



EXPANDING THE EITC'S EFFECT

HUNGER FREE COMMUNITY REPORT

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Expanding the EITC's Effect

Tax Preparation

Free Tax Preparation is Important

Free tax preparation services provided by Volunteer Income Tax Assistance (VITA) sites across the United States offer a unique opportunity to begin to improve the economic situations of thousands of low and moderate income households each year. With this service, families and individuals are able to file their taxes with the assistance of trained volunteers, which decreases the likelihood of errors in the return (if they were to file themselves). Households are also helped to claim credits that are sometimes left unclaimed due to lack awareness about the credit or insufficient knowledge about how to claim it on the tax return. Moreover, households avoid commercial tax preparers who often charge high fees that diminish their potential refund.

EITC provides opportunity

The Earned Income Tax Credit (EITC) is a refundable credit giving low and moderate income households the ability to receive a higher refund. Based on the level of gross income and number of people in a household, the refundable credit can be up to \$4,716¹. If there are no tax liabilities, the EITC, together with other credits such as the Child Tax Credit (CTC), can generate a large refund for households in need of more income. These credits allow them to become financially secure.

Center for Economic Progress² 2007 Tax Data			
Filing Status	Average Gross Income (\$)	Average EITC (\$)	Average CTC (\$)
Single	11,220	352	869
Married filing jointly	26,131	1,869	1,519
Married filing separately	15,597	n/a	1,154
Head of Household	16,566	2,208	1,060
Qualifying widower	16,702	2,491	911
Grand Total	15,276	1,539	1,206

A higher income has many implications for low and moderate income households, including an increased ability to save, to be financially secure, and to build assets. With additional income, households can afford certain high-cost necessities and save for emergencies or their future. Households are then in a better position to begin to build assets. Free tax preparation services, therefore, enable communities to be financially stable and develop economically.

¹ Amount based on the 2007 tax year (<http://www.irs.gov/individuals/article/0,,id=150513,00.html>)

² The Center for Economic Progress is a non-profit organization located in Chicago that encourages self-sufficiency and promotes economic prosperity by improving access to public, private, and non-profit programs and services. One of its primary services is free tax preparation for low and moderate income households.

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Limitations of free tax preparation

The impact that free tax preparation services can have is often offset, however, by high yearly expenses or predetermined spending goals among clients. Most VITA tax clients are earning a high enough salary to cover necessary daily expenses. In some cases, however, expenses may surpass income and place a household in an economically unstable situation. Some clients face outstanding credit card payments and overdue bills with an unstable spending plan. In order to cover their expenses, some will seek a “payday loan” or fall into credit debt. This, in turn, diminishes the progressive effect the EITC can provide for households, as the refund is already “spent” in the clients’ minds before they even receive it.

Necessary Supportive Services

The households coming to the tax sites have many financial challenges that stem from the previous year. In order for the EITC to fully impact households, these financial issues need to be addressed before the clients come to have their taxes prepared. By helping clients deal with these issues year-round, organizations can establish deeper relationships with the communities they serve while increasing the household participation rate in the complementary services offered at the tax sites. These services can include opening bank accounts, savings bonds, Certificates of Deposit, or Individual Development Accounts.

If households are financially stable at the start of tax season, then the EITC can go towards building assets. The two main support services needed, therefore, are financial supports and financial literacy services. They provide the ability to afford necessary expenses and understand how to use many financial tools to develop savings. It is not necessary for one organization to provide these services, but it would be beneficial for there to be a collaborative effort within communities towards providing these services. Organizations that provide free tax preparation can work with organizations that provide year-round services.

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Financial supports

Some households struggle to fully afford certain necessities, such as food, clothing, shelter, and medical care, with their salaries. Current government food, medical, and heating assistance can help cover most of these costs. A single parent household with two children (under the age of 19) and an annual income of \$16,013 is eligible for the following³:

- **Food Assistance:** \$275 in food stamps
- **Home Energy Assistance:** Low Income Home Energy Assistance Program (LIHEAP)
- **Healthcare Assistance:** Children and parent covered with the Illinois All Kids and Family Care Assist programs

With such assistance, households can afford more or better food, healthcare, and home energy.

