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CommunityDividend

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Expanding the success of the Earned Income Tax Credit

By Emily Sachs

Since the Earned Income Tax Credit (EITC) was added to the U.S. tax code 32 years ago, it has become the leading federal program for boosting the incomes of the working poor. Traditional cash aid, like that of the former welfare system, did little to encourage recipients to join the workforce and change their socioeconomic status. But by virtue of being directly tied to earnings, the EITC essentially subsidizes work.

The program, which is administered by the Internal Revenue Service (IRS), provides refundable tax credits to low-income workers. Refundable means that if the credit a worker qualifies for is greater than his or her income tax liability, the worker receives the excess as a refund.

The amount of the credit depends on a worker's wages and family size. For the 2007 tax year, the income ceiling for married couples with two children is \$39,783. Such families are eligible to receive up to \$4,716 in a lump-sum credit. A single working person with no

children who makes up to \$12,590 will also qualify for the EITC and can receive up to \$428. In addition, 20 states and several local governments have enacted their own forms of earned income credits (EIC) that refund a portion of state or local taxes. In the Ninth District, Michigan, Minnesota, and Wisconsin all have state EITCs.

Boosting family incomes

Nationally, more than 20 million families received more than \$40 billion in 2006 through the EITC. Each year, the program provides enough money to lift nearly 5 million people, as many as half of whom are children, above the poverty line. In fact, data indicate that children may be the biggest beneficiaries of the EITC. One estimate by the Council of Economic Advisers suggests that more than half of the decline in child poverty between 1993 and 1997 was due to tax changes—most notably, changes to the EITC, which was expanded to help all single parents who work full time at the minimum wage and receive food stamps rise above the poverty level.

A qualified success

From an administrative perspective, the EITC is a streamlined, successful program. The credits it provides are essentially cash, which can be distributed more efficiently than other forms of support. Also, the program has low administrative costs; the Government Accountability Office estimates they may equal less than 1 percent of program payments.

The EITC is less successful in some other respects. For example, the program fails to reach all of the families it could help. Estimates suggest anywhere from 11 to 25 percent of eligible workers fail to claim their credits. Why is the program failing to reach up to one-quarter of its intended beneficiaries? The answer lies in the quirks of the tax-filing process. In order to claim the EITC, a worker must file a tax return. But many of the workers who are eligible for the EITC do not ordinarily file tax returns because their incomes are too low to trigger any federal tax liability.

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Creating a win-win way to provide free tax help

Bethel University and AccountAbility Minnesota share lessons learned

By Leo T. Gabriel

The Earned Income Tax Credit (EITC), which provides a refundable tax credit for low-income workers, is the nation's largest antipoverty program. Claiming the EITC and other federal or state credits may increase a working family's income by as much as 50 percent.¹ Unfortunately, up to 25 percent of eligible workers fail to claim the EITC. That millions of working families are missing an opportunity to increase their incomes is good reason for Certified Public Accountants (CPA), business professionals, and accounting students to get involved with the Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) program. VITA sites offer free tax preparation assistance to low-income families who are not able to prepare their own tax returns. (For more on VITA sites and other tax preparation assistance programs, see the sidebar on page 7.)

Bethel University (Bethel), a private college in Arden Hills, Minn., has found that collaborating with AccountAbility Minnesota (AAM) to provide VITA services is beneficial for both organizations. AAM is a nonprofit organization dedicated to providing tax preparation and accounting services to individuals and small businesses that have limited resources. Every year, AAM operates approximately 15 community-based

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Achieving economies of scale through strategic restructuring: The case of Sparc

By Michou Kokodoko

The U.S. economy experienced a surge in corporate mergers in the 1980s and 1990s, including megamergers such as Time Warner-AOL and Citicorp-Travelers Group. Typically, the mergers were driven by efficiency considerations—such as the need to cut costs and seek synergies—and other factors, including the need to strengthen mar-

ket positions, expand into new or emerging markets, and gain or maintain a competitive edge in an increasingly globalized economy.

In the nonprofit world, things were a little different. The industry had witnessed the mergers of some large nonprofits, but the field did not generally view itself in "bottom-line" or competitive terms; consequently, the merger issue did not appear to have much

bearing. For instance, in the community development field, the belief in "one neighborhood, one community development corporation" was widespread at the time. However, as the funding environment has changed in the 2000s, that conviction has quickly lost support. As government and philanthropic funding for community development is cut back, more community

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Achieving economies of scale through strategic restructuring: The case of Sparc

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development corporations (CDCs) are resorting to strategic partnerships in order to continue their work.

A CDC merger in the Twin Cities is one example of the trend. In 2003, two well-established CDCs in St. Paul, Minn., responded to funding pressures by merging to form a new entity called Sparc. After a few years of organization building and transition, Sparc now has the momentum to accomplish more as one organization than its two predecessors could accomplish combined. The merger demonstrates how strategic restructuring in the nonprofit world can be a tool for achieving economies of scale.¹

Paving the way for a merger

Sparc's predecessor organizations were North End Area Revitalization, Inc. (NEAR), and Hamline-Midway Area Rehabilitation Corporation (H-MARC). NEAR was incorporated in May 1984 to improve St. Paul's North End neighborhood through community and economic development efforts. In the mid-1990s it broadened its focus to include the renovation and development of affordable housing. H-MARC was incorporated in 1990 and provided home improvement lending and home construction and rehabilitation in St. Paul's Hamline-Midway neighborhood. In the areas NEAR and H-MARC served, over 60 percent of households have incomes lower than the area median income.²

An arrangement to share staff resources marked the beginning of a formal partnership between NEAR and H-MARC. In the late 1990s, NEAR did not have enough housing-related projects in the works to justify hiring a full-time construction specialist, so it partnered with H-MARC to share one. The construction specialist worked on projects that were located in both organizations' service areas. Production volume grew significantly, which gave the two organizations access to competitive rates and better services. In addition, the arrangement enabled NEAR and H-MARC to save on overhead expenses.

