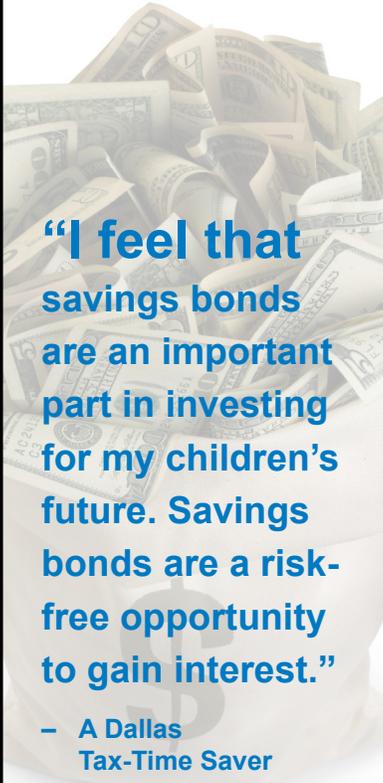




SEPTEMBER 2013



**“I feel that savings bonds are an important part in investing for my children’s future. Savings bonds are a risk-free opportunity to gain interest.”**

– A Dallas Tax-Time Saver

# A Little Goes A Long Way

## TEXAS COMMUNITY TAX CENTERS EXPAND SAVINGS AND SERVICES IN 2013

The Volunteer Income Tax Assistance Program (VITA) was created by the Internal Revenue Service (IRS) in 1969 to provide accounting students with practical training while assisting low- and moderate income taxpayers with filing their taxes.<sup>1</sup> As Congress expanded tax credits in the 1970s, it became increasingly difficult for low and moderate-income taxpayers to maximize their tax preparation assistance. By providing access to free tax preparation and other financial services, VITA empowers individuals and families to reclaim as much of their income as possible and boost local economic impact. In Texas and nationwide, VITA and community tax centers are designing products and services to move families up the economic ladder.

Today, VITA provides free tax preparation to individuals making up to \$51,000 per year. Trained volunteers ensure that filers maximize important tax credits like the Earned Income Tax Credit (EITC), the Child Tax Credit, and education tax credits. VITA returns are also extremely accurate, receiving a 92 percent accuracy rate from the IRS in 2012.<sup>2</sup> VITA sites produce an important economic impact in Texas, returning over \$230 million in refundable tax dollars to the



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### 2013 Texas VITA Highlights

- 125,000 Taxpayers served
- 113,000 (91%) received refunds
- 67,600 (70%) used direct deposit
- Average refund: \$2,073
- \$91 million in EITC claimed
- More than 2,000 savers

Source: CPPP analysis of IRS SPEC data, 2013.

