-building strategies for low-income households seeking tax preparation services?

## 2. *Hypotheses Tested*

1. Community-based tax preparation programs are interested in expanding into asset-building services.

2. Community-based tax preparation programs have the capacity to expand into asset-building services.

3. Existing clients of community-based tax preparation programs lack reliable sources for information on personal finance decisions.

4. The tax season is a key "teachable moment," where clients are more willing and able to participate in asset-building products or educational services.

5. More directly combining tax preparation and financial products services will complement consumer behavior and overcome emotional or motivational barriers to asset building.

6. While the tax season is an effective time to introduce consumers to asset building, tax preparation clients need an ongoing, formalized structure to adhere to asset-building goals in a disciplined way.

7. Innovative asset-building strategies are already being utilized in the tax preparation field, many of which are easily replicable at other community-based tax preparation sites.

8. Many programs have developed common outcomes metrics which could be standardized and used across the field.

9. Client fees will be insufficient to support a new model of asset-building services delivered by tax preparation programs.

10. To expand into asset-building services, programs will require training and capacity building.

## 3. Interview Guide

Each interview lasted approximately 45 minutes and was documented with handwritten notes. These notes were then transcribed and analyzed. Each interview employed a "snowball approach," pursuing additional informants based on referrals from each round of interviews. Each interview began with an oral consent, including the following background (also sent via e-mail):

> We are contacting you based on responses to a survey by the NCTC in May 2007. That survey helped us to identify leading programs nationally. We would like to interview you as a key informant whose expertise and perceptions are critically important to our understanding of the role of how tax preparation services and asset-building strategies can be most effectively combined. Your participation is voluntary. Your comments can be with or without attribution, as you wish. The Center may use the results in public reports, but you will not be quoted without your approval.

*Overview*

1. What has been your experience with asset-building strategies in the context of tax preparation programs? How do you define "asset building"?

2. Did your program originally have a primary focus on asset building, or has this developed over time? If your program has developed over time: What facilitated this shift?

*Client Demand*

3. What share of tax preparation clients do you think are ready or interested in asset-building program programs, products or services? Is there a way to think about segmenting this market into categories of consumers, based on their readiness or interest? What makes for a highly motivated client in terms of using asset-building services? Who is the ideal client in terms of success? What group is most underserved and in need of help?

*Sustainability*

4. Does your organization directly deliver the asset-building services you offer? Are there also partners involved? What does it cost to provide those services — per client? (if don't know — what is total budget for program? How many clients are served?) Do clients pay any fees? How financially sustainable is the program? How does this compare to other programs your organization offers (i.e., does this come closer to covering expenses than other programs or less close)?

*Outcomes*

5. Regarding clients in asset-building programs, what data do you collect? Account usage or balances? Debt levels? Credit scores? How often do you collect client level data, just at a baseline, or on some regular basis? How else do you monitor the success of your program?

6. Do you define "success" differently for community tax preparation versus asset-building programs?

7. Can you think of any examples of clients or groups of clients for whom tax preparation made a big difference in their financial lives?

8. What do you consider to be the major accomplishments of your asset-building program(s)? What innovations are you most proud of? Do you think these are replicable?

*Challenges*

9. What are the most significant barriers that prevent your clients from participating in asset-building services? I know [high debt levels | job instability…] are significant barriers for your clients. How has your organization attempted to address them?

10. How do you engage clients over time? Is the only window of opportunity at tax time?

*Capacity*

11. What is your assessment of the tax preparation field's capacity to deliver asset-building services? How does it compare with the demand from potential consumers?

12. Is there any training available for your staff for planning or delivering asset-building services? How does this compare to tax preparation?

13. What were/are the **programmatic** (operational) challenges for expanding into asset-building services for your organization?

*Looking Ahead*

14. What specific strategies are your highest priorities for the next two years in regard to asset-building services linked to tax preparation? What advice would you give a major grant-maker interested in using community-based tax preparation programs as a platform to launch new asset-building efforts?

15. Can you suggest you any relevant reports or publications that we should review?

16. What other organizations/institutions are doing similar work that we should be talking to?

## *4. Survey Form*

Thank you for making time to fill out this brief survey. We know your time is valuable and this will take you no more than 15 minutes to complete.

As you may know, The Center for Economic Progress (Centerforprogress.org) has received a grant from The Ford Foundation to research the potential for expanding asset-building strategies among community tax programs. We are conducting a literature scan, focus groups with clients and interviews with leaders in the field.

An important component of this research is this survey. Our goal is to learn about the range of strategies community-based tax programs are using, as well as to highlight innovative approaches.

Your help with this project is essential. Thanks in advance for your cooperation. Your participation is voluntary, and will not be shared with any third party. If you have any questions about this project, please e-mail Mike Davis at MDavis@centerforprogress.org.