Financial literacy

Financial literacy is another vital service because it provides households the tools to utilize their income efficiently and to better understand key financial instruments. This service can be basic and might cover various topics such as banking, money management, credit, and homeownership. Households will be more aware of the costs and conditions entailed when opening a bank account, getting a credit card, or applying for a mortgage, among other financial instruments. They will be able to make sound decisions and avoid facing high hidden fees.

Chicago Supports Workers (CSW) project

Purpose

One of the new initiatives of the Center for Economic Progress is the Chicago Supports Workers (CSW) project, which seeks to work through employers to link low-wage workers to public assistance, financial education, and free tax preparation in Chicago. Certain employees may not know that they qualify for public assistance. Or, in trying to meet their expenses by working longer hours, it may be very difficult for some to attain and complete an application. CSW serves as an intermediary between IDHS and low-income employees. CSW team members thus help alleviate the uncertainty and complexity involved in applying for these programs.

Process

³ Based on a household with no current health insurance, paying \$600 in rent or mortgage, and paying for heating. Real Benefits generated these program eligibilities.

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In its pilot phase, beginning in the later half of 2007 with an approximate staff of three, CSW began working with four companies in Chicago (Aramark Regional Staffing Center, Hyatt Hotel, Mercy Hospital, and Heartland Alliance) to screen their employees for public assistance eligibility and to help them through the subsequent application process as necessary. The CSW staff administered all screenings without sharing information about the employees with their employers. The employers' role only extended as far as advertising the CSW mission and arranging the dates and locations for the screenings to take place.

Fliers and an intake sheet⁴ were created to inform the employees about the program and allow them to provide their financial information. With the Real Benefits web-based software⁵, employees only needed to provide basic household information such as income, certain expenses, and the number of household members to verify potential eligibility. Under the initial quick screen, employees would find out if they were eligible within a couple of minutes. Real Benefits screens employees for Chicago's All Kids state health insurance, food stamps, WIC, and LIHEAP, among other programs. CSW's paper intake process helped to minimize disturbances in the workplace and maintained the privacy of the employees. Employees could fill the intake sheet at their own leisure and even had the option of mailing it directly to the Center. The approach was designed to be informative and sensitive to the employees' schedule and privacy. Employees were busy with their work or had short breaks and had little time learn about CSW.

Whenever potentially eligible employees were identified, they were asked to make an appointment at another time to bring further information and documentation to complete the applications. This part of the process took from 45-60 minutes to complete. Real Benefits generated the applications and referrals with the information already filled in. After clients provided their signatures and photocopies of identification documents, the applications were faxed to the Illinois Department of Human Services.

Challenges

One of the first challenges faced was working through the bureaucracy of some of the companies. There needed to be various approvals from many supervisors to reserve a location and time to meet with the employees, which made it difficult to reach the employees. For other companies, there was minimal bureaucracy and strong receptivity to the project.

Another challenge was trying to reach the intended audience. After our on-site visits, it was challenging to reach the eligible employees because of their busy schedules and other personal reasons. We had very few replies from employees we tried to reach by phone or mail. Some employees were already receiving coverage or assistance and could not benefit from our services. At one site, union membership meant that employees were less inclined to enroll in the Illinois All Kids and Family Care program because their individual enrollment in the union

⁴ A copy of the intake sheet is available at the end of the report.

