

Leveraging Tax Time to Build Financial Stability

Tax season is a critical financial empowerment moment

for millions of families and individuals across the country. Each year, the tax season is a moment where filers are thinking about their finances; for filers with low and moderate incomes, tax season usually also means receiving a large lump sum in the form of a tax refund, often bolstered by the Earned Income Tax Credit (EITC). In addition, EITC-eligible filers can access free Volunteer Income Tax Assistance (VITA) from trained professionals. This brief details why city leaders are investing in tax time initiatives, provides details on how these programs operate, and highlights how cities have gotten started doing this critical work. The brief is informed by the work of cities across the country, including the members of the **Cities for Financial Empowerment Coalition**, an invitation-only group of member cities who have made multiple, tangible, and measurable commitments to supporting financial empowerment programming for their residents.

DEFINING TAX TIME OPPORTUNITIES:

The EITC refund is often the largest lump sum payment that individuals and families with low incomes receive all year. Tax time is also a key moment when filers are thinking about their finances. There are two key tax time opportunities:

- **Tax Preparation:** The Volunteer Income Tax Assistance (VITA) program offers free tax preparation to people with annual incomes of roughly \$55,000 or less, as well as to people with disabilities and those who speak limited English and need assistance in preparing their own tax returns. IRS-certified VITA volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. Many cities have local nonprofit organizations dedicated to recruiting and training volunteers, and coordinating tax preparation sites during tax filing season. The IRS keeps a **database of nonprofits** that are certified to provide VITA services.
- **Tax Credits:** Low-income residents can also benefit from several important tax credits. These include the **Child and Dependent Care Credit**, which defrays the costs of babysitting or childcare; the **American Opportunity Tax Credit**, which helps families with costs associated with higher education; and the most significant and refundable credit, the **Earned Income Tax Credit (EITC)** for working people with **low to moderate incomes**. Filers must file a tax return to claim the EITC. **In 2018**, 25 million people received \$63 billion in EITC refunds; the average amount received was more than \$2,400.

WHY DO CITY LEADERS INVEST IN THE TAX SEASON?

Nationally, nearly 29 million taxpayers claim credits such as the Earned Income Tax Credit and the Child Tax Credit that return over \$65 billion dollars each year to families in need. However, over 7 million taxpayers annually fail to claim these credits for which they are eligible, leaving nearly \$14 billion dollars “on the table” rather than in family budgets and local communities.

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CFE Coalition leaders from New York, Chicago, Lansing, Louisville, Miami, San Antonio and others see this gap as a large scale anti-poverty and economic development opportunity. Supporting tax time initiatives means that more residents receive much-needed income support, with those dollars often reinvested in local businesses that help sustain neighborhoods and communities. In addition, low-income filers are often receiving other municipal services – cities are already trying to help these individuals and families build an emergency savings cushion and avoid unnecessary fees, like those of paid tax preparers, or of unnecessary and costly short term loans.

Cities often see tax time as a significant opportunity to engage residents with other financial empowerment strategies such as financial counseling, banking access, and asset building.

HOW DO CITIES SUPPORT TAX SEASON PROGRAMS?

CFE Coalition cities help local tax time efforts to expand their reach and increase their effectiveness in a variety of ways. These can include providing direct funding or in-kind support for tax programs, and assisting with, or leading, marketing and outreach efforts. Cities also leverage tax time to connect residents with additional financial empowerment services, from financial counseling to consumer protection efforts.

Many cities provide support for tax time programs through direct funding or in-kind support. For example, the City of Miami uses general funds to support the VITA program by directly funding tax site coordinator positions, while the City of Chicago provides general support to a local nonprofit that provides free tax assistance. In the City of San Antonio, most VITA sites are actually operated by the City, funded by a combination of Community Service Block Grants (CSBG) and city general funds. In addition to providing direct funding to their local VITA organization, the City of Louisville provides in-kind support by donating office space, along with access to IT assistance, an appointment scheduling system, use of front-desk staff, and support from other staff members who lead financial empowerment efforts. Cities also can support tax time efforts through participating in VITA/Tax Time Coalitions or VITA planning; convening tax partners is a natural role for city governments, and can provide a platform to share best practices, understand geographic coverage and plan for gaps, and support joint grant or funding applications.

In addition, cities often develop coordinated marketing, branding, and outreach strategies designed to increase awareness of free tax preparation services and the importance of the EITC to eligible tax filers as well engage potential volunteers. The City of Chicago supports an annual outreach campaign through Aldermanic offices, partner City and nonprofit agencies, notices on public transportation, and other channels. The City of San Antonio maintains a website, www.vitasa.org, with information on free tax preparation locations, the benefits of VITA, and a list of documents to bring to a VITA site; New York City also maintains [an online map](#) of all free tax preparation sites, and adds these sites to their 311 services so operators can direct callers to the nearest site. Louisville’s involvement with the VITA program has helped them improve their own marketing and outreach efforts around tax time. In addition, many Mayors kick off the tax season by holding a press conference and launching a marketing campaign on the importance of filing taxes and claiming the EITC and other tax credits. These marketing and

outreach efforts are a low-cost way for cities to leverage their “bully pulpit” and ensure that residents know how to access free tax preparation services and claim all credits for which they are eligible.

Finally, cities often also utilize the tax season as an opportunity to connect residents to other financial empowerment services, including financial counseling, banking access, savings opportunities, and consumer protection. Many cities use tax time to make residents aware of tax-related scams and frauds that often target vulnerable populations and their refunds – and highlight the fact that free, high-quality tax preparation services are available. For example, New York City created a **Consumer Bill of Rights** regarding tax preparers, which outlines what filers have a right to know about preparers (qualifications, fees, options for payment, whether the preparer will represent them if audited) as well as what filers have a right to receive (a copy of the return, an itemized, refund options, etc.) Others connect the tax time moment – when filers are thinking about their finances, and have their financial documents with them – to one-on-one financial counseling (or lighter-touch “financial checkups” with a referral to financial counseling), or integrate bank account opening, setting up direct deposit of refunds, and **opportunities to save** into the tax preparation process.

PATHWAYS TO LAUNCHING A MUNICIPAL TAX TIME INITIATIVE

There are several ways cities can launch or support municipal tax time efforts. One key first step is to understand the range of currently existing tax efforts in the community, and then engaging with nonprofit partners that may already be working on these efforts to determine both what they can provide and what they need. VITA programs and tax initiatives are complex and require comprehensive training, so community organizations already implementing these programs have invaluable expertise and insight in identifying ways to enhance their capacity and effectiveness. As outlined above, this may take the form of direct or in-kind support; marketing and outreach assistance; or connecting tax preparation efforts to other municipally-led financial empowerment services.

Reviewing **IRS data on tax filing** in your area can be helpful in determining locations with a history of highest need for both tax preparation services and targeted outreach. In addition, the IRS’ **Stakeholder Partners, Education, and Communications Office** can provide important assistance with local tax filing data and other tax preparation resources.

Finally, the tax season is a short and intense period, so it is important to understand the operations of tax sites when contemplating how to integrate other financial empowerment strategies. VITA sites often have long waits, and appointments are often frontloaded at the beginning of the season. However, filers may spend several hours waiting for their appointments, which can be an opportune time to impart other financial empowerment efforts or messages. In addition, since many filers with low incomes file early in the tax season, cities should plan their tax time efforts far in advance. In fact, the summer previous to tax season is generally considered the right time to start planning; tax time initiatives should be finalized two to three months before the season starts in January.

**WANT TO
LEARN MORE?**

The Cities for Financial Empowerment Fund and our CFE Coalition partners are committed to growing municipal financial empowerment efforts across the country. If you want to learn more about supporting free tax preparation efforts in your city, visit www.cfefund.org to learn more and connect with a municipal financial empowerment expert.