*You should answer all questions on behalf of the program or coalition of programs you represent.*

1. What is the name of your community tax program?

2. How many years has your tax program been in operation?

    0 – just starting
    1–3 years
    4–6 years
    7–9 years
    More than 9 years

3. How many paid staff are involved in your tax preparation program in total?

    1–3
    4–6
    7–10
    11–13
    14–16
    17–20
    20 or more
    Don't Know

4. How many physical locations does your tax preparation program operate?

    None — online or telephone only
    1
    2
    3–5
    6–10

11–20
21–30
31–50
51 or more
Don't Know

5. How many paid employees does your organization have in total?

1–10
11–25
26–50
51–75
76–100
101 or more
Don't Know

6. What is the total operating budget for your tax preparation program, including any educational activities or asset-building components that are part of the program?

$0–25,000
$25,001–50,000
$50,001–75,000
$75,001–100,000
$100,001–500,000
Over $500,000
Don't Know

7. Which best describes the area your program serves? (select all that apply)

Urban/central city
Suburban
Rural
Other (please specify)

8. Please describe the geographic service area for your program — specific neighborhood(s), metro area(s), or region(s).

9. Please describe the target population for your program.

10. Which of the following does your program currently offer? (select all that apply)

Free Tax Preparation (no charge to client)
Low-Cost Tax Preparation (some charges to client)
Financial Education or Training (group)
Financial/Retirement Planning
Credit, Budget or Debt Counseling (individual)
Savings, Checking Account Access
Investment Accounts
Matched Savings Programs
Help Getting Public Benefits
Job Training/Workforce Development

Low-Cost Refund Anticipation Loans
Life Insurance
Credit Reports
None
Other (please specify)

11. Please estimate approximately how many tax clients did your program serve during the 2006 tax year for each type of program? (enter 0 if none — use your best guess) PLEASE, NO COMMAS IN THE NUMBERS

Tax Preparation
Financial Education / Training
Financial/Retirement Planning
Credit, Debt or Budget Counseling
Access to Savings, Checking Accounts
Access to Matched Savings
Access to Life Insurance
Access to Credit Reports
All Other Services

12. Please estimate approximately how many tax clients did your program serve during the 2005 tax year for each type of program? (enter 0 if none — use your best guess) PLEASE, NO COMMAS IN THE NUMBERS

Tax Preparation
Financial Education / Training
Financial/Retirement Planning
Credit, Debt or Budget Counseling
Access to Savings, Checking Accounts
Access to Matched Savings
Access to Life Insurance
Access to Credit Reports
All Other Services

13. Thinking about the last 6 months, what have been the most important financial needs, unrelated to tax issues, among tax clients? *(Ranked by scale of Very Important, Somewhat Important, Not Important, Don't Know / Not Applicable)*

Job instability
Lack of income/job opportunities available
Housing costs
High consumer and other debt
Lack of financial knowledge
Lack of financial skills
Lack of financial confidence
Poor credit rating/status
Unaffordable medical-related expenses
Lack of health insurance
Lack of life insurance
Other unexpected/unpredictable expenses
Not Applicable — no non-tax needs

14. If a major funder wanted to promote tax programs to conduct increased financial planning and investing activity, what barriers would exist? Other than lack of funding, what barriers does your program confront that prevent the expansion of strategies that help families build lasting financial assets?

15. Has your tax program ever been highlighted in a journal, newsletter or conference external to your organization?

Yes
No
Don't Know

16. Please describe where your program was highlighted or presented. Include dates, sources or Web links if possible.

17. What kinds of strategies have you used in your program that you think are particularly innovative?

18. What kinds of strategies have you heard of other tax preparation organizations doing that you think are particularly innovative? Please cite specific programs if possible.

19. What would your program need to be able to effectively implement strategies to connect tax preparation clients to asset-building services?

20. What would most help your program to expand asset-building services for tax preparation clients? (select all that apply)

Quality training
Quality materials
Opportunity to network with similar programs
Technical assistance or consulting
Operational support
Subsidies for matched savings
A standardized service delivery system
Software systems
Access to relevant research
Other (please be specific)

21. Please share any asset-building strategies you would classify as unsuccessful or ineffective in the community tax preparation setting?

22. Please tell us more about yourself. We would like to be able to follow up with selected respondents for short phone interviews to document leading strategies for our reports. (This information will not be shared with any outside parties and your e-mail will not be used for any solicitations.)

Name
Title
Address
Phone
E-mail

23. How many years experience do you have with tax preparation programs professionally (in total)?

Less than 1 year
1–3 years
4–5 years
6–7 years
8–9 years
9–11 years
12–13 years
14–15 years
15 or more

24. Please tell us any additional creative ideas or suggestions you have about how to increase the capacity of tax preparation programs nationally to engage in an expanded role in asset building.

Thank you! Your insights will help the Center for Economic Progress and The Ford Foundation to understand the role for tax preparation in asset-building strategies.