"Staff sharing produced many benefits we didn't initially anticipate, including better prices from contractors and the ability to get discounts on large-volume purchases," recalls Jonathan Sage-Martinson, former executive director of NEAR and current executive director of Sparc. The staff-sharing relationship built trust and a close partnership between the two organizations that paved the way for a merger in 2003.

The impetus for the merger occurred in 2001, when Twin Cities Local Initiatives

Support Corporation (LISC), a major funder of H-MARC, informed the organization about some new criteria for the next funding cycle. The changes would require H-MARC to scale up its operations.

"H-MARC needed to augment the number of projects in its pipeline in order to compete well with the other LISC grantees," explains Barb Jeanetta, senior program officer at Twin Cities LISC.

H-MARC's board appointed a committee to assess the organization's financial health and recent accomplishments. The findings were not surprising: H-MARC had limited financial and human resources and a tight funding environment. These conditions—a set of narrowly focused programs within one neighborhood and increased pressure from a major donor to scale up operations, combined with limited human capital—set the stage for a comprehensive strategic restructuring.

The merger process

In February 2002, staff members of H-MARC and NEAR began discussing the possibility of a merger. When they approached their boards of directors to discuss merger prospects, they found both boards were favorably disposed. By June, both organizations agreed to enter formal merger negotiations.

To prepare for the merger process, H-MARC and NEAR decided to purchase a guidebook for nonprofit organizations undergoing mergers and other forms of strategic restructuring.³ The board members and staff of each organization agreed to read the workbook cover to cover. They also agreed to hold regular meetings to hash out the big issues and lay out expectations.

"We had to leave our personal agendas at the door, be positive, and have faith and trust that in the long run, the process would benefit our constituents," recalls Dennis Prchal, a founding member of NEAR who now serves on the Sparc board.

In March 2002, board members and lead staff members from both organizations formed a joint committee to manage the merger. They hired a consulting firm, Wilder Research, to ensure that a checklist of matters would be addressed during the process, including staffing, facilities, programs and services, media relations, grant contracts, mission statements, relationships with funding communities, and relationships with state and local governments.

Jeanetta of Twin Cities LISC praises the way NEAR and H-MARC conducted their merger negotiations.

"The consultant, board members, and staff used a very thoughtful and respectful process that paid attention to neighborhood context and the need for community identity."

The most difficult issue of the merger involved reducing the size of the new organization's board of directors. To show appreciation for all the board members, the merger committee originally decided to combine the 12-member board of H-MARC with the 14-member board of NEAR. When it became apparent that a 26-member board would be unworkable, members agreed to a board-reduction plan. The agreement stipulated that at each annual meeting, three board seats would be voted for elimination until only 15 seats remained.

"This was the hardest thing we've had to deal with, since many of the members were founders of the two organizations," says Sage-Martinson.

Fortunately, one of the toughest problems a merger places at the doorsteps of negotiators—the choice of an executive to lead the combined organizations—was easily resolved. H-MARC's executive director, Beth Hyser, had recently resigned for family reasons. Her position was still vacant, so Sage-Martinson of NEAR was the obvious choice to head the new organization.

Delivering more to the community

The effective date of the merger was June 1, 2003. The newly formed entity, Sparc, continues the work of NEAR and H-MARC to revitalize the North End, Hamline-Midway, and South Como neighborhoods of St. Paul. The organization supports the development of retail and residential properties by providing technical assistance, storefront improvement grants, low-interest business loans, and loans and grants for improving neighborhood housing stock.

Sparc has outperformed NEAR and H-MARC in some respects. For example, the total value of housing grants Sparc made in 2006 was \$469,893, far surpassing the \$326,706 in total grants NEAR and H-MARC made in the year prior to the merger. On the other hand, the total number of clients served dropped significantly after the merger year and has only recently begun to increase. In addition, there was some loss in continuity of donors after the merger. Although competition for funding was one of the motivators for the merger, the restructuring did not immediately result in better funding for Sparc. Some

Verging on merging? Eleven questions to consider

David La Piana, founder and president of La Piana Associates, Inc., a consulting firm specializing in solutions to the strategic issues that nonprofit organizations and their funders face, encourages organizations to consider the following questions before moving ahead with any plans for a merger.


- What is motivating your desire to merge? Is it just to improve your organization's finances, or to access a larger set of skills and enhance the pursuit of the organization's mission?
- What do you expect from a merger? (Specify the anticipated outcomes.)
- Can you keep a focus on your mission?
- Do you have a unity of strategic purpose?
- Can your leaders speak with one voice?
- How solid are board/management relationships?
- Are you currently in a crisis?
- Do you have a history of risk taking?
- Are you growth-oriented?
- Is either executive position vacant?
- Do you know of other successful mergers?

Questions are adapted from *The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating, and Executing a Merger*, La Piana Associates, Inc., 2000.

donors with strong connections to either NEAR or H-MARC were a little apprehensive, perhaps waiting to see if the merger would be successful. Also, during the subsequent Twin Cities LISC funding cycle, the dollars allocated to Sparc came to less than the total dollars NEAR and H-MARC were receiving prior to the merger.