⁵ The Real Benefits software is used to screen families and individuals for various federal and state public assistance programs and help generate applications. For more information visit: <http://www.realbenefits.org>

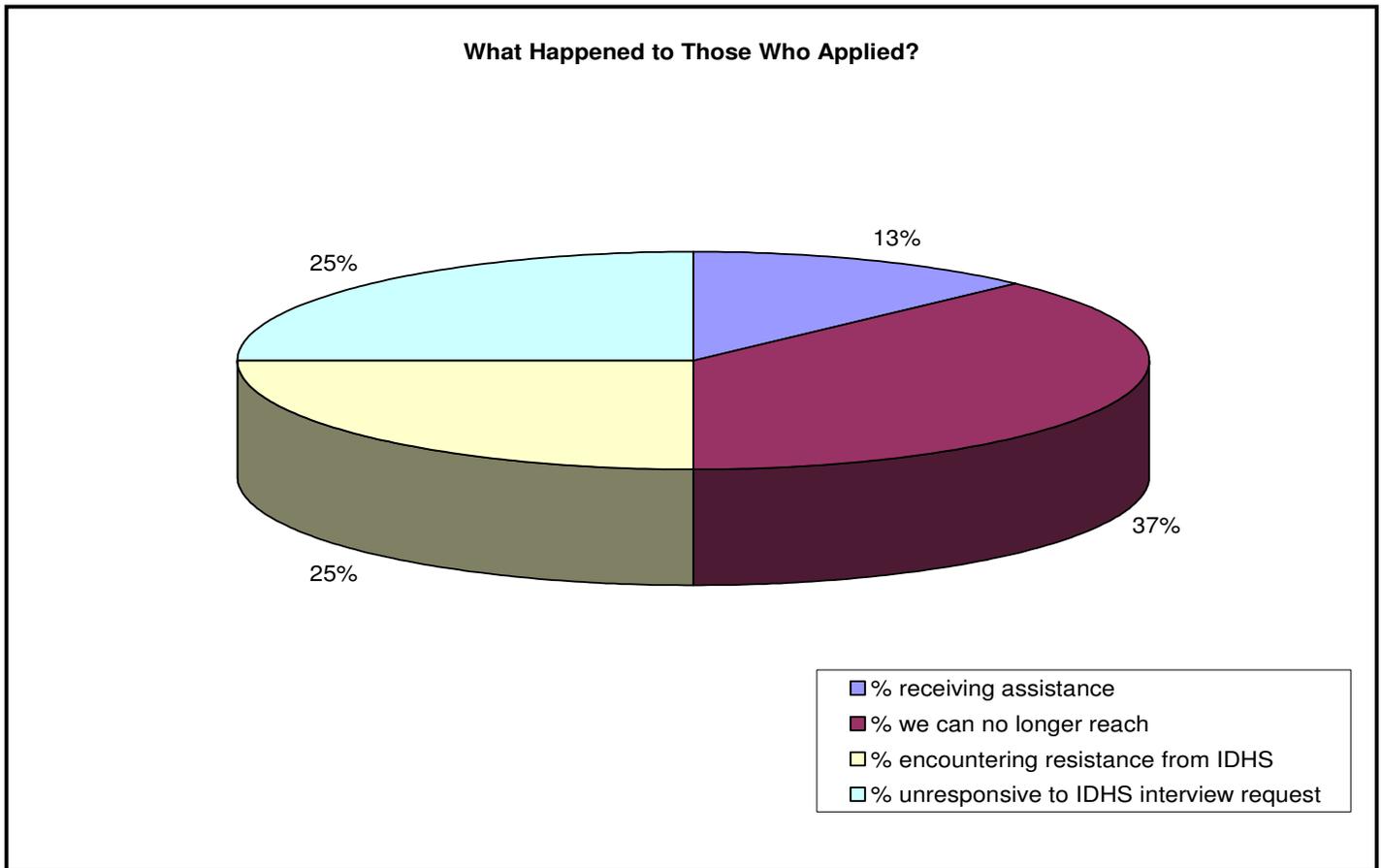
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healthcare plan was mandatory, and the cost of family enrollment was unexpectedly low. In other instances, some individuals were already working with the Illinois Department of Human Service and had a caseworker.

