

ASSET BUILDING PROGRAM

OHIO'S TAX TIME COALITION

Building Assets through Free Tax Preparation in Franklin County, 2013

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Throughout the country, a network of over 4,300 Volunteer Income Tax Assistance (VITA) sites helps over 1.2 million low-income taxpayers file their taxes for free each year. Organized through IRS grants, the sites not only help low-income Americans file their taxes, but also to take advantage of important tax credits like the Earned Income Tax Credit (EITC). For more than six years, the Ohio Tax Time Coalition (formerly the Franklin County EITC Coalition) has served the Columbus metro area as one of these sites. Its mission is to provide free, high-quality tax assistance services; expand uptake of the EITC and other tax credits; and connect people to financial education and savings opportunities. This report offers a window into the mission, challenges, and innovative potential of a VITA program.

The Coalition continues to grow, serving more than 4,400 clients in Tax Year 2012 (filing year 2013) through the VITA program. Comprised of more than 30 partners, the Coalition brought more than \$5.5 million in federal and state tax refunds into Franklin County in 2013. Through its free tax preparation services, the Coalition helps to support the tight budgets of low-income families earning up to \$50,000 by providing an alternative to expensive paid tax preparation. The Coalition seeks to help individuals and families claim the Earned Income Tax Credit (EITC), a

refundable tax credit that provided \$2,374 to the average Franklin County recipient.

This report analyzes the Coalition's free tax program, summarizes a survey of Coalition clients, and details a nascent tax-time savings pilot program. Findings include:

- The Coalition is helping a growing number of clients claim tax credits and avoid exploitative fees: roughly one-sixth of clients paid for tax preparation in prior tax seasons.
- The project efficiently fulfills client needs: more than 60 percent of clients were return customers.
- The effort is relieving poverty for its target demographic: one in three clients received the EITC.
- The Coalition's client base is growing: while there was about the same number of EITC claims in tax year 2013

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as in 2012, the Coalition has more than doubled its total prepared returns.

- The project continues to use technology: the percentage of returns e-filed was 94 percent.
- The Coalition leverages the resources and reach of its partners AARP and the Ohio Benefit Bank, incorporating them into marketing and preparation efforts, through which the organizations collectively served 14,350 clients and brought \$14.8 million in refunds to Central Ohio.

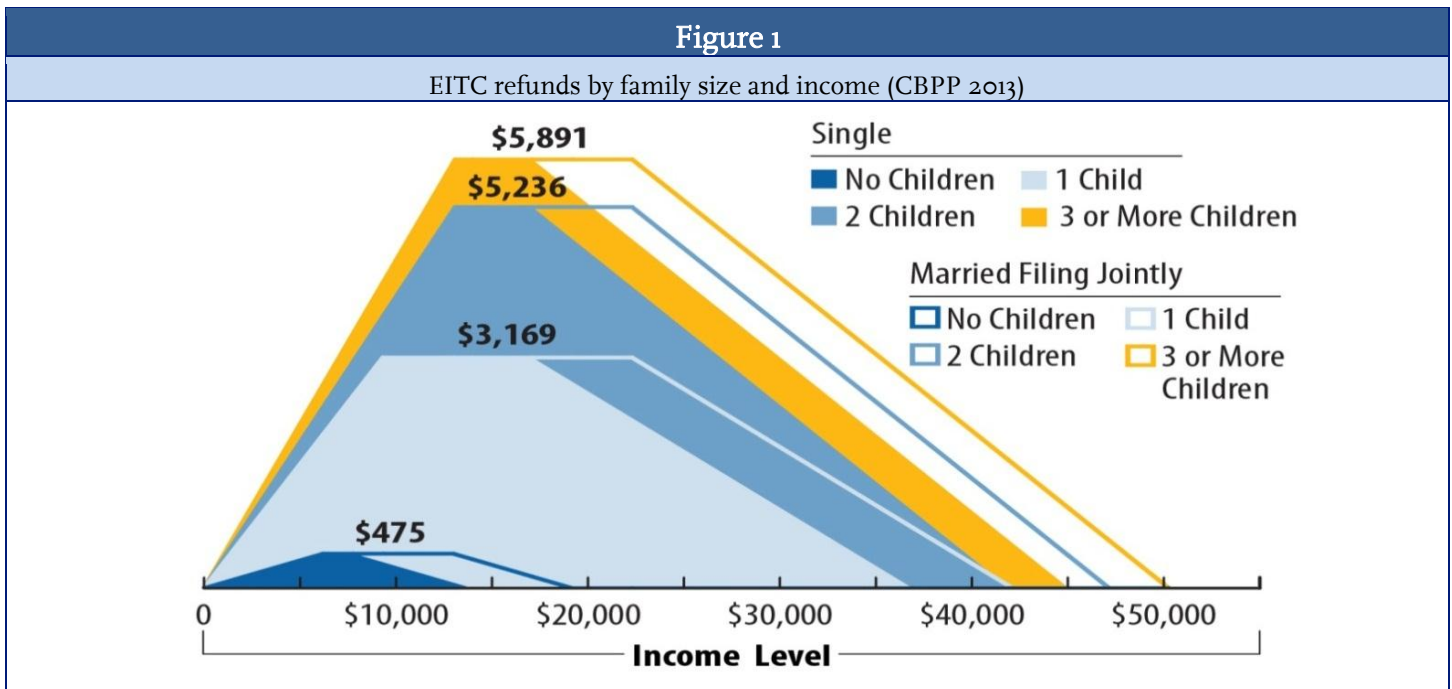
The Coalition provides valuable services to clients, but serves only a fraction of the eligible population. In order to maximize its impact the Coalition needs to develop scalable strategies to broaden its reach and impact.