Overall, however, Sparc's staff and remaining board members believe the merger was beneficial. It resulted in a single organization with one audit, one executive director, one fundraising task, and a broader line of products to serve the needs of the targeted geographic communities. For instance, H-MARC did not have the capacity or the resources to offer commercial lending to Hamline-Midway residents. Sparc is now offering these services to residents. By increasing organizational efficiency and capacity, the merger provided Sparc with momentum to achieve growth and economies of scale. In the four-year period following the merger, Sparc has positioned itself to be a major contributor to local economic development efforts.

Kate Barr, executive director of Nonprofits Assistance Fund, a Minneapolis-based community development financial institution, offers this summary of Sparc's accomplishments:

"I'm so impressed by the way Sparc has scaled up compared to the predecessor organizations. I see how well Sparc has used the available programs to create and deliver a variety of housing and business financing products. By serving a larger geographic area and having more staff and resources, Sparc appears to be delivering so much more to the community." 

¹ In general, the term "economies of scale" refers to changes in average unit costs that are related to changes in scale or size of an organization. Due to economies of scale, large organizations have greater access to markets and can operate with broader geographic reach than small organizations.

² U.S. Census Bureau, 1999.

³ *The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating, and Executing a Merger*, La Piana Associates, Inc., 2000.



Menominee poster contest promotes free tax prep



By Emily Sachs

Working families on the Menominee Indian Reservation in Menominee County, Wis., spend an average of \$275 for tax preparation services when they could get the same help for free through a local Volunteer Income Tax Assistance (VITA) site.

That kind of money speaks volumes to students at Menominee Indian High School. Since 2005, they've taken part in an annual poster design contest that has helped increase the use of VITA sites and resulted in a greater volume of tax refunds and credits for families on the reservation.

Each fall, freshmen in the school's mandatory Futures in Finance I class create posters to illustrate the concept of saving money on tax preparation. In 2007, about 30 students entered posters in the contest, including a few juniors from the optional Futures in Finance II course. With support from a First Nations Development Institute grant, Family and Consumer Education Teacher Marie Raasch purchased prizes for all the students who entered. Students selected the finalists and then community members chose the winning poster, which was unveiled at a community celebration designed to help get the word out about the VITA program.

Then-junior Rickie Dodge submitted the winning entry for 2007. She received a basket filled with gift certificates and prizes totaling \$275—a value equal to the amount a family on the reservation would save by using a VITA site. The Menominee Casino-Bingo-Hotel printed copies of the winning poster to hang at the tribal offices, post office, high school, and elsewhere.

The ultimate goal of the posters is to increase the use of VITA sites and thereby boost the number of federal tax refunds claimed by tribal members. So far, the effort appears to be paying off. For tax year 2006, the number of refunds claimed on the reservation rose to 439, up from 335 the previous year. While the dollar amount of Earned Income Tax Credits and Child Tax Credits increased by only \$15,883 over the previous year, the overall dollar amount of federal refunds claimed on the reservation has risen tenfold since the campaign started.

According to Annette Tourtillott, job-based training specialist at the College of Menominee Nation in Keshena, Wis., there are plans to expand the poster contest by adding a calendar design contest for middle school students. The focus of the new contest will be on the importance of saving and banking.

Emily Sachs served as a Community Affairs intern at the Minneapolis Fed in 2007. She is pursuing a master's degree in public policy at the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs.

Expanding the success of the Earned Income Tax Credit

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ity. These workers may have had little or no exposure to the federal tax forms that explain what the EITC is and how to claim it.

Workers who attempt to claim the EITC may find the filing process unexpectedly complicated. EITC filers must use Form 1040 or another itemized tax form, even if they have no need to itemize deductions. The 1040-EZ, the most user-friendly form, does not allow for EITC credits. The complexity of the 1040 form may discourage workers from claiming the EITC altogether or drive them to seek help from private tax preparation firms, where they could end up losing a hefty portion of their credits to fees and other service charges. Low-income filers are more likely than other filers to be charged at least \$100, or even as much as \$600, for tax preparation services.¹ High fees have the net effect of significantly reducing the benefits workers receive from the EITC program.

The program has other flaws. For example, fraud—intentional or not—is difficult to monitor and therefore more common with the EITC than other poverty-reduction programs.² This has hurt the program's political support and public image.

According to some critics, lump-sum EITC credits, which are usually received in combination with income tax refunds, can mask the intent of the program by preventing filers from seeing the connection between the income they earned and the credit they received. One potential solution is the Advance Earned Income Credit (AIEC) option, in which an EITC-eligible worker with at least one qualifying child receives advance payments on his or her predicted credit. The payments appear in the worker's paychecks throughout the year, and the employer is then "reimbursed" by subtracting the payments from the total amount of federal taxes it owes. The AIEC option provides a clear link between income and the EITC. However, only a small percentage of EITC filers chooses advance payments instead of the lump-sum option.

Critics also point out that since the EITC is not automatically connected to asset development efforts, recipients are more likely to spend the annual cash infusion than invest or save it.

Nonprofits step in to help

The EITC program's weaknesses have kept it from receiving the universal political support and generous funding needed to conduct a widespread promotional campaign.

2004 EITC Volume in the Ninth District

Ninth District State	Number of returns receiving the EITC	Amount of EITC received (\$)
Michigan*	20,537	32,727,578
Minnesota	255,289	402,592,545
Montana	72,310	120,156,390
North Dakota	39,060	63,419,235
South Dakota	54,720	91,283,486
Wisconsin*	47,744	75,306,029
TOTAL	489,660	785,485,263

Source: The Brookings Institution.

* Includes only the portions of Michigan and Wisconsin that lie in the Ninth District.

Since the IRS is not positioned to make a large investment in the EITC—either in marketing it, reaching out to eligible recipients, or investigating every refund for fraud—much of the responsibility for promoting the program has fallen on other parties.