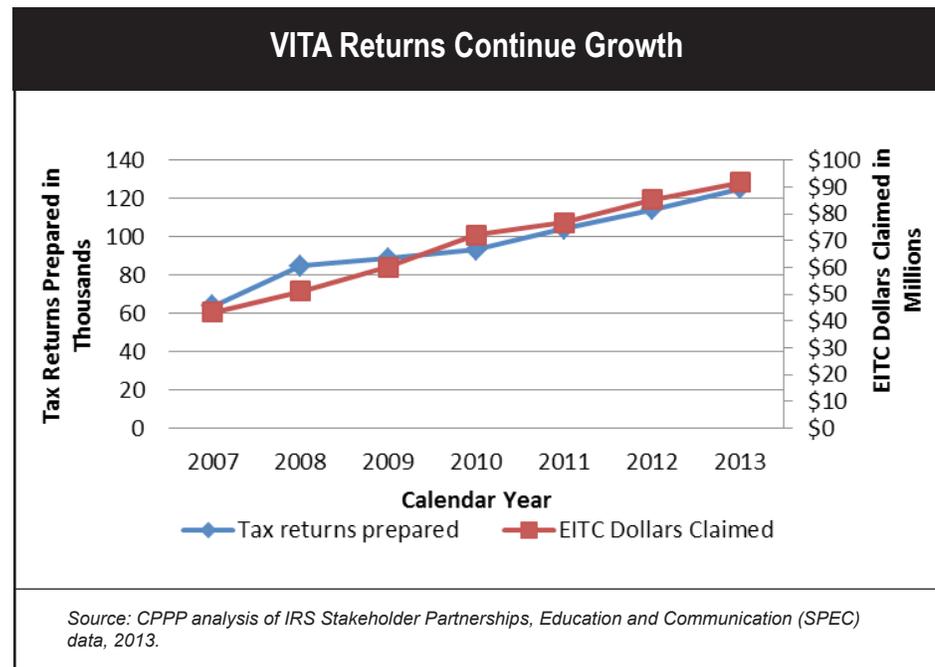
## A Little Goes A Long Way

### Get Involved! Learn How You Can Help Ensure Every Working Texan has the Opportunity to Save

Through the *OpportunityTexas* Tax-Time Savings Project, a small investment goes a long way to nudge families towards saving and achieving financial security. Please consider making a small [donation to our Tax-Time Savings Project today](#) so we can reach more Texas families next tax season. A donation of \$25 will purchase a grocery store value card that will motivate a family to save at least \$100 for the future.

community, with an estimated economic impact of \$345 million.<sup>3,4</sup> In 2012, nearly 6,000 VITA sites prepared more than 1.6 million tax returns, resulting in \$2.2 billion in refunds for low- and moderate-income households nationwide.<sup>5</sup> Texas's 250 VITA sites filed approximately 7 percent of VITA returns and refunded approximately 10 percent of total VITA dollars nationwide for that year.<sup>6</sup> VITA sites provide an important service nationwide, but they are particularly important to Texans.

Since 2007, Texas VITA sites have consistently increased tax returns and EITC dollars brought back to Texas.



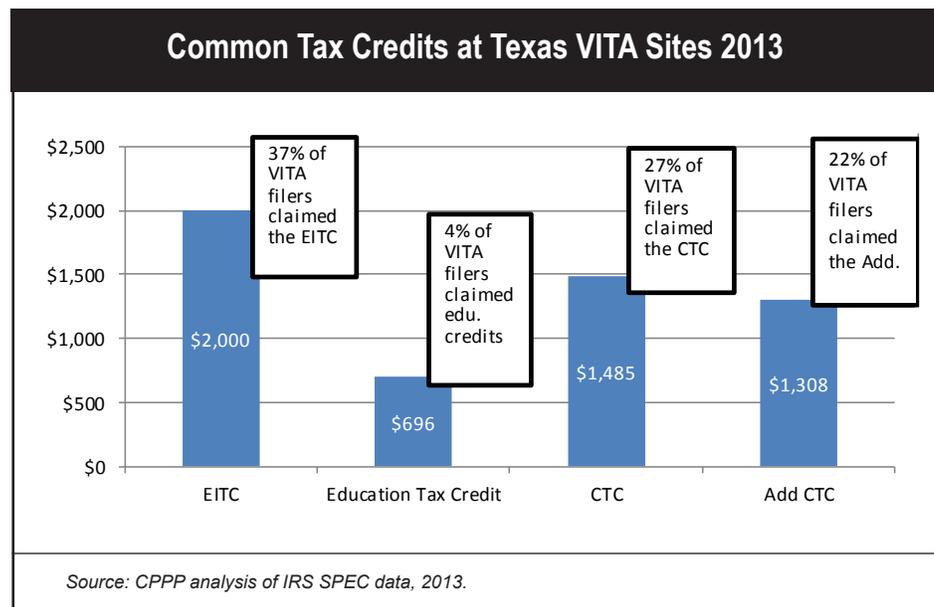
In 2013, 237 VITA sites—coordinated by non-profits, universities, and other public agencies—operated across the state of Texas. Even with a slight drop in the number of sites, Texas VITA programs continue to increase “numbers served” and “dollars returned.” This year, more than 125,000 low- and moderate-income Texans filed their taxes at VITA sites—a nearly 10 percent increase from the 2012 tax season. As shown above, 2013 marked the seventh consecutive year of growth in VITA tax preparation, with considerable increases coming over the past three years.

The majority of low-income filers’ refunds comes from tax credits meant to supplement wages and incentivize work and educational attainment. Typically, three types of tax credits benefit low-income filers:

- The *Earned Income Tax Credit* (EITC) provides an income supplement to low- and moderate-income working families. The credit is refundable; families benefit even if their tax burden is zero.

## Incentives and Innovations to Boost Savings in Texas

- The *Child Tax Credit* (CTC) provides working families with a benefit for each dependent child. Low-income families whose credits exceed their tax burden may also qualify for the refundable *Additional Child Tax Credit*.
- Education tax credits include the *American Opportunity Credit* and the *Lifetime Learning Credit*, which provide income supports for students pursuing post-secondary education or job skills training.