The Tax Time Coalition

Led by the United Way of Central Ohio with sustaining support from the Franklin County Commissioners’ Office, the IRS, and the JP Morgan Chase Foundation, the Coalition provides free tax preparation to thousands of families in Greater Columbus. The Coalition, consisting of more than 30 partners, assists low- and moderate-income families (generally up to \$50,000) by providing free tax

assistance, offering asset building advice, and encouraging qualifying clients to claim the Earned Income Tax Credit (EITC). Since its inception, the Coalition has grown in the number of overall clients served as well as the number of successful EITC claimants. The Coalition has grown to provide more complete asset building services and has recently begun offering a comprehensive “Financial Resource Guide” and a savings program.

The Coalition focuses on the EITC because of its longstanding effectiveness as a poverty relief and community stabilization program. As a refundable credit, the EITC provides an often substantial refund to low- and moderate-income families at tax time. Figure 1 displays how the EITC helped working families in tax year 2012 (filing year 2013). The credit value varies by marital status, income level, and number of children. The maximum benefit, which can only be claimed by a small number of very-low-income families with at least three children, was \$5,891 in 2012. The maximum for families with one child was \$3,169; for those without children, the credit peaked at \$475. Importantly, the Recovery Act of 2009 raised the maximum credit levels, expanded eligibility for families with three or more children, and extended the phase-out range for



Source: Center on Budget and Policy Priorities. www.cbpp.org. Used with permission.

Table 1: The federal EITC in Franklin County, Tax Year 2012

Total Returns	EITC Returns	Percentage EITC Returns	Total EITC Amount	Average EITC Amount	Total EITC Returns Filed with Paid Preparers	Percentage of EITC Returns Prepared by Paid Preparers	Total EITC Returns Purchasing Loans or Refund Checks (Estimated) ²
559,000	110,000	20%	\$262 million	\$2,374	52,400	47%	36,680

filers. These extended phase-out ranges were continued through 2017 as part of the 2013 American Taxpayer Relief Act. On average, Ohio families received \$2,300 through this program, though total refunds, including other credits like the refundable child tax credit, are generally greater.

Tax preparation serves as many clients' entry point to financial "check-ups," savings possibilities, and other programs available in the region. The Coalition promotes financial success in several ways. First, it makes more families aware of the EITC and other credits that provide relief for basic living, education, and housing. The Coalition expands access to these credits by providing a free service to clients who might otherwise not file taxes at all. The Coalition also helps clients avoid costly paid preparation services that charge preparation fees, push exploitative refund anticipation loans and checks, and add on fees that siphon off refunds. Finally, the Coalition provides a link to other asset-building and financial services offered through partner organizations. Some free tax preparation sites offer those services "in-house," which nationally has become the trend for financial empowerment centers. Free tax preparation provides an entry point through which clients are able to become more engaged with community services.

² Starting in 2011, the Internal Revenue Service stopped tracking the number of tax refund loans and tax refund checks. With the consistent decline of tax refund loans and the IRS removing the debt indicator that helped process loans, the central database stopped recording them. This estimate is based on previous years where 70 percent of EITC clients who used paid preparation purchased a tax loan or tax check. The Government Accountability Office (GAO) also released a 2012 study indicating Tax Refund Anticipation Checks replaced loans as a leader in refund settlement products.

Clients are given a "Financial Resource Guide" with their tax return, providing information on resources in the community related to asset building, consumer protection, and financial practices. The guide connects clients to free and existing services such as credit counseling, affordable rental housing, and public benefits enrollment.

Outcomes for Ohio's Tax Time Coalition, 2013

- Total returns filed: 4,437
- Total EITC claims: 1,367
- Average client income: \$20,600
- Average refund for clients who claimed EITC: \$1,585
- Total amount processed: \$5.5 million

Assessing Community Impact

The federal EITC is a critical poverty-relief policy for Franklin County (see Table 1). More than 20 percent (110,376) of all tax filers in the county claimed the EITC in 2012, the largest number ever in Franklin County. Countrywide, more than \$262 million in Earned Income Tax Credits were claimed in tax year 2012 (filing year 2013) for an average credit of \$2,374. However, as in most counties, only tiny portions (approximately 4 percent) of EITC claimants used free tax preparation. The vast majority of EITC-eligible filers used paid tax preparation, which often exposes these taxpayers to high-cost tax refund loans or checks. More than half of the families claiming the EITC used a paid preparer and nearly 70 percent of those using paid preparers purchased a tax refund loan or check. Paid preparation costs vary, but an estimated total fee structure of \$400 is common, though additional costs can soar higher with larger refunds, loans, and paper checks. This section describes how the Coalition serves the community.

Table 2: Tax Time Coalition Results, 2013

Coalition Results					Individual Results			
Total Returns	EITC Returns	Percentage EITC Returns	Total EITC Amount	Total Refund Amount	Average EITC Return	Average Total Return	Percent of Returns E-Filed	Average Adjusted Gross Income
4,437	1,367	32%	\$2.2 million	\$5.5 million	\$1,585	\$1,309	94%	\$20,610

In 2013, the Coalition maintained its 2012 level of returns at over 4,400 total clients (see Table 2). Since 2007, the Coalition has more than doubled its total prepared returns, growing by 140 percent over 7 years. About one in three of the Coalition’s clients claim the EITC, which is in the average range of other free tax coalitions around the state and region. The total EITC amount refunded in 2013 was \$2.2 million. With all tax credits and refunds considered, the Coalition had a major economic impact on the community by returning more than \$5.5 million to the Franklin County area in 2013.