The private sector is one example. Private employers are now required to notify employees about their possible eligibility for the EITC, either by issuing them a W-2 form with an EITC notice printed on the back or providing copies of IRS Notice 797, which explains who is eligible for the credit. Some employers have gone above and beyond the notification requirement by launching in-house EITC awareness campaigns. (For more on this development, see the sidebar opposite.) Nonetheless, many employers still fail to inform their employees about the EITC, and many employees likewise fail to utilize the program.

Consequently, nonprofit groups and coalitions have stepped forward to increase access to tax support services and extend the benefits of the credit to more low-income working families. For example, the United Way of America has chosen financial stability of low- and moderate-income earners as a national initiative. The organization sees the EITC as a critical piece of the effort. The U.S. Conference of Mayors has spearheaded a movement to introduce EITC campaigns in individual cities. The effort has spread from cities such as New York and Chicago to Orlando, Fla., and Lewiston, Maine.

In the Ninth Federal Reserve District,

EITC promotion is primarily led by nonprofit organizations. Efforts extend from urban and rural areas to Native American reservations. Among them:

- The Claim It! campaign, a partnership of local governments, nonprofit organizations, and private corporations in the Minneapolis-St. Paul area, helped 30,270 people with free tax preparation in 2007. The campaign increased state and federal refunds and credits by more than \$3 million, for a total of \$21.6 million. A focus of the effort is to increase the volume of EITC returns by expanding the capacity of tax sites and extending their service hours.
- In the largely rural region of Clay County, Minn., and Cass County, N.D., where EITC outreach had never taken place, the Red River Community EITC Coalition brought together 15 agencies to initiate a first-ever EITC awareness campaign. As a result of the 2006 effort, which included postcard mailings and public events throughout the region, plus informing every county in North Dakota about the campaign, the number and scale of refunds doubled or tripled in some areas.³
- In 2006, Community Action Duluth in Duluth, Minn., embellished an already successful free tax preparation program by making the most of the time clients spent in the waiting room. Through an expansion of its Covering All Families program, The Children's Defense Fund Minnesota trained local volunteers to

screen people for eligibility for other income-based public programs, such as utility assistance and health insurance.⁴

• With the support of a nationwide EITC network organized by the Native Financial Education Coalition (NFEC), a number of American Indian tribes in the Ninth District conduct EITC outreach to reservation communities. In addition, the results of an NFEC-sponsored survey indicate that American Indian reservations in the District will host a total of nearly 30 free tax preparation sites in 2008. (For more information on the NFEC EITC Network, see the sidebar on page 7.)

A trend toward asset development

Proponents of the EITC recognize that the story doesn't end when a low-income worker receives a credit. The next chapter involves encouraging EITC recipients to put at least some of the money toward long-term financial goals.

The biggest trend within the EITC movement seems to be in the area of asset development, which has the larger goal of encouraging recipients to be more self-sufficient and able to cover unplanned expenses.

In order to build savings, low-income families must first build relationships with financial institutions. A recent study of 700 low-income workers who received free tax preparation services through Accountability Minnesota (AAM), a nonprofit organization, found that low-income earners with existing bank accounts were up to eight times more likely to save than those without accounts.⁵

Outreach programs are embracing asset development in various forms. Nonprofit organizations are forming partnerships with banks to enable EITC filers to open checking and savings accounts at the same time that they receive tax preparation help. For example, in the Community Action Duluth program mentioned above, banks were on hand to help clients open accounts on the spot.⁶


The U.S. Treasury is encouraging the use of direct deposit, which may promote saving by removing the temptation for tax filers to spend a "live" check they receive in the mail. In 2007, the IRS introduced a split refund option for tax filers, allowing refunds and refundable credits to be divided among up to three savings or checking accounts via direct deposit.

AAM, with the help of the McKnight and Annie E. Casey foundations, took

The complexity of the 1040 form may discourage workers from claiming the EITC altogether or drive them to seek help from private tax preparation firms, where they could end up losing a hefty portion of their credits to fees and other service charges.

The biggest trend within the EITC movement seems to be in the area of asset development, which has the larger goal of encouraging recipients to be more self-sufficient and able to cover unplanned expenses.

direct deposit and asset development a step further in 2005 through the Refund Loan and Savings Program. The program, which was created as a response to the costly refund anticipation loans marketed by private tax preparers, requires clients who receive free tax assistance at U.S. Federal Credit Union to open a savings account at the same time that they receive the assistance. Any refunds are then directly deposited into the new account. As soon as one day after the tax return is completed, clients can borrow up to the full amount of their expected federal refund. During the 2007 tax season, filers opened 361 accounts through the program; 243 recipients took out loans. As of May, 88 percent of the accounts were still open,⁷ an encouraging sign that many low-income working families can embrace banking.

Taken together, asset development efforts, free tax preparation services, community outreach, and employer-sponsored promotional campaigns form a patchwork of initiatives that are raising awareness of the EITC. As these initiatives multiply and strengthen, the hope is that the program's benefits will one day reach all eligible families. 

Emily Sachs served as a Community Affairs intern at the Minneapolis Fed in 2007. She is pursuing a master's degree in public policy at the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs.

¹ Don Wedd, "AccountAbility Minnesota: Good RALs," National Community Tax Coalition, www.tax-coalition.org/affiliatesProgramProfilesMinnesota.cfm, August 2007.

² Steve Holt, *The Earned Income Tax Credit at Age 30: What We Know*, The Brookings Institution, 2006.

³ Don Wedd, "Imaginative EITC Rural Outreach: Fargo Moorhead," National Community Tax Coalition, www.taxcoalition.org/affiliatesProgramProfilesFargo.cfm, May 2006.

⁴ Don Wedd, "Community Action Duluth," National Community Tax Coalition, www.tax-coalition.org/affiliatesProgramProfilesDuluth.cfm, January 2007.

⁵ Leo T. Gabriel, *Indicators of Saving: A Case Study of Earned Income Tax Credit Recipients in the Twin Cities of Minnesota*, doctoral dissertation submitted to Anderson University, 2007.

⁶ Wedd, January 2007.

⁷ Wedd, August 2007.

Private employers help promote the EITC

Some private companies are expanding their role from employing people to empowering them. One tool of choice is the Earned Income Tax Credit (EITC), which provides refundable tax credits to low- and moderate-income workers.

Employers can help their employees take better advantage of the EITC by providing free, on-site tax preparation services and accompanying financial education programs. The benefit to employees is obvious: workers who claim EITC credits will receive hundreds or thousands of dollars. Employers benefit, too, but in less direct ways. On an aggregate level, the EITC is credited with helping workers be more productive by lessening the stress of financial pressures. Also, the EITC may reduce turnover by encouraging low- and moderate-income workers to stay employed in order to earn the credit.

The nonprofit Center on Business and Poverty in Madison, Wis., specializes in encouraging companies to promote the EITC in the workplace. The center's director,

John Hoffmire, has convinced Staples Corporation, U.S. Airways, and several hospitals and banks to provide employees with free tax preparation and financial literacy programs.

The Staples initiative, which began in 2004, has now expanded to nine states and 19 of the company's business locations. Employees who are eligible for the EITC get free tax preparation services through a partnership with H&R Block, whose associates use *Savings Point* and *Benefits Enrollment*, a pair of special software programs from the company Nets to Ladders that, respectively, create bank accounts and screen individuals for eligibility for income-based public services. Eligible employees also participate in financial education workshops.

Some 500 Staples employees have taken part in the tax preparation and financial literacy courses. According to Hoffmire, surveys conducted after the program was implemented indicate "universal support" from employees.

Resources for employers

The following organizations can provide additional information to employers who have an interest in promoting the EITC.

Center on Business and Poverty, www.cobap.org.

The **Center on Budget and Policy Priorities**, at www.cbpp.org, provides free information and publications to businesses that wish to promote the EITC and other federal tax credits to their employees and the community at large.

The **Internal Revenue Service** provides extensive resources on the EITC for individuals, employers, and tax professionals. Visit www.irs-eitc.info/SPEC.

Corporate Voices for Working Families, at

www.cvworkingfamilies.org, creates a free employer guide each year to help companies reach out to low-income employees. It provides tools on everything from paycheck stuffers to best practices for talking to employees about tax credits.

The **Children's Defense Fund New York** has helped several major retail and fast-food employers inform workers about tax credits. The organization trains human resources representatives and provides posters and other handouts. Visit www.cdfny.org.

The **Itasca Project**, a Twin Cities-based partnership of influential corporate and political leaders who are seeking to create positive social change, has created the Task Force on Financial Fitness, which targets employers for the purpose of promoting direct deposit, employee education programs, access to financial resources, and awareness of the risks of "fringe" banking services (check-cashing stores, etc.). Call 612-371-3151.

Creating a win-win way to provide free tax help Bethel University and AccountAbility Minnesota share lessons learned

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VITA sites throughout the Twin Cities metropolitan area. Support from a multitude of partners helps make it all possible. Bethel is just one of many organizations collaborating with AAM to assist working families.

A win-win situation

AAM benefits from its collaboration with Bethel by using university resources to support its tax assistance program. While AAM has used Bethel classrooms, computers, and professors for training volunteers, the primary resource has been a consistent supply of student workers. Each year, approximately 30 accounting students from Bethel work at AAM-sponsored VITA sites as tax preparers.

The collaboration with AAM enables Bethel to avoid the overhead and duplication of effort required to operate a separate VITA program. But primarily, the benefit to Bethel has been enhanced student learning through experiential education. Through their experiences at the VITA sites, students learn taxation for a practical and immediate reason: to prepare tax returns for low-income families. There is more at stake than a grade in a course. Failure to master tax laws may mean short-changing a family out of needed income. Students understand the seriousness of their tax preparation services and respond accordingly.

Bethel and AAM have learned valuable lessons in the seven years they've worked together. Above all, they've learned that the best type of collaboration creates a "win-win" situation for both parties. Listed below are some best practices that may help other academic and nonprofit organizations with an interest in the VITA program create win-win collaborations of their own.

Make tax prep part of the curriculum. A VITA site collaboration between a university and a nonprofit organization works well if the tax assistance provided by students is part of the university's accounting curriculum. For accounting students at Bethel, providing tax assistance is not an optional activity. Students must help at a tax preparation site as part of a required federal taxation course that is offered every spring. There is built-in accountability when the tax assistance is part of students' coursework. At the AAM tax sites, Bethel students learn how to apply tax laws, conduct research, prepare tax returns, and work with clients. They are

Through their experiences at the VITA sites, students learn taxation for a practical and immediate reason: to prepare tax returns for low-income families. There is more at stake than a grade in a course. Failure to master tax laws may mean short-changing a family out of needed income.

required to record their learning in a journal, which is evaluated as a part of their grade for the course.

Have professors lend a hand. Bringing tax professors from the university into the operations of the tax assistance program enriches the collaboration. Bethel professors have served as tax preparers, reviewers, and trainers for AAM. There is a practical reason for having professors involved with the tax program's operations: it provides a basis for understanding AAM's operating environment and directing students who will work at the tax sites.

The operation of an AAM tax site is far different from that of a CPA firm. AAM sites serve large numbers of clients daily and are staffed by multiple volunteers. Each has a specific role, such as greeting clients, preparing tax returns, or reviewing the returns for accuracy. The environment is less than tranquil and serene. By witnessing the high level of activity firsthand, tax professors gain experience that helps them mentor and prepare students who are VITA site bound.

Use classroom visits to clarify expectations. Bringing staff from AAM into the tax classroom at Bethel strengthens the collaboration. During a classroom visit, AAM representatives can efficiently attend to logistics, such as signing up students to work and handing out directions to the tax sites. More important, AAM staff members use classroom visits as an opportunity to explain the VITA program and AAM's expectations for student workers. AAM stresses that students should view their VITA work as a professional responsibility. As professionals, students are expected to arrive on time, stay for the length of time scheduled, perform duties within their scope of training and experience, and treat clients with courtesy and respect.

AAM staff members also use classroom visits to provide students with VITA's privacy and confidentiality guidelines. For example,

students are warned not to share client information with other people or remove a client's documentation from the tax site.

Teach students about relevant tax laws.

Educating students on federal and state tax laws that are relevant to the population being served is crucial. Bethel dedicates the first two weeks of its required tax course to preparing students for their work at the AAM sites. The instruction covers taxable income, filing status, dependency exemptions, and tax credits. Extra time is devoted to the EITC, which is a complex credit. Students also learn about the tax documents (W-2s, 1099s, Social Security Statements, etc.) that they will encounter. In addition, students learn to use the TaxWise software that is installed at AAM's sites. To demonstrate their mastery of the relevant tax laws, students must complete an IRS certification test prior to volunteering for AAM.

Provide diversity education. Education on cross-cultural communication is important for the Bethel-AAM partnership. Many Bethel students come from communities where they have little exposure to people of color and low-income families. Bethel's VITA volunteers receive diversity education to increase their understanding of cultural differences. In addition to adopting guidelines that AAM provides, students learn a model of appropriate cross-cultural communication that calls for demonstrating openness to others, communicating respect for others, building trust with others, learning how to seek information, understanding from the perspective of others, and serving from the perspective of others.²

Strike a balance between learning and serving.

Students need to work a sufficient number of hours as tax preparers for the collaboration to be effective. There is a learning curve when preparing tax returns, which varies depending on the student. It takes time to learn how the tax site operates, how to work well with clients, and how to become proficient tax preparers. It's best for the collaboration if students work enough hours so they can learn to effectively serve AAM clients, but not so many hours that the experience no longer


AAM staff members use classroom visits as an opportunity to explain the VITA program and AAM's expectations for student workers. AAM stresses that students should view their VITA work as a professional responsibility.

adds to their knowledge base. A sufficient number of student hours is somewhere between 25 and 40. This range strikes a balance between learning (Bethel's primary objective) and serving (AAM's primary objective).

Benefits for the broader community

The collaboration between AAM and Bethel takes time, effort, and coordination. The short-term benefits are enhanced learning for Bethel students and better tax outcomes for low-income families. There are longer-term benefits as well. In 2007, Bethel students and other VITA volunteers helped more than 14,000 Minnesota clients receive \$19.9 million in tax refunds. A portion of those refunds was spent on goods and services in the clients' neighborhoods, which strengthened the local economy.

Also, by providing pro bono services through AAM, students see how the accounting profession can serve the public interest. After graduating from Bethel, students have continued to work with AAM as volunteers, employees, and board members. Their continued interest in AAM suggests that public service will remain a core value of their accounting careers.

In other words, in the win-win collaboration between Bethel and AAM, it appears that the broader community wins, too. 

Leo T. Gabriel is an associate professor of business at Bethel University.

¹ AccountAbility Minnesota, 2005.

² This model is adapted from Duane Elmer, *Cross-Cultural Servanthood*, Inter-Varsity Press, 2006.

A primer on free tax preparation assistance

Free tax preparation assistance (FTPAs) is a catch-all term for a variety of programs that help people prepare and file their tax returns free of charge. The assistance is provided by trained volunteers who ensure that tax returns are filed correctly so clients will receive all the credits and refunds they deserve. Government agencies or nonprofit organizations sponsor the programs, often in partnership with local community coalitions or financial institutions.

The use of FTPAs minimizes errors and saves filers money they would otherwise spend on fees at a for-profit tax preparation firm. In addition, FTPAs prevent filers from taking out costly refund anticipation loans, or RALs. With a RAL, a for-profit tax preparation firm charges high fees and interest to provide an advance on a taxpayer's refund. The charges can significantly reduce a filer's net tax benefit.

FTPAs are delivered every tax season at convenient locations, such as senior centers, shopping malls, libraries, and schools. Most sites operate from February 1 through April 15. In addition to providing tax preparation help, sites may offer clients free information on saving, investing, and money management. Some sites that are affiliated with financial institutions give "unbanked" clients the option of opening checking or savings accounts at the same time that they file their tax returns, so they can have their refunds deposited directly, quickly, and securely.

Sponsors of FTPAs welcome support from the community. Individuals can help by volunteering at FTPA sites. Volunteers who receive

training can help prepare tax returns; others can assist with site intake and coordination. Companies and nonprofit organizations can help by informing their clientele about the free services available, hosting a tax preparation site, or encouraging their employees to volunteer. Individuals and organizations that participate in FTPA efforts benefit from the knowledge that they're providing a public service, strengthening their ties to the community, and returning money to the local economy. For financial institutions that get involved, there could be an added benefit. Banks that participate in providing free tax preparation may receive favorable consideration under the Community Reinvestment Act regulations.*

The Internal Revenue Service (IRS) sponsors most of the FTPA sites in the U.S. In some urban areas, nonprofit organizations provide FTPAs that are unaffiliated with IRS programs. State governments are often involved in some aspects of free tax preparation, too, such as disseminating information about free services or hosting tax preparation sites.

Prominent FTPA-related resources are listed below. Readers with an interest in promoting FTPA efforts are encouraged to contact these organizations.

* The Community Reinvestment Act (CRA) encourages financial institutions to meet the credit needs of their local communities, with special emphasis on low- and moderate-income neighborhoods. A financial institution should consult with its federal banking regulator to determine if its FTPA-related activities are eligible for CRA consideration.

IRS-sponsored programs

The **Volunteer Income Tax Assistance** (VITA) program is the largest provider of free tax preparation services. It serves low- and moderate-income clients throughout the country and at U.S. military installations worldwide. For tax year 2007, the income threshold for VITA eligibility is roughly \$29,000 for individuals and \$40,000 for families. For additional information, visit www.irs.gov and enter "VITA" in the Search box, or call 1-800-829-1040.

The **Tax Counseling for the Elderly** (TCE) program provides FTPAs to people at any income level who are age 60 or older. Through a grant from the IRS's TCE program, AARP sponsors **AARP Tax Aide** (ATA), which provides free tax preparation services at 7,400 sites nationwide. ATA sites are open to all filers, but preference is given to low- and moderate-income clients. For additional information on the TCE program, call 1-800-829-1040; for more on ATA sites, call 1-888-227-7669 or visit www.aarp.org/money/taxaide.

Free File gives eligible taxpayers the option of preparing their tax returns online, free of charge, using one of several tax software programs. Free File is cosponsored by Free File Alliance, LLC, a group of private-sector tax software companies. For additional information, visit www.irs.gov/efile

and select "Free File" from the menu on the left of your screen.

Ninth District state-specific resources

Michigan sponsors a statewide initiative to promote the Earned Income Tax Credit (EITC). For information on tax preparation site locations, volunteer opportunities, promotional resources, and more, visit www.michiganeic.org.

To access **Minnesota's** list of FTPA sites, visit www.taxes.state.mn.us and enter "Free tax prep" in the Search box. For information on volunteering, search on the key words "Become a volunteer." Similar information on site locations and volunteer opportunities is available from AccountAbility Minnesota at www.accountabilitymn.org.

Montana offers free electronic filing for eligible taxpayers. For more information or to access a tax preparation site locator and other resources, visit www.montanafreefile.org. In addition, Consumer Credit Counseling Service of Montana sponsors FTPA sites through its Tax Help Montana program. For a site directory or to volunteer, visit www.taxhelpmontana.org or call 406-761-8721.

North Dakota's United Way 211 network provides information on tax preparation assistance via its

24-hour hotline at 701-235-SEEK. It also maintains an online database of FTPA sites. To access the database, visit www.irissoft.com/cr11 and select "Tax Prep. Assistance" from the menu of services.

South Dakota lists FTPA sites at www.sdauditor.gov/IRS/VolunteerSites.htm.

Wisconsin's list of FTPA sites, at www.revenue.wi.gov/faqs/pcs/vita.html, features frequently asked questions about the IRS's VITA and TCE programs.

Resources for Native communities

The **Native Financial Education Coalition** (NFEC), which is coordinated by First Nations Oweesta Corporation, is leading an effort to promote and expand free tax preparation, EITC awareness, and asset building opportunities in Native communities. The NFEC's EITC Network provides FTPA-related outreach materials, peer networking, and data collection and dissemination. For details, visit www.oweesta.org/eitc. The network's organizers have compiled an inventory of FTPA sites in Native communities. Nearly 30 of them are located in the Ninth District. For additional information or to have your site added to the inventory, contact Patsy Schramm, NFEC EITC network coordinator, at edgpj@aol.com, or 706-865-7079.

News and Notes

Call for papers:

2009 Fed Community Affairs research conference

The Community Affairs officers of the Federal Reserve System have issued a call for papers for their sixth biennial research conference. The event, titled “Innovative Financial Services for the Underserved: Opportunities and Outcomes,” will be held April 16–17, 2009, in Washington, D.C. It will bring together a diverse audience from academia, financial institutions, community organizations, foundations, and the government. Conference planners welcome research papers and studies that explore innovations in the financial services industry and their implications for low- and moderate-income consumers, financial educators and regulators, and the economy. Preference will be given to papers that stress verifiable, statistically valid research. Completed papers (preferred) or detailed abstracts should be submitted to the program committee by July 15, 2008. For more information on topics and submission requirements, e-mail KC.CAResearchConf@kc.frb.org or call 816-881-2004.

Fed creates one-stop help center for consumers

The Federal Reserve System (FRS) recently launched Federal Reserve Consumer Help (FRCH), a centralized resource for processing consumer complaints and inquiries about banks and other financial institutions. FRCH is designed to give consumers a streamlined means of obtaining assistance with banking-related questions or concerns.

The FRS is one of five federal banking regulators charged with ensuring that financial institutions comply with consumer protection and fair lending laws, including the Equal Credit Opportunity Act, Fair Credit Reporting Act, and Truth in Lending Act. If a consumer suspects that a bank’s policies or practices violate any of these laws, he or she has the right to file a complaint with the bank’s federal regulator. However, it is not always apparent which regulator supervises which institution. Prior to the creation of FRCH, consumers sometimes had to make several inquiries before locating the appropriate agency.

Now, through FRCH, a consumer can file a complaint about any financial institution—regardless of the institution’s regulator—via a single point of contact. FRCH customer service representatives record the complaint and then process it according to which federal regulator has supervisory authority over the institution. A complaint related to a bank that is supervised by the FRS is transferred to the Federal Reserve Bank in whose district the bank is

located. Complaints about other institutions are forwarded to the appropriate federal regulators. After the appropriate regulator receives a complaint, it begins investigating the matter to determine whether any laws have been violated.

In addition to processing consumer complaints, FRCH provides answers to a wide variety of questions about banks and bank regulations. To contact FRCH, call 1-888-851-1920 (TTY: 1-877-766-8533) weekdays between 8:00 a.m. and 6:00 p.m. CST, e-mail ConsumerHelp@FederalReserve.gov, or visit www.federalreserveconsumerhelp.gov.

Community Affairs releases mortgage broker regulation report

The Community Affairs office of the Federal Reserve Bank of Minneapolis has released a report that catalogs the changes in mortgage broker regulations in all 50 states and the District of Columbia over the previous decade. The report, titled *A Compilation of State Mortgage Broker Laws and Regulations, 1996–2006*, includes detailed, state-by-state descriptions of mortgage broker laws and regulations; information on the report’s data sources; an overview of occupational licensing; and a glossary of terms. Extensive supplementary materials display the report’s data in a tabular format, enabling readers to review and compare state mortgage broker licensing schemes at a glance. To access the report and its supplements, visit www.minneapolisfed.org/community/pubs.

For related discussions, see:

- “License to deal: Regulation in the mortgage broker industry,” *Community Dividend*, Issue 3, 2006. Available via the link listed above.
- *Mortgage Broker Regulations That Matter: Analyzing Earnings, Employment, and Outcomes for Consumers*, a forthcoming National Bureau of Economic Research working paper by University of Minnesota Professor Morris M. Kleiner and Minneapolis Fed Vice President Richard M. Todd. Available soon at www.nber.org.

Treasury announces New Markets Tax Credit allocations

Sixty-one organizations will receive a total of \$3.9 billion in New Markets Tax Credits (NMTC) over the next seven years, according to an October 2007 announcement from the U.S. Department of the Treasury (Treasury). Eleven of the allocations, representing \$945 million of the total, will go to organizations that serve portions of the Ninth Federal Reserve District.

The NMTC Program, which is administered by the Treasury’s Community

Development Financial Institutions Fund, promotes private-sector capital investment in underserved areas by providing federal tax credits to individual or corporate taxpayers who make qualified investments in low-income communities. To qualify for NMTCs, taxpayers must provide their investments through intermediary vehicles known as Community Development Entities, or CDEs. A CDE is a domestic, nonprofit or for-profit corporation or partnership with a primary mission of serving low- and moderate-income persons or communities. NMTCs are allocated through a competitive application process and then claimed over a seven-year period. The total credit for each allocatee equals 39 percent of the cost of investment.

One of the 2007 NMTC allocatees, Midwest Minnesota Community Development

Corporation (MMCDC) in Detroit Lakes, Minn., is located in the Ninth Federal Reserve District. MMCDC will receive \$85 million in credits. Ten other allocatees serve markets that lie partly within the Ninth District. These organizations, which will receive NMTCs ranging from \$15 million to \$125 million, are: Fifth Third New Markets Development Company, LLC, Dublin, Ohio; MSD New Markets, Inc., New York; National City New Markets Fund, Inc., Cleveland; National Community Fund I, LLC, Portland, Ore.; NCB Capital Impact, Arlington, Va.; Travois New Markets, LLC, Kansas City, Mo.; U.S. Bank CDE, LLC, St. Louis, Mo.; Waveland Community Development, LLC, Milwaukee; Wisconsin Brownfield and Economic Development, Madison, Wis.; and Wisconsin Community Development Legacy Fund, Inc., Madison, Wis.

Calendar

Montana Indian Business Alliance Quarterly Workshop: “Indian Youth Entrepreneurship.” January 24, Billings, Mont. Additional information: contact Sandy Wood at 406-454-6226 or swood@fib.com.

Wisconsin Indian Business Conference. February 12–13, Green Bay, Wis. Sponsored by nearly 20 partner organizations, including the Federal Reserve Banks of Chicago and Minneapolis. Additional information: visit www.wibaonline.com or contact Craig Anderson at 414-604-2044 or craig@aicw.org, or Janet Bewley at 715-682-0285 or janet.bewley@wheda.com.

2008 Microenterprise Conference. April 7–8, St. Cloud, Minn. Sponsored by the Federal Reserve Bank of Minneapolis and several partner organizations. Additional information: call 612-204-5064 or e-mail michou.kokodoko@mpls.frb.org.

April Is Financial Literacy Month

As part of a nationwide effort to raise public awareness about the importance of financial education, advocates have declared April “Financial Literacy Month.” National- and state-level organizers have scheduled a variety of promotional activities. Ninth District highlights:

- State affiliates of the national Jump\$tart Coalition for Personal Financial Literacy (Jump\$tart) will host events and promotions throughout April. To learn what’s planned in your area, visit Jump\$tart’s state coalition directory at www.jumpstart.org.
- The Federal Reserve Bank of Chicago and more than 30 partner organizations will sponsor the third annual Money Smart Week Michigan on April 20–26. Additional information: call 1-877-MNY-SMRT (Michigan residents only) or visit www.moneysmartweek.org.
- The Minnesota Council on Economic Education will sponsor the Personal Finance Decathlon, an online quiz-bowl competition that tests high school students’ knowledge of personal finance and sound money management. Additional information: visit www.mcee.umn.edu and select “Student Programs” from the Programs menu.