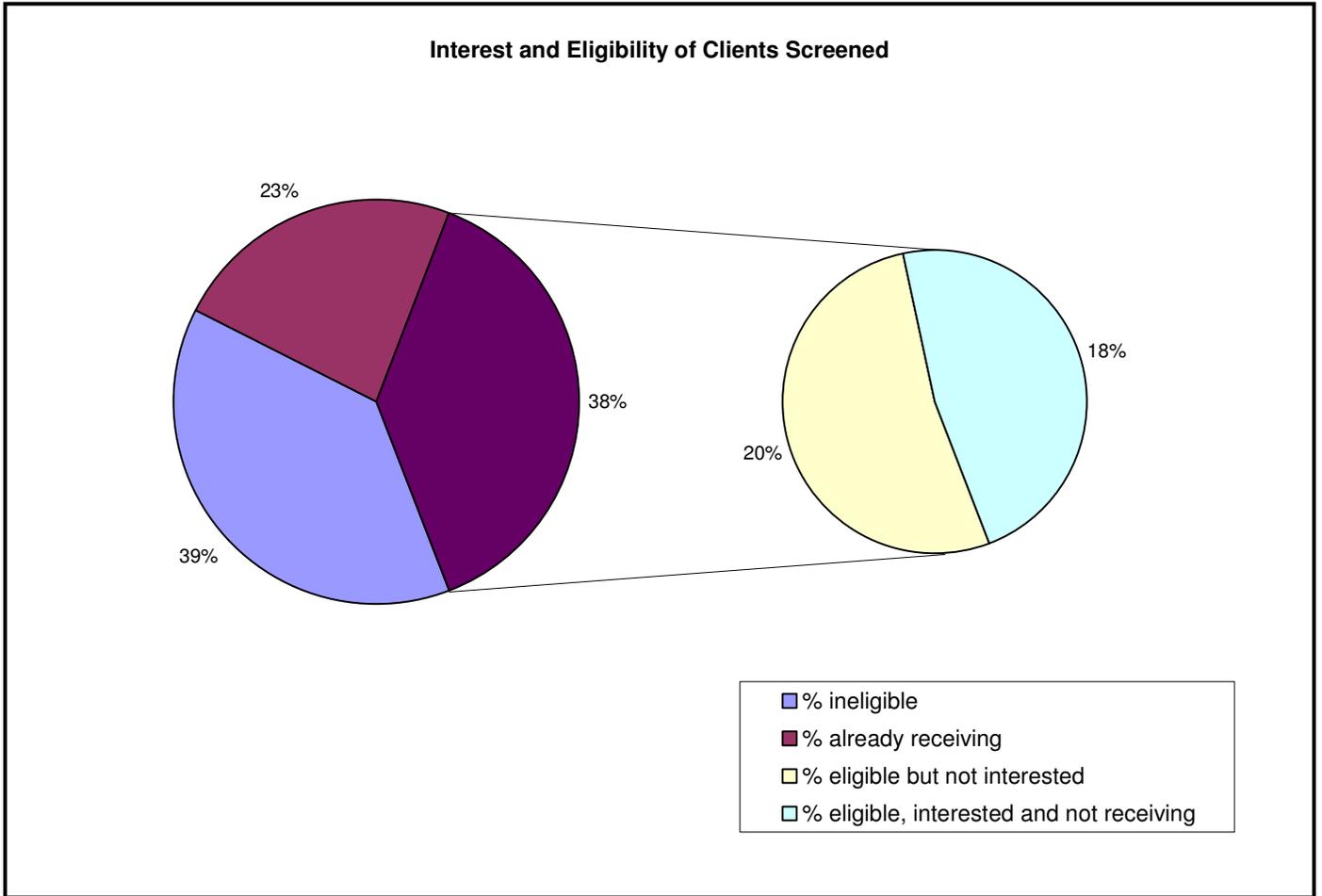
The third major difficulty was working with the Illinois Department of Human Services (IDHS). The CSW project aims to help in directing employees through the applications process, but IDHS is ultimately responsible for accepting or rejecting an applicant. Some clients had acceptance issues with their application, and CSW's intermediary role limits the ability to change the outcome of an IDHS case.