The average refund among those who claimed the EITC was \$1,585 in 2013, while the average refund for clients who did not claim the EITC was slightly lower at \$1,309 (table 2). Average client income was approximately \$20,600 a year. In 2013, electronic filing was in place for the second year and facilitated 94 percent of returns. Electronic filing helps clients get their refund several days or even weeks faster than paper returns and checks. Furthermore, the facilitation of direct deposit through

electronic filing is crucial for the asset building pilot undertaken by the Coalition called SaveNOW+, which will be discussed in greater detail below.

The number of free tax returns prepared by the Coalition does not reveal the entire picture of the Coalition’s impact. By helping clients avoid an estimated \$400 each in paid tax preparation fees, the Coalition potentially saved clients more than \$1.2 million. The Coalition also helped Franklin County citizens retain an estimated \$110,000 by preventing families who received the EITC from receiving tax loans and tax checks from paid preparers. Based on survey results, the Coalition also prepared returns for many clients (at least 10 percent) that would otherwise not have filed. Based on the average refund amount from returns prepared by the Coalition (\$1,585), it is possible that the Coalition generated a total of \$620,000 in new refunds for low-income families in the community. The Coalition’s programs also helped families to open bank accounts. The Coalition and its sites all had personnel expenses, but these were generally modest because of the volunteer commitments of free tax preparation programs. The return on investment for the program was significant: for every \$1 spent, \$26 was brought back to the community.⁴

The partnership with AARP and Ohio Benefit Bank (OBB) expands the impact of programming within the Greater Columbus area. AARP focuses on tax preparation and advice for seniors, but in working with the Coalition, they will also serve low- and moderate-income filers. Many older Ohioans are working longer in their life at low and stagnant

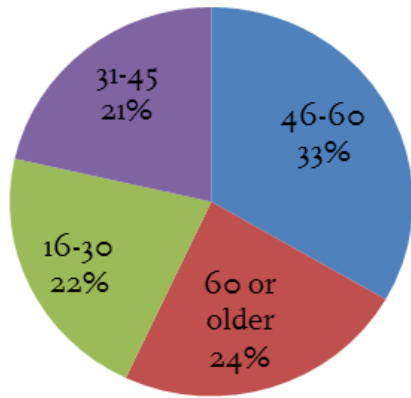
Table 3: An Estimated Community Impact, 2013

Total Families Served	Total Refund Amounts	Amount Saved on Paid Tax Preparation (\$400 for preparation)	Amount Saved on other Tax Products (\$80) & 1,367 EITC returns	New Filers and their Credits/Returns (estimated) ³
4,437	\$5.5 million	\$1.7 million	\$109,360	\$559,000

³ This figure is an estimate. The survey reported 9 percent of clients would otherwise not have filed, meaning 400 clients would not have filed in 2013. This number of clients is then multiplied by the average of EITC and total refunds from the Coalition (\$1,400).

⁴ This is calculated by dividing the United Way of Central Ohio program budget for the free tax preparation program by the amount of tax refunds and dollars saved by clients not using paid tax preparation and loans.

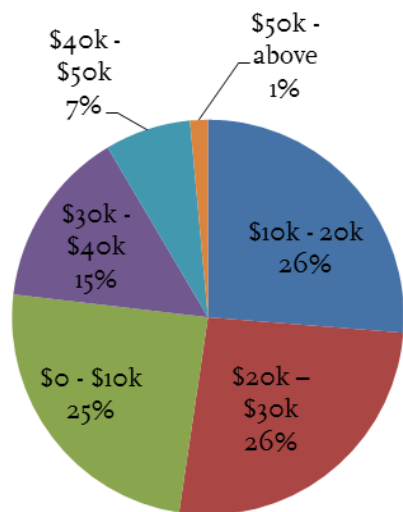
Figure 2: Client Ages



wages, making this partnership increasingly relevant. In the future, AARP and the OBB will have their client data included with the VITA free tax data, making the Coalition more representative of all free preparation in the county.

The OBB is a public-private partnership between the state of Ohio and the Association of Second Harvest Foodbanks that seeks to dramatically increase enrollment in public assistance programs and provide free tax preparation. The OBB is not a program certified through the IRS as is the

Figure 3: Family Income



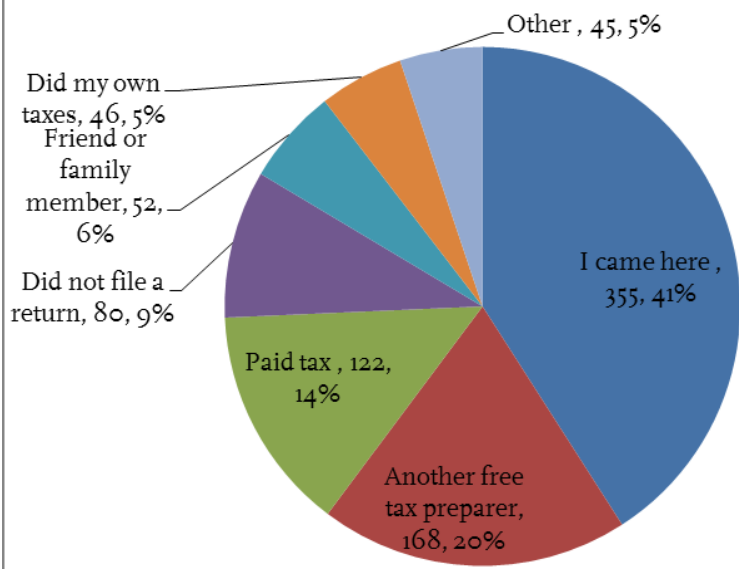
VITA program because it is viewed as self-preparation by the individual and merely coached by a volunteer. Still, including these two additional networks more than doubles the number of returns prepared through the already-strong VITA effort. By combining marketing efforts and sharing volunteers, the Coalition served 14,530 clients and secured \$14.8 million in refunds.