As shown above, Texas VITA filers claimed each of these tax credits ranging from just under \$700 to \$2,000 in 2013. Given that the average overall refund totaled \$2,000, refundable tax credits provide an opportunity to reduce debt while targeting income and asset poverty in Texas.

The EITC is widely considered the most successful income supplement for working families, lifting millions of Americans, including about 765,000 Texans, out of poverty. Research shows that the EITC benefits families by encouraging parental workforce participation, improving child and maternal health, and improving child academic performance and economic mobility.<sup>7,8,9,10</sup> Last tax season, 2.6 million Texans received the credit, claiming \$6.7 billion, or approximately \$2,500 per filer.<sup>11</sup> Although California received a greater number of EITC dollars than Texas in 2012, the EITC benefits a much greater share of the Texas workforce and Texas recipients receive a higher average EITC payment.<sup>12</sup>

## A Little Goes A Long Way

### 2012 EITC Receipt by State

State	EITC Recipients	Total EITC Amount	Average EITC Amount	% of Workforce Receiving EITC
<b>Texas</b>	<b>2.64 M</b>	<b>\$6.67 B</b>	<b>\$2,500</b>	<b>21%</b>
California	3.10 M	\$6.96 B	\$2,200	16%
Florida	2.1 M	\$4.73 B	\$2,280	23%
New York	1.7 M	\$3.79 B	\$2,200	17%

*Source: CPPP analysis of IRS data and 2011 ACS data.*

Increasingly, Texas VITA sites are doing more than tax preparation. The tax-time moment has become recognized as a crucial intervention point where local institutions and stakeholders have the opportunity to reach out to low-income families and improve financial security. VITA sites, through collaborations with other local non-profits, public agencies, and faith-based organizations also provide or cross-market other financial stability services including financial education and coaching, public benefits screening, alternative short-term loans, financial aid application assistance, and other services.

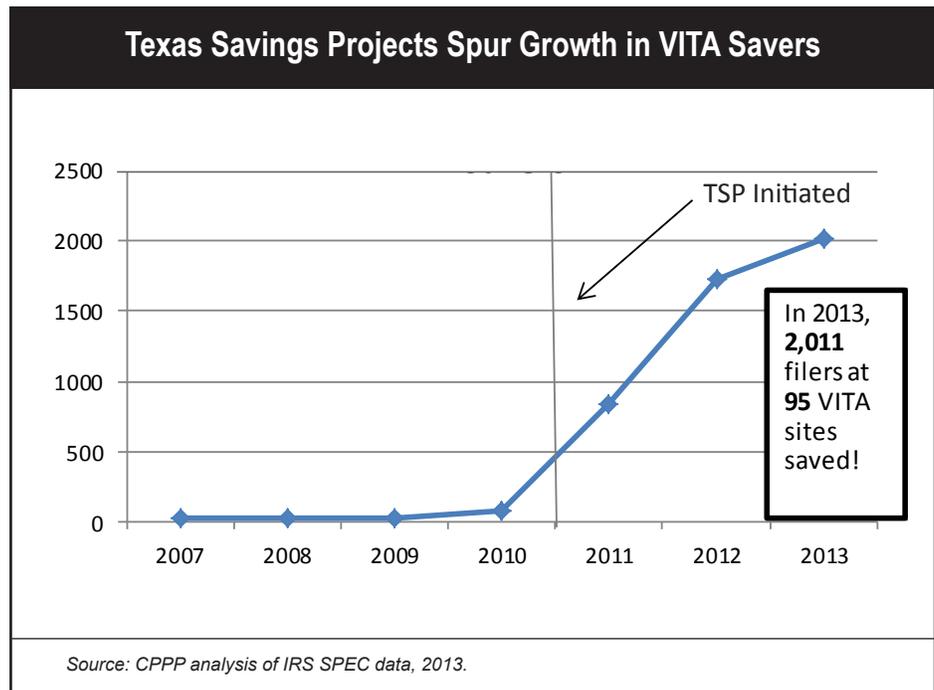
### Top VITA Performers Among Texas Counties

VITA Returns 2013		VITA Preparation Rate 2013		VITA Savings Rate 2012	
County	# of returns (\$ of refunds)	County	%	County	%
1. Harris	32,799 (\$52.4M)	1. Kinney	12.8%	1. Gregg	6.4%
2. Bexar	30,468 (\$55.9M)	2. Val Verde	11.2%	2. Tarrant	4.9%
3. Travis	16,092 (\$28.1M)	3. Wichita	8.8%	3. Val Verde	4.0%
4. Dallas	9,524 (\$17.8M)	4. Bexar	7.5%	4. Wichita	2.7%
5. El Paso	5,591 (\$10.7M)	5. Sabine	7.1%	5. Travis	2.6%

*Source: CPPP analysis of IRS SPEC data, 2012-2013. VITA preparation rate defined as the percent of low-income filers in county served by VITA sites. VITA savings rate defined as the percent of VITA filers who use Form 8888 to split their refund.*

## OpportunityTexas Tax-Time Savings Project

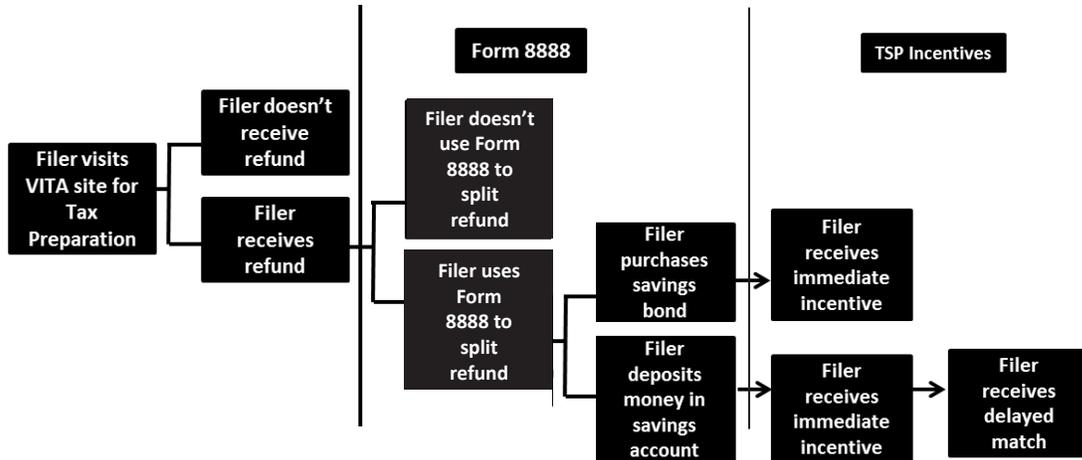
With an eye to the potential role that VITA sites can play for the communities they serve, *OpportunityTexas*, a joint initiative of the Center for Public Policy Priorities and RAISE Texas, promotes tax time as an important savings platform. For the past three years, *OpportunityTexas* has led the Tax-Time Savings Project (TSP), which incentivizes filers to purchase a savings bond with their refund or to open a matched savings account. Thanks in part to TSP, 2,011 Texas VITA filers at 40 percent of VITA sites saved a portion of their refund in the 2013 tax season. Just over 50 VITA sites (56 percent) with savers were participating in one of the three major tax-time savings incentive programs offered by Texas non-profits—the TSP, United Way of Greater Houston SAVE, or SaveUSA. As shown below, each year has attracted more and more savers.



In order to save their refund, VITA filers have to file Form 8888, which allows users to deposit refunds into one or more financial accounts and also enables individuals to purchase up to \$5,000 in savings bonds. The following diagram illustrates the process for VITA sites and clients to save at tax time.

# A Little Goes A Long Way

## Using Form 8888 and Incentives to Help VITA Filers Save



Source: IRS Form 8888, Allocation of Refund (2012): [http://www.irs.gov/uac/Form-8888,-Allocation-of-Refund-\(Including-Savings-Bond-Purchases\)](http://www.irs.gov/uac/Form-8888,-Allocation-of-Refund-(Including-Savings-Bond-Purchases)).

As in previous years, *OpportunityTexas* partnered with the United Ways of Texas and Foundation Communities through the Savings Bond Incentive Project to offer incentives to purchase savings bonds in 10 Texas communities. New to TSP this year was the Opportunity Savings Project, a partnership with the Cornerstone Credit Union Foundation to offer incentives for filers to open matched savings accounts in two Texas cities.

### Tax-Time Savings Project Partners Across Texas



## Texas Savings Bond Incentive Project

In 2013—the third year of the Savings Bond Incentive Project— participating VITA sites provided filers with a \$25 gift card to a local grocery or discount store if they purchased at least \$100 in savings bonds with a portion of their refund. This year, 897 VITA filers purchased a savings bond at one of 30 OpportunityTexas funded sites. As shown below, TSP generated \$8 in savings for every \$1 in incentives.

<b>Tax-Time Savings Project Leads to Big Savings<sup>13</sup></b>			
<b>Outcome</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>TSP VITA Filers who Saved</b>	265	942	897
<b>Average Savings Bond (\$)</b>	\$113	\$152	\$162
<b>Total TSP Savings (\$)</b>	\$29,950	\$143,300	\$145,650

*Source: CPPP analysis of IRS and Tax-Time Savings Project Data, 2013.*

TSP surveys participants about their reasons for saving and their saving histories. As in previous years, education was the most common savings purpose for Savings Bond Incentive Program participants.

- 42 percent of savers reported saving for education
- 19 percent reported saving for home repairs
- 8 percent reported saving for retirement
- 6 percent reported saving to get ahead
- 4 percent reported saving to purchase a home<sup>14</sup>

While TSP is reaching some repeat savers, the majority (68 percent) continue to be first-time savers. Of those who were asked, 75 percent reported that the incentive was important in their decision to save and 84 percent reported that they would buy a savings bond if they received a refund next year.<sup>15</sup>

## Reports from the Field: Tax-Time Savers 2013

- “I feel that savings bonds are an important part in investing for my children’s future. Savings bonds are a risk free opportunity to gain interest.” – A Dallas Tax-Time Saver.
- Two filers in Longview have been coming to their local VITA site for years to get their taxes done, initially as single people who were dating. This year they participated as a married couple. They purchased savings bonds to help secure their future and create a safety net for their new life together.
- A single mother with two young children in the Lubbock Area purchased savings bonds two years in a row so that her daughters will have something to cash in to pay for their college education when they are old enough.
- A couple in Tarrant County received a substantial \$9,000 refund. They purchased \$5,000 in savings bonds with their refund to meet their eventual savings goal of purchasing a home.

## The Opportunity Savings Project

This year, the Opportunity Savings Project—a partnership between *OpportunityTexas* and the Cornerstone Credit Union Foundation—kicked off with Border Federal Credit Union in Del Rio and Coastal Community Credit Union in Galveston. These credit unions offered gift cards to savers at their VITA sites and the promise of a savings match in January 2014.

## Opportunity Savings Project Design

### TAX TIME 2013

Participant Saves \$500+

Participant Receives \$50 Gift Card

Participant Saves \$250-\$499

Participant Receives \$25 Gift Card

### JANUARY 2014

Participants Receive Match on Additional Funds Saved, up to \$100.

## Texas Community Tax Centers Expand Savings and Services in 2013

While a significant number of Opportunity Savers already had a savings account, most were new to the tax-time savings moment.<sup>16</sup> The overwhelming majority reported that both the incentive and the match were important in their decision to save.

### Opportunity Savings Project Preliminary Outcomes<sup>17</sup>

Total Savers	119
\$500 Incentive	45.4%
\$250 Incentive	47.1%
Total Take-up Rate	4.9%
Total Initial Savings	\$41,283
Average Initial Savings	\$375
New Tax-Time Savers	76%
Incentive Important to Savings Decision	85%
Match Important to Savings Decision	97%

*Source: CPPP analysis of OSP interim report data, 2013.*

Participants cited various reasons for opening an Opportunity Savings account. Approximately 42 percent of savers reported that they were saving for emergencies and 30 percent reported that they were saving for a general purpose. These reasons differed significantly from the reasons given by Savings Bond Incentive Project savers, where education was cited as the most popular reason for saving.

Upon completion of the project in early 2014, we will report our findings from this project. The chart below shows some preliminary outcomes. Both credit unions reported that they were pleased with the results to date and would like to continue the program again next year.

### Opportunity Savings Project Interim Outcomes, June 2013<sup>18</sup>

Total Savings	\$49,230
Increase in Total Savings from Account Opening	19.3%
Accounts with Increase	24.8%
Accounts with Decrease	22%

*Source: CPPP analysis of OSP interim report data, 2013.*

## Other Tax-Time Savings Programs

In addition to TSP, the two other largest 2013 Texas tax-time projects were United Way of Greater Houston SAVE and SaveUSA administered by The United Way of San Antonio and Bexar County. In both cases, VITA filers who received a refund and chose to open a savings account with a portion of their refund will receive a delayed match their account balance approximately one year after opening, up to \$500.

Building on last year's success, the United Way of Greater Houston's THRIVE set out to increase the number of savers and amount saved. While the match decreased from 50 percent to 25 percent this year, the maximum deposit eligible for a match increased from \$500 last year to \$1,000 this year. Of the 230 accounts opened through United Way SAVE during the 2012 tax season, 72.6 percent remained open in January of 2013 with an average final savings of \$431.<sup>19</sup>

SaveUSA in San Antonio was created as part of a national evaluation of tax time savings projects sponsored by the New York City Department of Consumer Affairs, Office of Financial Empowerment and the New York City Center for Economic Opportunity. This year, the San Antonio SaveUSA program was available at five United Way-operated VITA sites. VITA filers were eligible if they saved at least \$200 of their refund in a SaveUSA account. After one year, account holders will receive a 50 percent match (up to \$500) if they have maintained at least the initial deposit amount for the full year.

### SaveUSA and United Way of Greater Houston SAVE Outcomes

Tax Season	SaveUSA (San Antonio)			United Way of Greater Houston SAVE	
	2011	2012	2013	2012	2013
Funded Accounts	436	635	845	230	408
Average Initial Savings	\$574	\$555	\$518	\$385	\$693
Full Year Savers	76%	71%	N/A	73%	N/A
Average Final Savings	\$937	\$640	N/A	\$431	N/A
Repeat Savers	N/A	36%	42%	32%	N/A

Source: CPPP analysis of SaveUSA and United Way of Greater Houston SAVE data, 2011-2013.

While the evaluation of SaveUSA is ongoing, preliminary findings suggest that a savings match to VITA filers can serve as an effective policy lever to encourage low-income tax filers in saving to “take the plunge” and invest a portion of their refund in a savings account. Results from the randomized trials in New York City and Tulsa show that while all of the participants in the study expressed interest in saving, those in the control group who were not offered a SaveUSA account were substantially less likely to actually direct deposit a portion of their refund into a savings account. While 90 percent of the SaveUSA treatment group chose to direct deposit a portion of their refund in a savings account, only 9 percent of the New York City control group participants and 23 percent of the Tulsa control group participants directly deposited a portion of their refund into a savings account.

### **The Financial Security Credit Act: A Federal Tax Credit to Promote Tax Time Savings**

On August 1, 2013, Representative Jose Serrano (NY-15) introduced H.R.2917, the Financial Security Credit Act to promote savings across the United States. Inspired by local tax time savings projects, the bill would provide a tax credit for low- to moderate-income filers who deposit a portion of their tax return into a savings account (including a designated retirement or education savings account), or purchase a certificate of deposit (CD) or savings bond with their refund. Filers with Adjusted Gross Income (AGI) up to approximately \$56,000 (\$60,000 for joint filers) who saved for at least eight months after making their initial deposit would receive a credit up to \$500 based on their income and the amount they saved starting in tax year 2014. The credit and income thresholds are indexed to inflation and would increase over time, ensuring a valuable savings incentive to low- and moderate-income tax filers well into the future.

### **Conclusion**

The success of tax-time savings projects across the state of Texas illustrate the important role that VITA sites can play in Texas communities. By providing the “bread and butter” service of free tax preparation to low- and moderate-income Texans, VITA sites maximize the amount of income returned each year and ensure that more of those dollars stay in the pockets of Texas taxpayers and circulate in their local communities. By providing additional services like financial coaching, FAFSA preparation, and asset building opportunities, VITA sites help families manage their annual tax-time windfall and prepare for the future. This year’s tax-time savings programs continue to build toward the goal of financial stability for all Texans, and have once again created substantial asset building opportunities for participating families.

### State and Federal Policy Implications

#### Federal

- Federal Tax Reform: Currently, the federal tax code falls short in enabling low and moderate income households to build wealth through the tax code. The growth and success of tax-time savings projects indicates that the EITC population will take advantage of savings and asset building opportunities at tax time. The Financial Security Act and similar proposals seek to build upon this opportunity to make savings and asset building more automatic and reach broader scale.
- CFPB Rulemaking on Payday Lending: Many tax-time projects also seek to create more household liquidity in order to decrease the likelihood of payday or auto title loan usage. In Texas, the average loan amount is around \$470 (similar to SaveUSA) initial savings. Tax-time savings stakeholders have the opportunity to weigh in with upcoming CFPB rulemaking and to describe how high-cost payday lending negatively interacts with VITA and tax-time savings.

#### State

- The Texas asset test, particularly for SNAP and TANF, continues to discourage Texas families from saving at tax time and achieving financial stability. With the abolition of the asset test for CHIP and Medicaid, Texas has the opportunity to become more efficient and more supportive of household savings by eliminating liquid asset requirements for Texas families seeking to move up the economic ladder.
- In Fall 2013, the Finance Commission will move ahead with funding asset building and financial education initiatives through the Texas Financial Education Endowment grant process. Through this platform, Texas nonprofits will have the opportunity to enhance their work in building financial security for Texas families.

# Texas Community Tax Centers Expand Savings and Services in 2013

## Endnotes

- 1 Weisman, Holden (2011). Volunteer Income Tax Assistance: A Proven Path Toward Financial Security. The National Community Tax Coalition, Chicago, IL.
- 2 National Community Tax Coalition (2012). Accuracy Rate for Volunteer-Prepared Tax Returns Jumps Again: 92 Percent Accuracy Rate Reflects Improvements Made by VITA Programs, IRS. Chicago, IL.
- 3 CPPP analysis of 2013 IRS data.
- 4 Economists estimate that the EITC has a multiplier effect of 1.5 to 2.0. This estimate uses the conservative multiplier of \$1.50 in economic activity generated by every \$1.00 in EITC received. For more see: The US Conference of Mayors (2006). DollarWi\$e Best Practices: Earned Income Tax Credit (2nd ed.). Washington, DC. <http://www.dollarwiseonline.org/eitc.asp>.
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- 12 According to research by Alan Berube and Benjamin Forman. The EITC also benefits local economies; a significant amount of EITC dollars flow to small cities and suburbs, and the EITC is a substantial neighborhood investment program, with benefits exceeding those of more traditional urban development programs. For more information see: Berube, Alan & Forman, Benjamin (2001). A Local Ladder for the Working Poor: The Impact of the Earned Income Tax Credit in U.S. Metropolitan Areas. Center on Urban & Metropolitan Policy, The Brookings Institution in Collaboration with the National League of Cities. Washington, DC. <http://mail.caseyfoundation.com/upload/publicationfiles/a%20local%20ladder.pdf>. Berube, Alan (2006). Using the Earned Income Tax Credit to Stimulate Local Economies. Diverse Perspectives on Critical Issue: Living Cities: The National Community Development Initiative. Washington, DC. <http://www.brookings.edu/~media/research/files/reports/2006/11/childrenfamilies%20berube/berube20061101eitc.pdf>.
- 13 Survey responses and demographics of nine filers, which purchased a \$50 savings bond, below the minimum savings amount to qualify for an incentive in the 2013 project, were included in our project statistics.
- 14 The remaining 26% either hadn't decided what they were saving for or were saving for another reason.
- 15 Only UWT savers were surveyed on these questions.
- 16 This is partially attributable to Border Federal Credit Union's requirement that all members have a savings account.
- 17 Nine participants had an opening balance of zero. There were two reasons for their zero beginning balance - either the participant ended up not receiving a tax refund or the refund was received, but was withdrawn before it posted to the participant's account. These nine clients' zero balances have been excluded from the average initial savings calculation and incentive percentages because at the time of the publication of this paper, the incentive they received and the reason for their zero balance was not known.
- 18 The nine Opportunity Savings accounts with zero opening balances were excluded from these interim outcomes.
- 19 Average final savings does not include closed accounts.

## More Information

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## Center for Public Policy Priorities

For 25 years, the Center for Public Policy Priorities has been a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans. The center pursues this mission through independent research, policy analysis and development, public education, advocacy, coalition-building, and technical assistance. To learn more, visit [CPPP.org](http://CPPP.org).



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## Acknowledgement

The center thanks the Citi Foundation, RAISE Texas, and the Cornerstone Credit Union Foundation for their support of our work. The findings and conclusions presented in this report are solely those of the center, as are any errors or omissions.