Results

Number of employees reached	107
Number of employees eligible	64
Number of CSW applications accepted	1



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CSW's Additional Services

CSW partnered with the North Side Credit Union (NSCU), a credit union that has helped the Center offer its tax services over the years, to provide financial education classes. The NSCU offered *Realizing the American Dream Workshops*, a workshop series designed to inform attendees about homeownership, covering topics such as money management, credit, and homeownership. In the intake sheet, employees marked their level of interest in each topic, and were notified of the date and time of the workshops. They could choose to come to one or all of the workshops.

Additionally, these employees were guaranteed a reservation during the tax season for free tax preparation. Normally, the Center offers free tax preparation services at 15 sites in Chicago on a first-come first-serve basis, but CSW provided coupons to employees that allowed them to make an appointment for tax preparation assistance.

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Financial Education challenges

In delivering this financial literacy service, CSW faced the same challenge of trying to reach the employees after the on-site visit. Although many had stated that they were very interested in attending certain workshops, the first series of workshops was cancelled due to a lack of attendance. Many who initially displayed a strong interest in the workshops were unable to attend due to scheduling conflicts. Additionally, the CSW staff experienced many invalid phone numbers and mailing addresses.

Yet most, if not all, of the employees reached through CSW would have benefited from the workshops regardless of their initial interest. Often times, participants only realize how valuable the information is after having attended a workshop. Beforehand, the workshop does not seem applicable or the client may misperceive the intent of the workshop.

Alternative Approaches

A possible solution for a higher uptake rate on the financial workshops is to implement the same strategy that the Center for Economic Progress is using in implementing its financial workshops for other audiences. The Center is providing Spanish-language financial literacy services to Latino communities in Chicago. This project began around the same period the CSW project was initiated, but was headed by different staff within the Center. However, as it pertains to financial literacy workshops, there are lessons to be learned from the Spanish-language experience.

The Center for Economic Progress is located in a one floor office in downtown Chicago and does not have a central location for clients to be served. The Center partners with local organizations in order to reach communities and provide its services. In trying to provide the financial workshops for Latino individuals and families, staff faced the same challenge of trying to mobilize the community to attend these sessions. When the Center partnered with the Juan Diego Community Center, for example, both parties agreed that there was a need for a workshop on taxes for the South Chicago community because many Juan Diego clients were consistently asking questions about taxes. The Center and Juan Diego set a date to conduct a workshop for the community, yet no one showed up despite the strong initial interest in the workshop.

This illustrates that the level of interest or need for financial education does not necessarily translate to the attendance rate. The new strategy for reaching out to Latino communities was to present to groups that were already gathered in one location. This included presenting to parents in English as a Second Language (ESL) classes, basic computer classes, and daycare parent conferences. Many organizations were open and willing to integrate financial education into their classes because it was a service that many needed and later appreciated. Even though this service did not particularly correlate with the classes, many organizations worked to have the presentation occur during the class sessions because they knew this information was vital for their students.

For the CSW project, trying to reach a setting where the employees are already congregated can solve the issue of low attendance rate in the workshops. This could entail

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presenting at employee meetings or during lunch. Yet, given the limitations of employee time, work space, and employer accommodations this may still prove to be difficult. In such a case, this service can be delegated to another department of the Center or another organization. A single organization or project does not necessarily need to head all the services, but can distribute the services among many organizations.

Future implications

Within a given city or community, collaborative efforts to provide basic financial services could create a platform for low and moderate income households to begin to develop assets, especially during tax season. Many organizations that offer free tax preparation have faced low uptake rates when they offer saving products at the tax sites. However, with the aid of the supportive services described above, many more households would come to VITA sites in a stable financial position and prepared to take advantage of various products and services. They would be more informed about the benefits of financial products and more receptive to them, having established a trusting relationship with the VITA organization and its partners.

