

## ***Tax Time as a Teachable Moment: Assessing the Opportunities for Financial Education Linked to Community-based Tax Preparation***

### ***Introduction***

Filing taxes is a key moment each year in most people's financial lives. It is a time to reflect on the past year in terms of income and expenses, as well as to take advantage of tax incentives and make financial plans. For low-income families in the United States, the Earned Income Tax Credit (EITC) and the Child Tax Credit may produce significant tax refund amounts, in some cases totaling more than 15% of a household's annual income in a lump sum payment. Couples with children receive the largest benefits from these tax credits, both of which phase out as income increases and generally disappear at around \$40,000 in annual income. The expansion of the EITC and other tax credits aimed at low-income working families in the 1990s led to an expansion of community-based free tax preparation programs. The Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs offer free tax help to low- and moderate-income (generally, \$49,000 and below) or elderly tax payers. Volunteers at community-based organizations receive training to prepare basic tax returns through IRS certification programs. According to the IRS unit that administers these programs, there were 12,000 VITA or TCE sites staffed by over 75,000 volunteers during the 2009 tax filing season. These programs filed over 3 million tax returns, which resulted in \$3 billion in tax refunds to low- and moderate- income households. More than one in five participants in these programs qualified for the EITC (IRS, 2009a).

The IRS's Stakeholder, Partnerships, Education, and Communication (SPEC) organization is the outreach and education unit of its Wage and Investment Division. SPEC produces education materials, financial

resources, and other support for each tax filing season. SPEC has three priorities: (1) tax awareness and education, including promoting the EITC, (2) tax return preparation, in collaboration with community-based organizations, and (3) financial literacy and encouraging financial responsibility. SPEC materials actively promote tax time and the receipt of the EITC as "the first step in asset building." The IRS manual continues, "The EITC, tax preparation assistance, and financial incentives can help to provide the beginning of a dramatic lifestyle change for lower income taxpayers" (Sec 22.30.1.1; IRS, 2009b).

While the goals of the IRS are laudable, it is largely up to community-based educators working with tax programs to develop and deliver financial education linked to tax time. As this is a new and rapidly evolving domain, there are important lessons to be learned from programs already underway in the field. This paper provides an overview of the potential of tax time as a teachable moment at three VITA locations in the US in 2009, providing implications for financial educators.

### ***Review of the Literature***

Community-based VITA tax preparation programs have expanded into various asset-building strategies over the last decade (see Collins & Baker, 2007 for a discussion). A 2007 survey by the Center for Economic Progress (CEP) and the National Community Tax Coalition provides an indication of the extent to which community-based tax programs are implementing financial education strategies (Collins & Baker, 2007). Based on responses from 89 VITA organizations, which are generally representative of VITA organizations in a separate study (Brown, 2005), 64% of VITA

organizations offered financial education at their tax sites. The agencies surveyed estimated that about 16% of tax clients in 2006 took part in some financial education service related to the tax preparation session (either onsite or through referral). This estimate was more than double the share of clients estimated to have taken part in financial education services in the prior year.

There are several published field studies of financial services linked to tax preparation, but no studies that specifically examine financial education efforts at tax sites. One theme that emerges from the existing literature on financial services provided through VITA programs is that clients at tax preparation sites often struggle to save their tax refunds. Spader, Ratcliffe, and Stegman (2005) conducted a follow-up study with the clients of three VITA programs in North Carolina. The authors found that the majority (55%) of clients who planned to save their refund had spent the entire refund amount at the follow-up survey and thus saved nothing at all. The authors identified several barriers to saving, including economic hardship and self-control problems, consistent with prior studies of the use of tax refunds among EITC recipients (for example, Smeeding, Ross, Phillips, & O'Connor, 2000). Beverly, Romich, and Tescher (2003) report on one VITA program that linked tax preparation services to opening savings accounts, finding that only 20% of eligible clients signed-up for a special savings account. Another study found clients who bought US savings bonds at a tax preparation site with refund proceeds saved more than clients who put their funds into a savings account (Flacke & Zinsmeyer, 2007). Still fewer than one in five tax clients with a refund showed evidence of saving. Employing an experimental design, Duflo, Gale, Liebman, Orszag, and Saez (2006) found that just 14% of clients at a tax preparation site deposited money into a retirement account even when some were offered a 50% match for the savings. Notably, the authors observe that information provided by the tax preparer played an important role in clients' decision to enroll in this matched savings account.

The authors conclude that information provided at tax sites may play as powerful a role in financial decisions as monetary incentives.

One study that does directly examine the offer of financial education at a tax site is by Meier and Sprenger (2007). The authors show that only a minority of tax preparation clients who were offered a short financial education seminar onsite agreed to participate. Based on a survey of both participants and nonparticipants, clients who denied the offer of education tended to be more present-oriented and impatient, while clients who partook in the training were more future-oriented and willing to sacrifice gains in the present for longer-run benefits. Individuals who are willing to participate in financial education programs at tax sites may therefore be more motivated to improve their financial situation.

While prior studies offer few insights into education models specifically, it is clear that at least some taxpayers struggle to save their tax refunds. There is also preliminary evidence that the information provided through tax programs may be influential for financial decision making, and that those clients who enroll in education programs at tax sites may already be among the most motivated to learn and improve their financial behavior. This paper seeks to provide further insights into how financial education may best be provided using examples from three VITA programs (see Collins & Gorey 2009 for more details of these programs).

### *Field Evidence from the 2009 Tax Filing Season*

In order to illustrate the potential of financial education delivered at tax sites, data are provided from three VITA programs. These agencies represent a convenience sample of a larger set of tax-preparation programs in urban locations in the Northeastern US. Each site conducted its own client surveys using paper forms. Response rates were high (70%-90% of clients who filed returns at the sites), primarily because tax clients completed the surveys during the intake

process and had surplus time while waiting for the tax filing process to begin. Since each site collected different data using unique surveys, the findings from and details of each program are discussed individually.

**The Financial Clinic/MoneyUP**

The Financial Clinic in New York City ([www.thefinancialclinic.org](http://www.thefinancialclinic.org)) operates the MoneyUP initiative with the United Way to offer tax preparation in partnership with Bethex Federal Credit Union in the Bronx and the Partnership for the Homeless in East New York/Brooklyn. MoneyUP served more than

1,800 households in the 2009 tax season. MoneyUP offers a personalized approach: every tax preparation client receives a personal screen, or “Financial Tune Up.” This financial diagnostic is conducted by a volunteer prior to the tax preparation process. Sessions focus on identifying problems clients may have with budgeting, credit and basic banking services. Clients are offered education or counseling onsite, as well as referred to The Financial Clinic or other programs after the tax filing process is complete for more intensive counseling or legal help.

Table 1  
*The Financial Clinic MoneyUP Tax Preparation Financial Tune Up Client Survey: 2009 Tax Season Responses by Income Level*

Adjusted Gross Income	Unbanked	Ever Checked Credit Report	Have Any Financial Goal	Would like MoneyUP to Contact in Future
0-10,000	23.9% (0.43)	21.0% (0.41)	58.9% (0.49)	60.3% (0.49)
10,001-20,000	22.7% (0.42)	33.1% (0.47)	76.4% (0.43)	70.8% (0.46)
20,001-30,000	15.5% (0.36)	38.8% (0.49)	85.1% (0.36)	76.4% (0.43)
30,000 or more	11.2% (0.32)	47.0% (0.50)	86.8% (0.34)	75.0% (0.43)
Total	21.9% (0.41)	27.2% (0.45)	67.2% (0.47)	65.1% (0.48)
n	1560	1547	1532	1520

Source: MoneyUP 2009 Tax filing season (TY 2008)

Notes: Client Survey Response rate: 88%. Standard deviations in parentheses.

Table 1 provides a summary of survey data collected from 1,560 MoneyUP clients (88% response rate). These data offer some evidence of what types of educational topics or issues are in demand at the tax site by the income level of clients (where income is derived from tax filings). Nearly one-fifth of MoneyUP clients (21.9%) in the lowest

income group are unbanked, suggesting a need for the provision of information on how to open a basic transactional checking account or a stored value pre-paid debit card. Beyond bank accounts, only 27% of MoneyUP clients overall have ever checked their credit report. Given the importance of ensuring the accuracy of one’s credit report

and the utility of knowing one's credit score for future credit access, education on credit reports and how to obtain a free copy a report may be valuable. Just over two-thirds of clients (67%) at the tax site report having some kind of financial goal. Education or counseling on goal setting may be especially useful for those clients who lack financial goals, but also might be useful for tax clients to begin to take steps toward achieving their goals. Lower income clients show descriptively higher rates of being unbanked, lesser use of credit reports, and being less likely to have financial goals. Interestingly, 65% of clients overall reported they would like to receive follow-up contacts from MoneyUP regarding education workshops and financial advice outside of the tax preparation process. This response suggests tax time may serve as a viable mechanism for recruiting clients for future educational programs outside of the tax context. Lower income clients were less likely to indicate interest (60%) and higher income more likely (75%).

### *The Campaign for Working Families*

Part of the Greater Philadelphia Urban Affairs Coalition, the Campaign for Working Families (CWF) in Philadelphia ([www.phillyfreetaxes.org](http://www.phillyfreetaxes.org)) is a city-wide effort to promote VITA tax preparation and the use of the EITC. The CWF coordinates more than 400 volunteers at 18 tax preparation locations during the tax season. Unlike a model in which clients are referred to a workshop or counselor, the CWF attempted to integrate education about savings opportunities into the service delivery process. In 2009, CWF trained staff and volunteers on how to educate clients with a tax refund on savings opportunities at tax time, including savings accounts, US Savings Bonds, stored value cards, and other options. All staff, including tax preparers, were trained on what savings options were available and what the benefits of each option might be to clients. CWF clients completed a diagnostic at intake and then staff placed a color coded sticker on each client's folder to signify a client as a good candidate for savings opportunities. As clients exited the program, they were asked

a series of questions about how they handled their refund, as well as how often they recalled hearing about saving in general and US savings bonds specifically, if at all. A total of 2,954 clients (estimated 82% response rate) completed key survey questions.

Table 2 (next page) shows CWF clients' self-reported use of any savings products, and the use of US savings bonds by race (one of the only reliable demographic variables available). The table also shows results separately among clients who recalled if staff or volunteers at the tax site talked to them about saving money in general or using savings bonds. Clients who reported hearing about saving money during the tax service were slightly more likely to report taking up a savings product (15%) than those who did not report hearing about saving (13.5%). This difference between take up rates between those who recalled hearing about savings from a staff/volunteer was more extreme for buying savings bonds, (13.5% vs. 4.9%, or an 8.6 point difference). This may suggest this type of savings product is less familiar among VITA clients and clients rely more on information provided at the tax site. Indeed, a Federal Reserve study shows that nationally only 3.8% of households in the lowest income quartile own savings bonds compared to 20% of middle income quartile households (Aizcorbe, Kennickell & Moore, 2003). The difference in take-up rates between those who heard about bonds and those who did not was half of one percentage point for White respondents, but 9.5 points for African American respondents. This may suggest clients of this racial background had even less familiarity with bonds and used information provided at the tax site. The nature of self-reports makes causality impossible to establish, but the fact these differences exist by race and savings product is suggestive that the more a client hears about a savings product, the more likely they will use it. The effect may be more pronounced regarding products clients are less informed about prior to entering the tax site, such as US savings bonds. Overall, if take-up of savings products is a desired goal, these results are suggestive that an

integrated approach may be worthy of consideration.

**Table 2**  
*The Campaign for Working Families: 2009 Tax Season Savings Choices by Race and Client Recall of Staff/Volunteers Talking about Savings in General and US Savings Bonds*

	% Who Saved Some of Tax Refund		% Who Bought US Savings Bond	
	Talked	Did not Talk	Talked	Did not Talk
White	9.5% (0.29)	6.5% (0.25)	2.6% (0.16)	2.1% (0.15)
Black/Af. Amer	15.6% (0.36)	13.1% (0.34)	15.1% (0.36)	5.7% (0.23)
Latino / Hispanic	14.6% (0.35)	25.6% (0.44)	7.6% (0.27)	3.6% (0.19)
Other/NA	10.3% (0.31)	8.5% (0.28)	4.6% (0.21)	- -
Total	15.0% (0.36)	13.5% (0.34)	13.5% (0.34)	4.9% (0.22)
n	2,025	929	2,016	938

Source: Campaign for Working Families 2009 Tax filing season (TY 2008) Philadelphia;  
 Note: Estimated overall response rate: 88%. Standard deviations in parentheses

### Accounting Aid Society

The Accounting Aid Society (AAS) in Detroit ([www.accountingaidsociety.org](http://www.accountingaidsociety.org)) is one of the oldest programs in the country that provides tax assistance to low-income families. AAS operated 25 VITA tax preparation sites and coordinated over 600 volunteers during the 2009 tax preparation season. AAS focuses on high quality tax preparation, including the use of paid preparers and college students from a local accounting program. The agency actively promotes savings accounts but does not offer integrated financial education services or one-on-one financial screenings. However, a key contribution of AAS was its collection of detailed data on the type of educational services clients report wanting at the tax site during the next tax season.

In 2009 two AAS tax sites surveyed clients at intake about what types of additional services they would be interested in when they return for the 2010 tax filing season. A total of 1,049 clients completed an intake questionnaire from January to mid-March (estimated response rate 69%). Importantly, almost 40% of AAS clients surveyed expressed an interest in at least one educational topic. This suggests strong demand for educational services at tax time. However, there is variation in interests by clients across topics and age groups.

Table 3 (next page) shows that based on age group (the only reliable demographic variable available), between 3.4% and 5.6% of AAS clients surveyed were interested in budgeting training, with the highest share among clients 30-39 years old. Credit was cited by

2.7% to 11.2% of clients based on age group, with demand highest among middle aged (40-49 years old) clients. Overall, 9% of respondents expressed an interest in education about how to buy a car, with the youngest (under 30) reporting the strongest interest (15.1%). About 8% of clients expressed interest in home buying education, with 13% of clients 30-39 years old reporting such an interest. Home winterization was an area of interest for about 8% of clients, with less interest among younger clients. About 10% of clients at AAS reported interest in

food assistance or other public benefits, slightly less among younger clients. Notably, this is a wide array of topics. No single topic garners the interest of a large share of clients, and the highest interest level was 15% for education on home buying among younger clients. Thus, the challenge for educators becomes the logistics of offering several topics in an accessible manner during the tax preparation process to only a small portion of clients overall.

Table 3 *The Accounting Aid Society: 2009 Tax Season Interest in Non-Tax Services by Age Category*

	20 to 29	30 to 39	40 to 49	50 to 64	65 and older	Total
Household budgeting	4.3% (0.20)	5.6% (0.23)	4.4% (0.21)	4.2% (0.20)	3.4% (0.18)	4.4% (0.20)
Solving credit problems	2.7% (0.16)	3.7% (0.19)	11.2% (0.32)	9.0% (0.29)	4.2% (0.20)	7.1% (0.26)
Buying a car	15.1% (0.36)	6.8% (0.25)	8.8% (0.28)	9.0% (0.29)	5.9% (0.24)	9.3% (0.29)
Buying a house	8.1% (0.27)	13.0% (0.34)	10.0% (0.30)	6.3% (0.24)	5.0% (0.22)	8.4% (0.28)
Home winterization	3.2% (0.18)	4.3% (0.21)	10.4% (0.31)	11.6% (0.32)	8.4% (0.28)	8.4% (0.28)
Food assistance or other benefits	7.0% (0.26)	9.3% (0.29)	10.8% (0.31)	11.9% (0.33)	10.1% (0.30)	10.2% (0.30)
n	185	161	249	335	119	1049

Source: Accounting Aid Society 2009 Tax filing season (TY 2008) Detroit;  
Notes: Response rate: 69%. Standard deviations in parentheses.

### Discussion

The tax preparation process may represent a useful 'teachable moment' when consumer financial education can be provided. There appears to be a growing interest in financial education at tax time, from the policies of the IRS to the actions of community-based programs. Past studies have not focused on education provided at tax sites in particular, but the existing literature suggests clients at tax sites may respond positively to educational services. The three community-based VITA programs reviewed in this paper each provide separate insights. MoneyUP

illustrates a one-on-one screening and counseling model with a focus on very low-income clients. This program emphasizes the need to tailor education to clients' basic needs, and the results indicate strong interest in follow-up services outside of the tax site. The CWF uses a model of education integrated into the tax preparation process. The CWF survey data indicates that clients who recalled tax staff or volunteers discussing saving money were more likely to use a savings product at the tax site. This suggests an integrated model may help increase the rate of clients using savings

products at the tax site. Finally, AAS provides greater detail on the types of educational services tax clients would like to have the option to pursue in future years at the tax site. While many clients express interest in at least one topic, there is such a wide range of interests that serving clients' needs will almost certainly prove challenging for community-based educators. Of course, each tax preparation program has unique features and is located within a specific community context. Due to the range of clients' needs, the use of a diagnostic tool to target specific educational topics may be

appropriate. Tax programs should carefully define the content and form of education provided onsite or by referrals to other programs, balancing the needs of the largest number of clients with limited resources. Each tax season provides new opportunities to learn about additional ways to deliver education at tax time. As programs evolve and test new approaches, tailored financial education has the potential to become an important and effective component of community-based tax preparation programs.

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