Assessing Client Impact

Clients receiving free tax preparation were asked to fill out an anonymous survey at most sites to assess needs and identify goals for the Coalition. The free tax preparation and other services were not contingent on filling out the survey. The survey included questions relating to marketing, asset building services, and demography. More than 1,000 clients filled out at least one question on the survey, though some of the demographic questions were left blank.

Table 4: Demographic Details, Survey of Franklin County Free Tax Coalition Clients		
	Client Response	Percentage in 2013
Race		
White/Caucasian	184	26%
African American	495	69%
Hispanic	15	2%
Asian	12	2%
Native American	11	1%
Gender		
Female	474	66%
Male	278	34%
Education Level		
Less than High School	57	8%
High School/GED	456	61%
Two-Year Degree	114	15%
Four-Year Degree	77	10%
Graduate Education	44	6%
Home Ownership		
Rent	393	58%
Own	211	31%
Share housing	72	11%

Figure 4: Prior Year Preparation



receive tax credits at lower rates than younger filers, in large part because they face limited eligibility for the EITC, which is disallowed for individuals over 65 without a qualifying child. According to the National Community Tax Coalition’s yearly assessment, this concern is shared by other coalitions around the country. Part of the challenge is that today’s working poor are older than in previous decades.

In 2009, a new set of questions was added to the survey that asked about clients’ education level. The results in 2013 were similar to those in past years in that the vast majority of clients have at least a high school diploma. Only 8 percent have less than a

high-school education, 61 percent have only a high school diploma, and 31 percent have at least a two-year college degree. The largest change from the previous year was a decrease of 5 percentage points in the number of clients with a four-year degree.

Table 4 displays the demographic details from the survey of some 1,008 clients in 2013. Over the last four years, there has been little change in the demographic makeup of Franklin County free tax clients in terms of race, gender, age, and educational attainment. This year, 69 percent of the survey respondents were African American. Most clients are women – 66 percent – and that proportion has remained constant for the last three years. It is understandable, given the Coalition’s focus on low-income families that women make up a majority of the clients because they are more often the caretaker in single-parent homes.

A plurality of filers was between 46 and 60 years old (see Figure 2). A concern for the Coalition continues to be that older tax filers tend to

Figure 5: Hearing about Tax Time

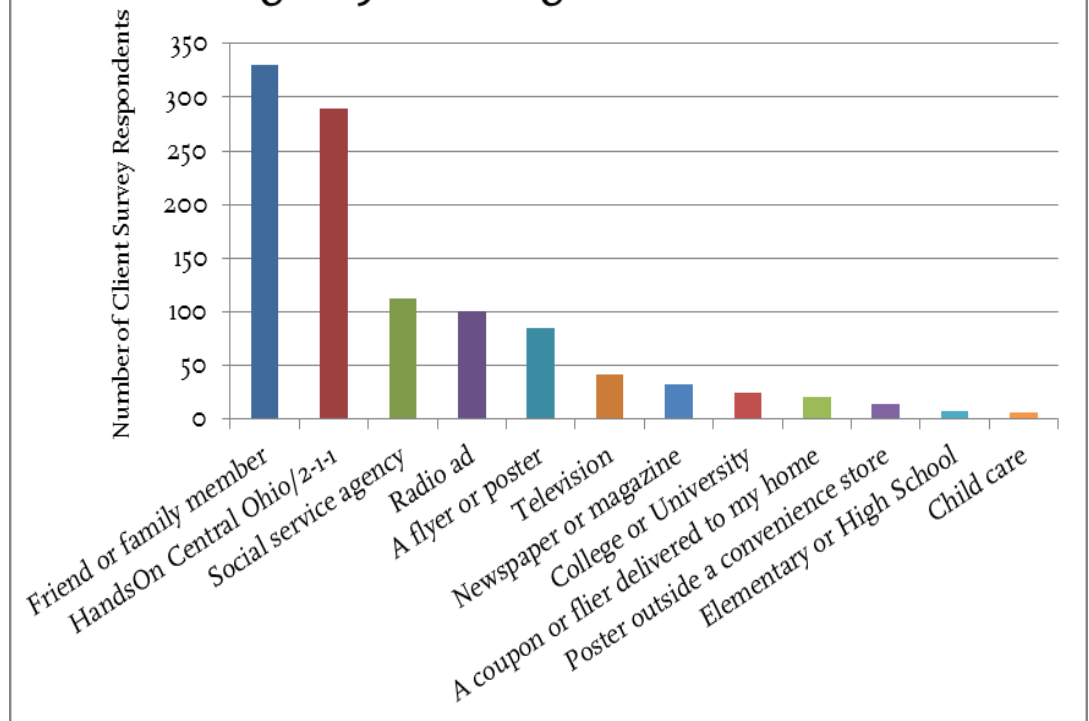
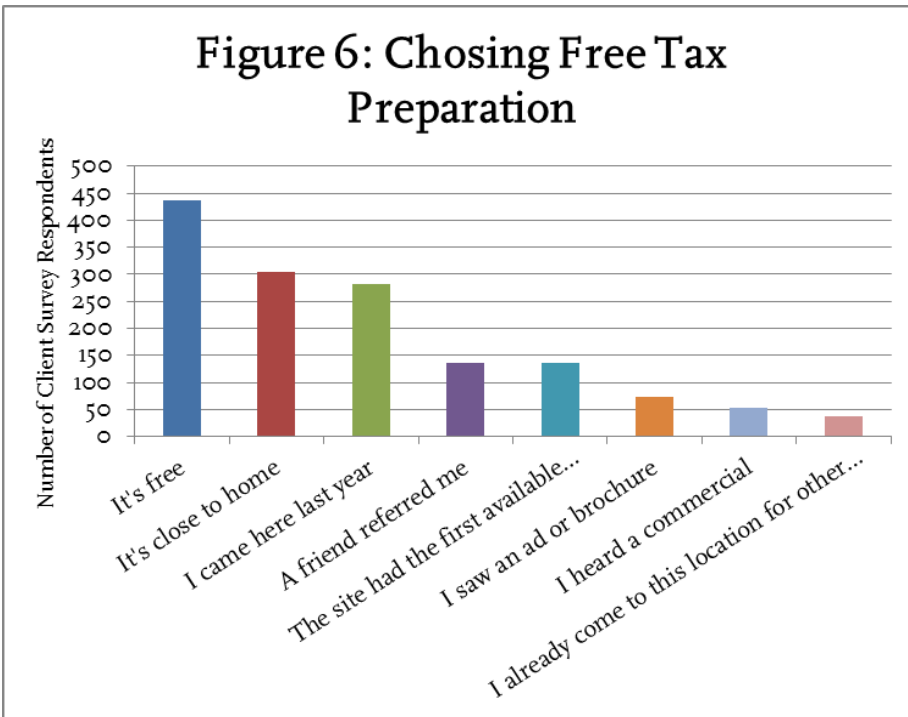


Figure 6: Choosing Free Tax Preparation



percent used paid preparation chains the previous year, and 9 percent didn't file. This suggests that the Coalition was helping clients get refunds that they might have missed in previous years, while encouraging compliance and helping them to avoid exploitative fees.

Many clients found out about the Coalition's services by calling the HandsOn 2-1-1 line, a nonprofit referral line for social services (see Figure 5). The most common way clients heard about free tax preparation was through friends and family members (33 percent of respondents), who then often referred them to 2-1-1. HandsOn was widely cited (29 percent) as a way to hear about a VITA site. Others heard about the service

The survey found that 58 percent of clients are renters, while about one-third are either paying toward a mortgage or already own a home. One in ten respondents indicated that they are "doubled-up," or living with family and friends. This is the third year in a row that more than one in ten clients reported sharing housing, a disheartening trend that suggests continuing economic challenges.

from print advertisements, the radio, or other social service groups. Though radio advertisements represented the fourth most common method overall, among women it was the third most common, suggesting that radio ads are an effective way to reach working women with children.

The mean income of clients was slightly more than \$20,610, a slight increase from the previous year. The vast majority of clients, about 75 percent, had incomes lower than \$30,000 a year, making them prime candidates for the EITC (see Figure 3).

The Coalition prepared free tax returns for mostly a returning client base: some 60 percent used a free tax preparer in the past (see Figure 4). Clients are comfortable and pleased with the service from the Coalition as reflected by the fact that 40 percent of clients returned to the same location for service. About 14

Figure 7: Refund Use

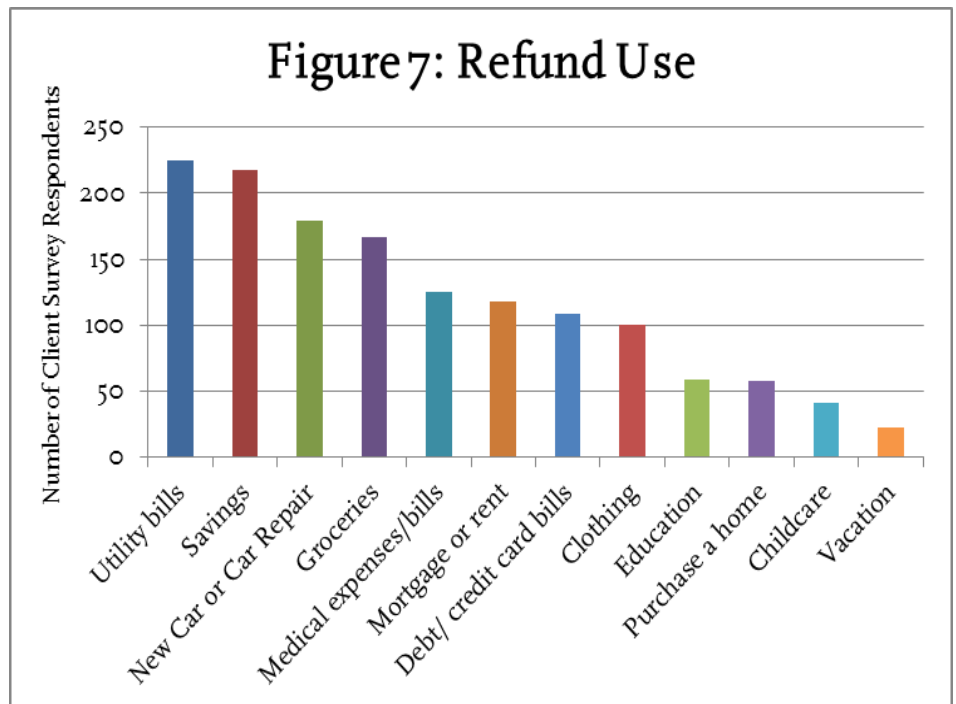
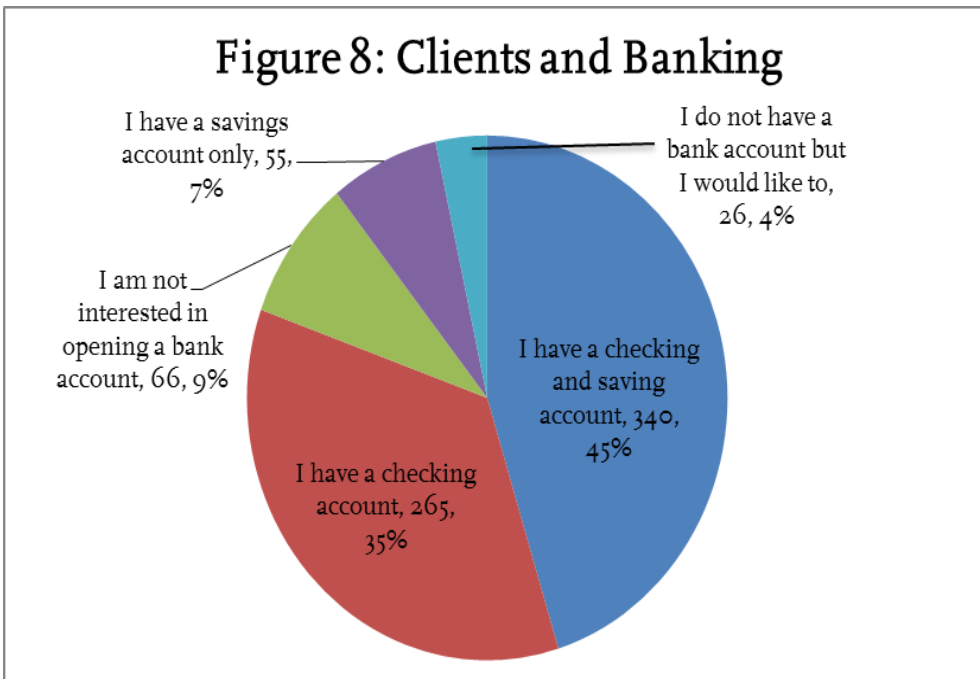


Figure 8: Clients and Banking



A plurality of clients continues to indicate that the tax preparation’s free cost is the number one attraction of Coalition sites (see Figure 6). Proximity to one’s home was another major reason for the attractiveness of the sites, and this response rose dramatically from previous years, indicating that transportation and time issues were more prevalent in 2013 than in previous tax seasons. Being a return customer and hearing about it from a family member or friend were other popular reasons for choosing to have taxes prepared through the Coalition.

Few clients responded to survey questions about their jobs. The majority of those who did indicated that they were either retired, in school, or in low-wage service jobs. Retail jobs, tellers, and assistants were the most common forms of employment. Many clients who reported having an

occupation nevertheless reported that they were unemployed or underemployed, noting that fact in the “other” category of the survey. Since unemployment compensation is not earned income, it does not count toward claiming the EITC or many other tax credits.

The survey asked how clients were planning to use their refunds (see Figure 7). Over 22 percent of respondents reported that they would use some of their refund for utility bills, making it the number one use for the sixth year in a row. The second most popular choice, for the

second year, was putting some of the refund in savings (at about the same rate of 22 percent), an important indication of how families wish to leverage the EITC. Despite having low incomes and facing stagnant wages and a challenged economy, families continue to express interest in saving

Figure 9: Clients and Services

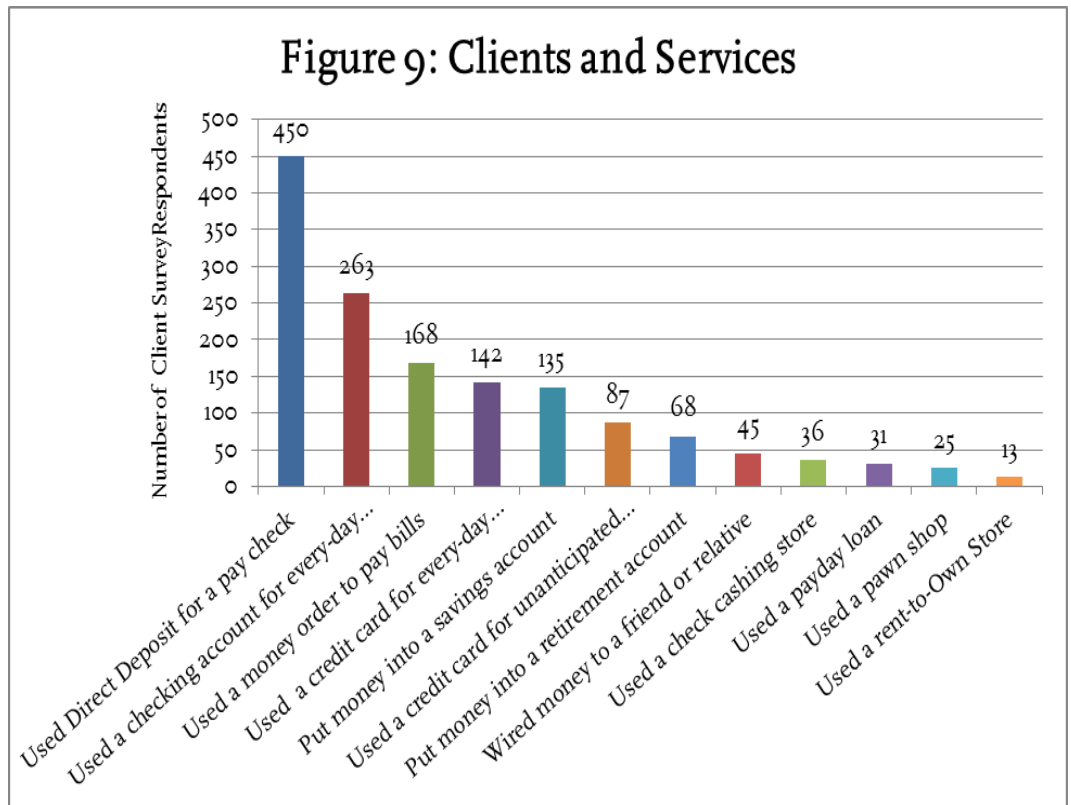
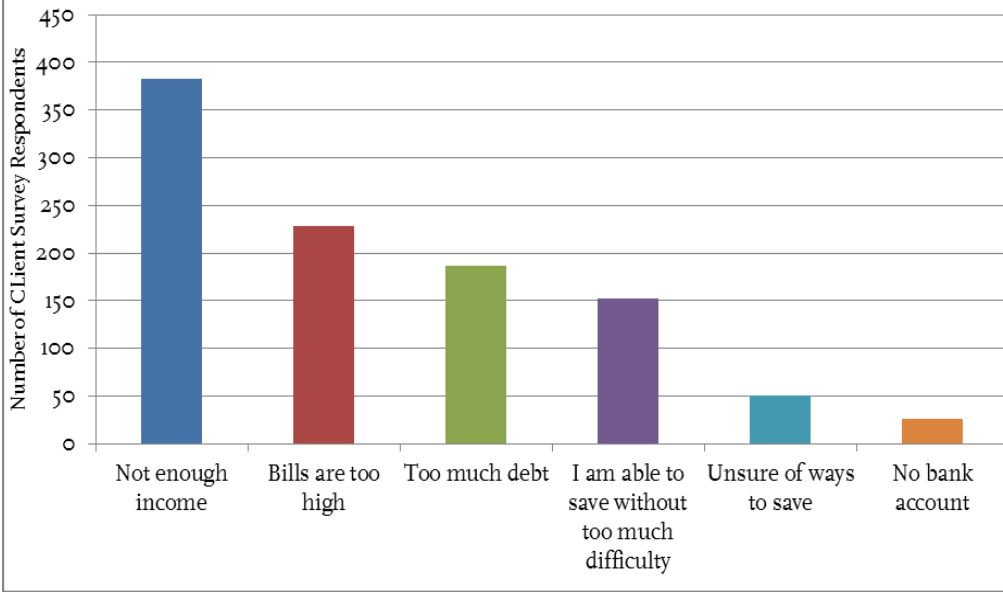


Figure 10a: Trouble saving



portions of their refund. Many of the responses from clients indicated that refunds were spent in the local community. Many clients reported using some of their refund toward groceries or a car repair. Only a few clients reported that they did not plan on receiving a tax refund.

Financial Analysis of Clients

The survey also asked clients about their financial practices as indicated in Figures 8, 9, and 10a/10b. According to Figure 8, most of the clients are “banked” in some fashion (87 percent). Figure 8 also shows that 45 percent of clients have both checking and savings accounts, a nearly identical figure to the previous year. Fewer clients, 35 percent, reported only having a checking account compared to 7 percent who have a savings account only. Some 13 percent of clients do not have a bank account of any

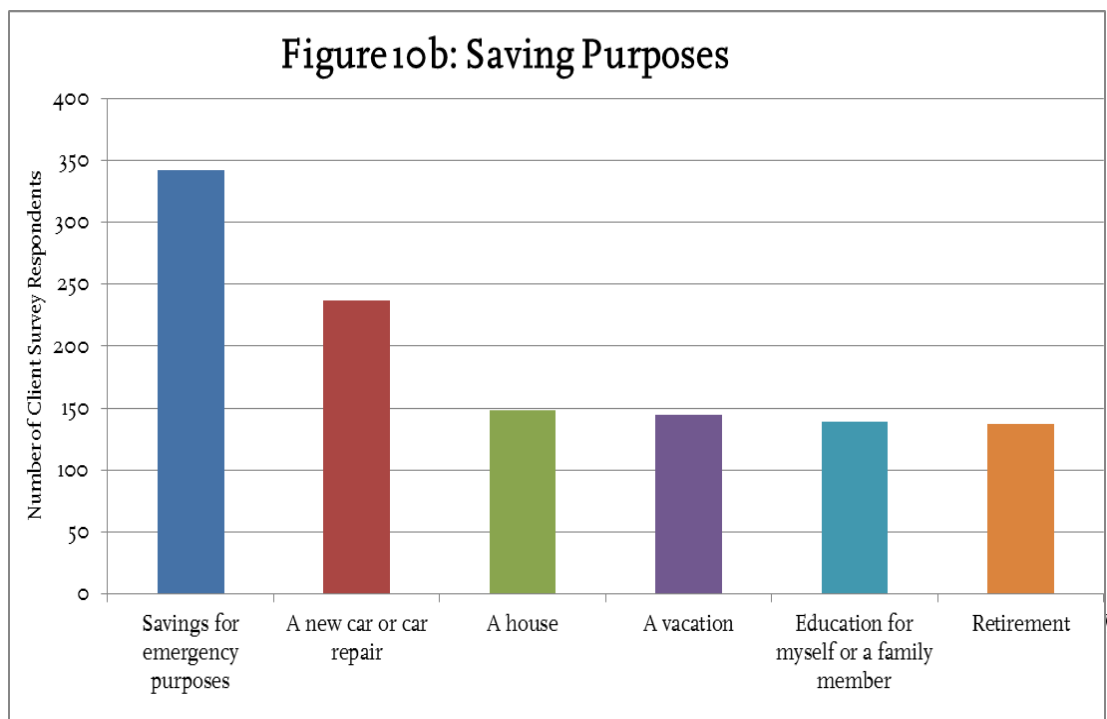
kind (a rate slightly higher than the national average of 8.2 percent⁵), but only 4 percent of that group are interested in opening one.

A plurality of respondents reported using some mainstream banking service (450, or about 45 percent, used direct deposit; see Figure 9). However, a significant portion of clients (32 percent) used alternative or “fringe” services, including money orders, wire transfers, check cashers, payday loans, pawn shops, and rent-to-own stores. Only a small

percentage of clients reported that they contribute to retirement accounts (7 percent).

The survey results paint a complex picture of client finances (see Figures 10a and 10b). On the one hand, clients report facing challenges to saving, but on the other, they have a desire to save for the future. Not surprisingly given the low incomes of the clients, many reported having difficulty

Figure 10b: Saving Purposes



saving money. Low incomes were the factor clients cited as making it toughest to save (38 percent; see Figure 10a). Clients also indicated that having too many bills (23 percent) and too much debt (19 percent) were challenges to saving money. Few clients said that knowledge about saving (5 percent) and not having access to a bank account (3 percent) were barriers to saving money.

The SaveNOW+ Pilot Program

Beginning in 2012, the Coalition instituted a savings pilot program called SaveNOW+, that involved splitting a portion of a client’s tax refund into a savings account. The program was developed because of the interest of the United Way of Central Ohio, which sought to help tax-time clients build assets and save by leveraging their refund. It is important to note that the overall goal was not to amass a specific savings amount, but rather to provide a functional account for deposits and withdrawals along with changing behavior.

In Ohio as elsewhere, fringe lending leads to cycles of debt for many low-income families. The SaveNOW+ account was designed, in part, to end that cycle. The program design took lessons on best practices from efforts such as the

Doorways to Dreams Fund’s (D2D’s) Save Your Refund prize-linked savings initiative, the New York City’s Office of Financial Empowerment’s SAVE USA program, and the Center for Social Development’s Refund to Savings (R2S) Initiative. Seventy-eight of the Coalition’s clients out of 450 (17 percent) enrolled in the SaveNOW+ program, collectively building savings of over \$56,000.

The 2013 SaveNOW+ program involved collaboration between the United Way of Central Ohio, JP Morgan Chase, Nationwide Bank, and the State of Ohio. Seven tax-time sites involved in the Coalition offered the program. As an incentive to save, the program provided a \$50 deposit into a savings account for clients who split their tax refund into the new account. In order to facilitate greater long-term

behavioral change, the program offered \$10 a month for seven months as an incentive for recurring deposits. An additional bonus of \$100 was available half-way through the program if the recurring deposits were made and the balance at the half-way point was above the original balance. Table 5 displays different split refund deposits and incentives for the SaveNOW+ program.

The SaveNOW+ program also instituted a “light touch” approach to financial education offered by the United Way of Central Ohio. Savers were given resources, tips, and encouragement through emails and text messages. Savers received at least one phone call from United Way staff throughout the year. Additionally, clients were reminded of important deadlines to deposit savings in order to receive the bonuses. Finally, during the sign-up phases at four selected tax sites, clients were given behavioral prompts that included anchoring messages and nudges to encourage participation.

Table 5: SaveNOW+ Program by the Tax Time Coalition

Initial Savings Deposit	April 15th: Enrollment Bonus	February-September: Deposit from client—at least \$10 every month	October 1st: Savings Bonus	After one year: Ohio Treasury’s 3% bonus	Total Balance after one year
\$100	\$50	At least \$70	\$100	\$9.60	\$329.60
\$500	\$50	At least \$70	\$100	\$21.60	\$741.60
\$1,000	\$50	At least \$70	\$100	\$36.60	\$1,256.60

SaveNOW+ builds on the institutionally separate Save Now program, which provides infrastructure to the SaveNOW+ program through a basic savings platform with a 3 percent interest bonus up to \$5,000 in savings at the end of the first year. The Save Now program is an initiative of the State Treasurer of Ohio, begun by then-Treasurer Richard Cordray. Through the initiative, registered banks receive an investment from the Treasurer and use the interest to pay on the account. The Save Now program provided additional informational resources such as a quarterly e-newsletter from the Treasurer’s Office to help interested savers.

In 2013, the SaveNOW+ pilot made a few changes to its structure. First, new accounts were moved from PNC Bank to Nationwide Bank due to account difficulties for clients

using the PNC system. The accounts are only accessible online, with the exception of the main Nationwide Bank location in Columbus. Second, the SaveNOW+ program added a second year of bonus interest beginning in 2012, meaning accounts could receive a second year of 3 percent bonus on the average daily balance in the account. Third, a total of seven sites were offering SaveNOW+ accounts – an increase of four sites from the previous year. Finally, changes that simplified the incentive structure were implemented to reduce client discretion about when and how to receive bonuses.

The 2013 data reveal challenges in the second year of the pilot program but are also reflective of a late start to the tax filing season. Thirty-seven clients entered into the SaveNOW+ program, saving a total of \$33,402. Several participants received the majority of the bonuses and emptied their accounts. Others deposited a majority (if not the entirety) of their refund into the savings account and steadily moved funds into other accounts or to cash. Some seven account holders saved more than \$1,000 each. In the next several months, more data will be available to provide a full year of analysis and feedback from clients.

Moving Forward: 2014 and Beyond

The growth in the number of families served by the Coalition is impressive given a seven-year time span. Notably, the bundling of financial services like savings accounts and a financial resource guide add to the impact of the free tax program. The Tax Time program shows that, given institutional supports like a safe and accessible savings account and free and reliable tax preparation services, families can and will save. This finding provides further evidence that efforts to democratize institutional support for saving at tax time, like the Financial Security Credit,⁶ would be successful at a national scale. Given the dramatic rise in paid tax preparation costs and the desire of families to save portions of their tax refund, the Coalition's tax time mission is well positioned to take on a larger client base and serve a wider community. Working with the OBB and AARP to be more inclusive of other free tax preparation avenues is a promising first step.

⁶ Introduced as H.R. 2917 in the 113th U.S. Congress.



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