Name: _____ SSN (optional): _____
a. First name b. Middle Initial c. Last name

Address: _____
a. Address number and street b. Apt. # c. City d. Zip code

Gender: a. Male _____ b. Female _____ Date of Birth: _____ / _____ / _____
Month Day Year

Phone number: a. _____ - _____ - _____ b. Other: _____ - _____ - _____

1. **INCLUDING YOURSELF**, how many people are in your household? _____
2. How old are all the people in the household?
a. _____ b. _____ c. _____ d. _____ e. _____ f. _____ g. _____ h. _____
3. Are ALL the children under 19 covered by health insurance? a. YES _____ b. NO _____
4. Does anyone in the household have a Link card/Food Stamps?..... a. YES _____ b. NO _____
5. Is anyone already receiving disability benefits? a. YES _____ b. NO _____
6. Are ALL people TANF, SSI or General Assistance recipients? a. YES _____ b. NO _____
7. Is anyone in the household pregnant? a. YES _____ b. NO _____
8. What is the **TOTAL MONTHLY** income of your household (before taxes)? _____
9. How much does your household receive in child support? _____
10. What is the total value today of your household's bank accounts, life insurance, CDs, etc.? _____
11. How much does your household pay in dependent care costs (such as child care) **each month**? _____
12. How much does your household pay **each month** for child support? _____
13. How much does your household pay **each month** for medical fees for elderly or disabled people? _____
14. What is your household's **monthly** rent or mortgage? _____
15. How much debt (other than a mortgage) do you have? _____
16. Does your household pay for heating or cooling? a. YES _____ b. NO _____
17. Does your household pay for a regular phone or a cell phone? a. YES _____ b. NO _____

CONSENT: I understand that representatives of the Center for Economic Progress (the Center) will retain and protect this information, and any other information it collects or has collected on my behalf regarding any of its programs that I participate in, to help me with an assessment of eligible benefits and to study the effectiveness of the overall program. Individual personal information is not shared with my employer or anyone else. I authorize the Center to call me with information about benefits and other Center programs, and to be my "authorized representative" so that it can call government agencies to expedite benefits and programs on my behalf. I can contact the Center at any time for 1) a free copy of its Privacy Policy, 2) to request the Project not use my information further, 3) to be placed on a "no call list" and/or 4) to deselect the Center as my authorized representative.

Client signature

Date

Please return completed survey to: Center for Economic Progress, 29 E. Madison, Suite 900, Chicago, IL 60602
Phone: (312) 252-0280 Extension 274

Please indicate your interest in the following financial education workshops and programs available to you through the Chicago Supports Workers initiative. The Center for Economic Progress partners with Heartland Alliance and Northside Credit Union to deliver these learning opportunities. Workshops are 1-2 hours long (except home ownership certificate program and IDEA initiative) and would be held at your place of employment or another convenient location.

Check the one box for each workshop that best describes your general interest

Workshop Topic	1. Very interested	2. Interested	3. Somewhat or a little interested	4. Not interested
a. Understanding your taxes				
b. Banking basics				
c. Savings account basics				
d. Checking account basics				
e. Good and bad LOANS				
f. Good and bad CREDIT CARDS				
g. Budgeting & money management				
h. Tools and strategies for saving				
i. Intro to home ownership certificate program (8 hour commitment required)				
j. Credit scores and credit reports				
k. IDEA initiative providing individual consultation and workshops to female heads of household on career development, education, computer training, housing				

FOR INTERNAL USE – PLEASE DO NOT WRITE BEYOND THIS LINE

33. FPL _____ 34. AK _____ 35. M&B _____ 36. FC _____ 37. FS _____ 38. LIHEAP _____ 39. WIC _____ 40. Cancer screening _____
 41. Other _____ 42. ID-1 _____ 43. ID-2 _____ Notes: