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Volunteer Income Tax Assistance Programs and Taxpayer Actions to Improve Personal Finances

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Abstract: *The income tax-filing process creates teachable moments for learning about taxes and other financial matters. Educators and volunteers from Penn State Cooperative Extension helped taxpayers file 2008 returns under Volunteer Income Tax Assistance Program (VITA). Nearly 600 filers (588) completed and simultaneously received educational information about managing personal finances. This article describes the actions taxpayers took to improve their financial stability. Nearly half (48.8%) of the filers believed their understanding of taxes had increased a lot since having their taxes prepared by Penn State Cooperative Extension. Implications for Extension educators and program benefits for taxpayers and volunteers are suggested.*

Introduction/Background

The U. S. tax code is complicated, and many taxpayers must seek assistance from professionals to complete and file returns. The Internal Revenue Service (IRS) acknowledges the complexity of the ever-changing tax code and has instituted the Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) programs. Both programs target the most vulnerable taxpayers, i.e., those with low incomes and the elderly and are free for these audiences.

In 1969, when the IRS established VITA, the intent was to help taxpayers file tax returns. Also, as the shift from paper to electronic occurred, VITA programs played key roles in helping the IRS fulfill its electronic filing goals. Now, as the nation grapples with changes in financial markets and a public with a low personal finance aptitude (FINRA, 2010; Way & Holden, 2009), VITA programs are encouraged to provide financial education. Starting with the 2011 VITA grants program (inaugurated for the 2009-filing season), tax education and financial education were two of the three prongs important for VITA programs (Internal Revenue Service, 2011). The third prong was free federal tax return preparation.

Educators in various settings have long recognized the need for financial education among low-income citizens. "Well-informed, financially educated consumers are better able to make good decisions for their families and thus are in a position to increase their economic security and well-being. Financially secure families are better able to contribute to vital, thriving communities and thereby further foster community economic development. Thus, financial education is important not only to individual households and families but to their communities as well" (Hilgert, Hogarth, & Beverly, 2003, p. 309).

Penn State Cooperative Extension educators viewed the VITA program as an opportunity to reach low-income taxpayers with financial information. In short, the tax preparation process was a teachable moment because the timing was right for these audiences to learn financial concepts. Such moments exist when the learner has a high interest, an immediate need, or a memorable emotion that is associated with the learning opportunity. One or more of these conditions increases the chance of new information being retained and used (Havighurst, 1953).

This article reports the results of a study undertaken to assess steps taken by these taxpayers to improve their financial stability and security.

Method

Penn State Extension operated VITA programs in seven central Pennsylvania counties. Three educators served as site coordinators and supervised the site volunteers. Volunteer tax preparers were IRS-certified, indicating they had mastered taxes applicable to VITA taxpayers. VITA was available to any individual or household that met the 2008 Earned Income Tax Credit (EIC) income of \$42,000 or less. The EIC, established in 1975, is a federal anti-poverty program that provides refundable tax credits to low wage earners. Credits remaining after taxes owed are subtracted and refunded to taxpayers.

During the 2008 tax year filing season (1/1/2009 to 4/15/2009), 588 taxpayers sought assistance from Penn State Cooperative Extension VITA programs. The financial education messages provided were non-invasive. The preparers provided these taxpayers with a packet of fact sheets that covered the following topics:

- *Credit Cards, Privacy Matters and Identity Theft*
- *Free Credit Reports: It's a Matter of FACTA*
- *Thwarting Identity Theft*

The packet also included:

- The Free Annual Credit Report Request Form
- A preaddressed envelope to mail the Free Annual Credit Report Request Form
- A Form W-4 Federal Income Tax Withholding Form
- A Form W-5 Advanced Earned Income Tax Credit

In most cases, the packet was shared at the end of the filing process, and filers were encouraged to read the fact sheets. However, if large amounts of data needed to be entered or if more time was needed to resolve a return issue, the packet was shared earlier. Thus, the taxpayers could make productive use of their time and read the fact sheets while their returns were being completed. The packet's cover letter also contained the address for the Your Money Your Taxes website and the titles of the three fact sheets. Copies of IRS Publication 505 (*Tax Withholding and Estimated Taxes and Form*) were available at the sites. If appropriate, the taxpayers were encouraged to discuss adjusting tax withholdings with their employers.

In June 2009, the 588 taxpayers were mailed a letter requesting their participation in the study reported here. They were asked to complete a 10-item survey that included demographic

questions and past year money practices. Of the 588 surveys that were mailed, 578 reached the filers (10 were undeliverable). Non-respondents were telephoned once and asked to return the survey. If no one answered, a voice message was left. One hundred ninety-five (195) taxpayers returned completed surveys (a 34% response rate).

In late July and early August of 2009, the 195 individuals who returned the survey were followed-up by telephone with an additional 12-item survey. They were questioned about refunds received, the receipt of educational information, and financial actions taken. Individuals not reached on the first call were telephoned up to two additional times. Eighty-two (42%) of the taxpayers completed the telephone follow-up.

Mailed Survey Findings

The 195 participants were primarily Caucasian (87.6%), female (64.2%), and single (47.1%). Thirty percent were married, 16.8% widows, and 5.8% were heads of households. About one-fourth (24.9%) were disabled or had at least one disabled household member. The highest level of education attained was high school or GED (40.7%), followed by some college or technical school (20.6%), and a 4-year degree (12.4%). Almost 10% reported completing less than a high school education.

Three-fourths (74.7%) had sought assistance from Penn State Cooperative Extension with their 2007 tax return, indicating that most were repeat Extension clients.

To assess money management habits, the taxpayers were asked to identify uses of 2007 tax refunds (Table 1). The majority were savers (56.5%). Few had engaged in practices (using payday lenders, rent-to-own) cited in the literature as common among low-income unbanked households (Jackson, Costle, Karp, & Walters, 2010; Reddy, 2010).

Table 1.
2007 Uses of Tax Refund Money

Money Use	% N=146
Put money in a savings account	56.5
Put money in a retirement account	18.3
Used a money order to pay bills	13.6
Wired money to a friend or family member	5.2
Used rent-to-own to obtain items (e.g. furniture)	3.1
Paid fees to cash checks	2.1
Used a payday loan or cash advance	0.5

Telephone Follow-Up Findings

The 82 individuals who participated in the telephone follow-up revealed more details about their money habits. Nearly 71% had received a state and/or federal refund. Of the 60 taxpayers who answered the question about refunds and the EIC, 24 indicated that part of their refund was due to the EIC, but almost the same number did not know if the EIC was part of their refund. The remaining taxpayers (21.7%) did not receive a refund. Slightly over half (52.4%) were unemployed, and 24 of 37 who responded to a retirement plans question had not started or increased their contributions to an employer-provided retirement plan.

Some of these 82 taxpayers had taken steps to improve their financial stability, but more than half (47) indicated that they had not received any educational information during the tax-filing process. Of the 35 who recalled receiving educational information:

- 30 had read the personal finance fact sheets provided at the VITA sites;

- 27 had opted out of receiving pre-approved credit card offers and had used at least one identity theft prevention strategy;
- 24 had placed their names on the Do Not Call Registry;
- 18 had removed their names from junk mail lists; and
- 17 had started to save for or increased the amount saved for emergencies or other goals (Table 2).

Table 2.
Financial Actions of Telephone Follow-Up Taxpayers

Financial Actions	N=35	%
Read fact sheets provided at the VITA site	30	85.7
Opted out of pre-approved credit card offers	27	77.1
Used at least one identity theft prevention strategy	27	77.1
Added name to the Do Not Call Registry	24	68.6
Removed name from junk mail lists	18	51.4
Started or increased money saved for emergencies or other financial goals	17	48.6
Requested a free credit report	9	25.7
Visited <i>Your Money Your Taxes</i> website	2	5.1

Most of these taxpayers (94.3%) had not visited the *Your Money Your Taxes* website and two-thirds (68.6%) had not requested a free copy of their credit reports. Also, almost 82% had not adjusted their W-4 withholdings. However, nearly half (48.8%) did indicate that their understanding of their tax situation had improved since coming to Penn State Cooperative Extension for assistance.

Conclusions/Discussion

The majority of 195 taxpayers (51%) responding to the mailed survey had low educational attainment (high school or less), were female, and Caucasian. In contrast to the findings by Linnenbrink, Koonce, Mauldin, Rupured, and Schlanger (2008), the taxpayers in the study had used banks, credit unions, and direct deposit. About 71% had received paychecks or retirement income via direct deposit. Having an account with a bank or credit union may explain why more than half (56.5%) had saved money via a savings account in 2007.

Fewer than half who responded to the mailed survey also completed the telephone follow-up (82 of 195). Actions taken by taxpayers required minimal time commitment but are important steps to improving financial stability. Fifty percent or more of the telephone respondents had taken financial actions. They had read the fact sheets, opted out of pre-approved credit card offers, took steps to prevent identity theft, and registered on the Do Not Call Registry. About 49% had started to save for emergencies or other financial goals, and nearly 50% knew more about their income tax situation after seeking assistance from the Pennsylvania VITA sites.

Gaining the confidence and courage to learn about taxes is no small task. Millions of workers perform their jobs each year but remain clueless about how the U. S. income tax system works. Increasing taxpayers' knowledge and confidence about taxes may be the catalyst for them to make decisions that positively affect their tax bill. Also, taking small steps (e.g., saving for goals) can improve both financial stability and feelings of empowerment.

These taxpayers typically did not visit the Your Money Your Taxes (YMYT) website, adjust tax withholdings, or request copies of their credit reports. Perhaps they did not read the cover letter with the website address or have Internet access. Some low-wage workers claim they "can't save money" and use over-withheld taxes as forced savings and the IRS as a bank. Also, they may not have needed to adjust their withholdings. These taxpayers may not have been credit users or did not have access to credit and thereby had no need to request a copy of their free credit report. In addition, those with low educational attainment may not have felt comfortable requesting a copy of their credit reports.

Implications for Practice

Results from the study reported here and those of Collins (2010) indicate that the tax-filing season is a teachable moment to reach taxpayers with financial information and help filers understand the basics about taxes. Also, the filing process is a mystery to many adults who are relieved to have their tax returns completed. Therefore, focusing on one or two financial education topics per filing season might be a better approach to relay educational messages and lead to a higher take-up or use rate. Psychologists have theorized that when presented with too many options, consumers do nothing (Schwartz, 2004). Results from studies involving participation in 401(k) plans revealed that participation increased as the number of choices employees had decreased (Sethi-Iyengar, Huberman, & Jiang, 2004).

To ensure that taxpayers receive the intended educational messages, it may be best to provide the message on a one-page handout as part of the check in process as they wait to process their returns. Preparers should also remind taxpayers of this message as they end the filing process.

Hilgert, Hogarth, and Beverly (2003) indicate that education may require a combination of information, skill building, and motivation to achieve the desired behavioral changes. Extension educators and volunteers who help low income families complete tax returns are in positions to influence taxpayers' financial knowledge and behavior. They have the benefit of providing educational information with no caveats (i.e., products to buy). They are trusted members of the communities where they work and collaborate with others to reach learners. Learners' trust of educators has been documented as a key variable to getting low-income individuals to use new educational information and become empowered to control what they can (Hogarth & Swanson, 1995).

VITA programs located on university campuses are ideal service learning opportunities for the next generation of tax preparers. Accounting and law students who serve as volunteers contribute to local communities as they put classroom theory into practice. These students also become familiar with Extension and may be in positions to alert others to this resource.

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