EITC Achieves Gains But Challenges Remain

By Dr. Lucy Gorham, Director, EITC Carolinas Initiative, MDC, Inc.

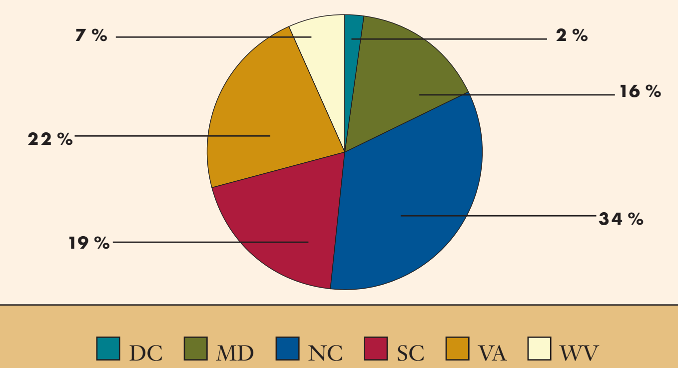
Photo: Getty Images

With the tax season complete, filers find themselves in two categories; those who pay the government back and those who receive refunds. But for low-income workers who file taxes, the season brings even more rewards, especially if they've claimed the Earned Income Tax Credit (EITC). First enacted in 1975 under President Gerald Ford, the EITC is a federal tax credit for low-income workers. The EITC offsets the impact of employment taxes paid by low-wage workers and is also designed to "make work pay" by rewarding employment over public assistance.

Based on a recent Treasury audit, the federal government spent $31 billion for the EITC, making it the nation's largest anti-poverty program. This outlay surpassed federal government spending for food stamps—$19 billion, and Temporary Assistance to Needy Families, the replacement for welfare—$21 billion. Recent data find that each year the EITC lifts roughly five million people out of poverty, almost half of them children. Families often use the EITC refund to pay for home repairs and transportation. In some cases, recipients use the refunds to help boost their earning potential by investing in additional education or training. President Ronald Reagan and his successors Bill Clinton and George Bush each expanded the EITC, which continues to receive strong bipartisan support. When signing the Tax Reform Act of 1986, which included budget increases for the EITC, President Reagan called the legislation "the best anti-poverty bill, the best pro-family measure and the best job creation measure to come out of the Congress of the United States."

FIGURE 1

Percent of Fifth District* EITC Recipients By Location - 2003



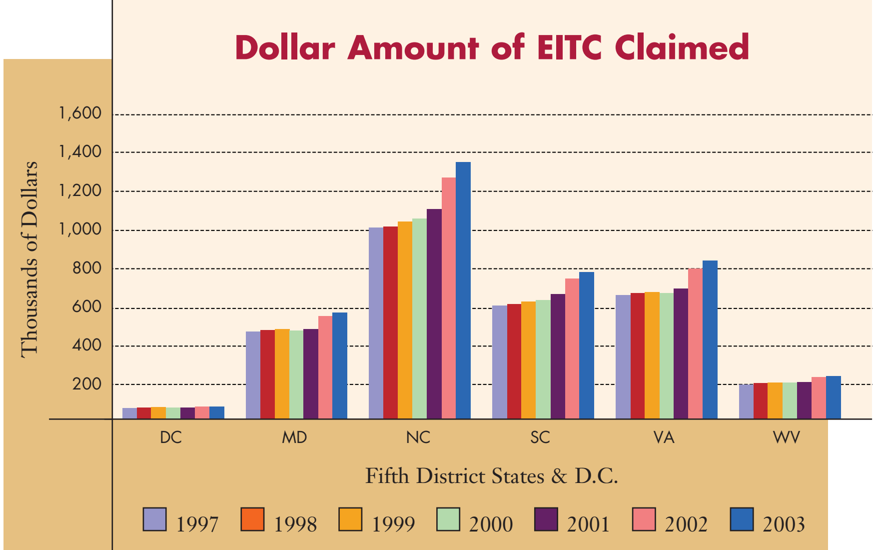
Source: Brookings Institution
*Includes data for entire state of West Virginia

The EITC's Eligibility Requirements and Structure

Administered by the Internal Revenue Service (IRS), the EITC is only available to persons with earned income who file a federal income tax return to claim the credit. The tax credit amount is based on the level of earnings of the tax filer, whether he/she is married or single, and the tax filer's number of children. To encourage work, the EITC benefit increases as earnings increase to a certain level, then tapers off gradually. For the 2006 tax year, these were the EITC benefits and eligibility requirements:

- Families with one child are eligible for a credit of up to $2,747 and can earn up to $32,001, if single; $34,001, if married;
- Families with two or more children are eligible for a credit of up to $4,536 and can earn up to $36,348, if single; $38,348, if married;
- Workers between the ages of 25 and 64 without a qualifying child are eligible for a credit of up to $412 and can earn up to $12,120, if single and $14,120, if married;

FIGURE 2



Source: Brookings Institution's Calculations of IRS Data

In addition, eligible workers and their family members must have a social security number valid for employment and must not have investment income that exceeds $2,800.

EITC Obstacles

Despite its success, the EITC faces three challenges to maximizing its benefits for the working poor:

1. A considerable percentage of eligible workers fail to claim the EITC;
2. Families need help in keeping all of their refund and avoiding high tax preparation fees; and
3. Families need more help in using the EITC to build assets and a more stable economic future.

First, an estimated 15 to 25 percent of eligible workers fail to claim the EITC. Why do so many eligible workers fail to claim the credit? Some workers don't realize that they're eligible. If their incomes are low enough, they're not required to file a federal tax return. In addition, the eligibility requirements for the EITC are complex, resulting in 52 pages of detailed IRS regulations. Workers who file their own tax return may not claim the EITC because of concerns about making an error. Recent changes in IRS rules to make the definition of a qualifying child more consistent across tax credits (such as the Child Tax Credit and the Child and Dependent Care Credit) have helped in this regard, but the regulations need to be further simplified. Groups of taxpayers who are most likely to miss out on the EITC, but could be the target of effective community outreach campaigns fall into these categories:

- Very low-income workers who are not required to file a federal tax return;
- Taxpayers with children who use the 1040EZ form, which does not include the option to file for the EITC;
- Workers who are self-employed, such as home child-care operators;
- Workers who are new parents, foster parents or caring for relatives such as grandchildren;
- Workers with disabilities;
- Newly employed workers or newly unemployed workers who have only worked part of the year; and
- Workers for whom English is their second language.

How much in unclaimed EITC refunds do eligible families "leave on the table" each year? In the Federal Reserve's Fifth District (Maryland, North Carolina, South Carolina, Virginia, most of West Virginia, and the District of Columbia), a conservative estimate is that working families leave $335 million unclaimed each year (Figure 3). Making such an estimate is inexact since there is no way to know the income of all potentially eligible families, particularly those who do not file a federal tax return. However, based on research that estimates that, nationally, between 15 and 25 percent of eligible families fail to claim the credit, it is possible to estimate the number of families that fail to claim the EITC. This number can then be multiplied by an estimate of the average benefit lost.

Data from Figure 3 show an estimate of the average unclaimed EITC refund. as being only half of the average in each state, based on the assumption that those leaving the EITC unclaimed would probably receive a smaller amount than those who would qualify for higher amounts (and therefore are most motivated to claim it). Because this estimate of $335 million is calculated using the 15 percent figure for the share of eligible families who fail to claim and half of the average EITC benefit, it may understate the amount of EITC the region loses each year. However, given that an exact figure is impossible to calculate, it is only offered here to give a sense of the potential upside of EITC outreach campaigns to working families and the communities in which they live.

As a public policy and community development issue, helping eligible families claim the EITC can be used to help low-income

FIGURE 3

ESTIMATE OF UNCLAIMED FEDERAL EITC BY STATE, 2003*

Fifth Federal Reserve District

Actual EITC Claims

	Number	$ Value	$ Average Claim
DC	48,358	82,743,427	1,711
MD	328,402	559,263,636	1,703
NC	715,785	1,328,413,927	1,856
SC	406,917	769,517,527	1,891
VA	475,089	825,693,435	1,738
WV	141,707	238,230,169	1,681

Estimate if 15% Not Claiming

	Number	$ Value
DC	8,534	7,300,891
MD	57,953	49,346,791
NC	126,315	117,212,994
SC	71,809	67,898,605
VA	83,839	72,855,303
WV	25,007	21,020,309

Estimate if 25% Not Claiming

	Number	$ Value
DC	16,119	13,790,571
MD	109,467	93,210,606
NC	238,595	221,402,321
SC	135,639	128,252,921
VA	158,363	137,615,573
WV	47,236	39,705,028

* This estimate is based on the assumption that, nationally, between 15 and 25 percent of eligible tax filers fail to claim the Federal EITC. Since we know the actual number that claimed by state, we can estimate the number of additional claims there would be if all eligible filers claimed. We then multiplied these numbers (one based on 20 percent not claiming, the other based on 25 percent not claiming) times 50 percent of the average EITC claimed in each state (for example, the average in Maryland is $1,732, so 50 percent of that is $866). We use only 50 percent of the average EITC benefit because we assume that those who claim the credit are more likely to be recipients of higher amounts than those who leave the credit unclaimed. Using the 20 percent nonclaimant figure and multiplying this by only 50 percent of the average EITC benefit gives us a conservative estimate of the money left unclaimed.

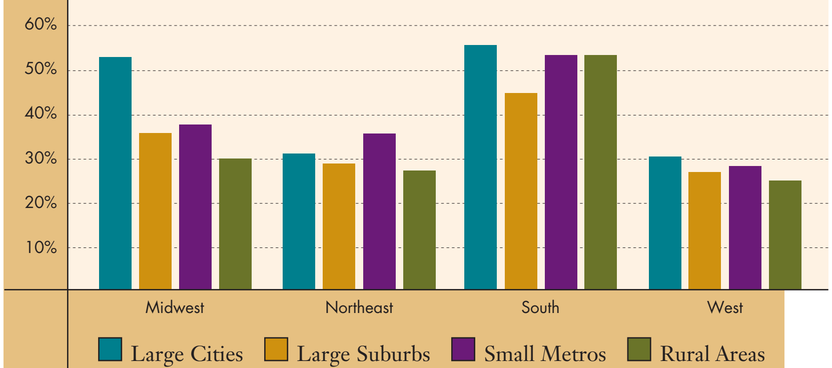
Source: National Community Tax Coalition, based on data supplied by the Center for Budget and Policies Priorities. NCTC web download: http://www.tax-coalition.org/congressional/local_data_info-final.xls families keep working and provide economic stimulus to local communities. *(See the VACAP sidebar on page 10 as a public sector response to this issue.)* This can be particularly true for low-wealth communities. For states and localities, increasing EITC intake can achieve the following goals:

- Help working poor families increase their financial stability;
- Draw people into the workforce;
- Reduce the use of state and local benefits; and
- Stimulate the local economy because most EITC dollars will be spent locally.

FIGURE 4

South Leads in High Usage of Refund Anticipation Loans

Percentage of EITC Recipients with Refund Anticipation Loans by Region and Area Type, TY2001



Source: Alan Berube, Brookings Institution

Options to Refund Anticipation Loans

Second, families need help in keeping all of their refund and avoiding high tax preparation fees. A recent study by the Community Reinvestment Association of North Carolina estimates that tax filers lose more than $44 million dollars to refund anticipation loans (RALs) or "rapid refunds" each year in North Carolina alone. These short-term loan products carry interest rates ranging from 36 percent to 700 percent, depending on the size of the loan, fees and how long the loan is carried. In part, because of the complexity of EITC rules, EITC claimants are more likely to use the services of commercial tax preparers. According to research by the Brookings Institution, 43 percent of EITC tax filers used a RAL when filing their 2001 tax returns compared with just 6 percent of all tax filers.

Concerns about the high cost of RALs have prompted action on a number of levels. Community tax campaigns provide free tax preparation in conjunction with the IRS Volunteer Income Tax Assistance (VITA) program to taxpayers with incomes of $40,000 or less. The IRS created the Free File program to provide several tax preparation software products available to eligible taxpayers and free federal return electronic filing. This year, the Office of the North Carolina Commissioner of Banks has distributed public service announcements informing consumers about RALs and has sponsored a new website—www.savetherefund.org—with information on RAL fees and alternatives to their use. Nationally, some commercial tax preparers have responded to public concerns by making RAL fees more transparent and by starting to lower fees in order to compete. H&R Block went further in 2006 when it announced plans to open low-cost bank accounts for free for one million of its tax clients to significantly cut the cost of refund lending. However, some commercial tax preparers also offer RALs as early as November, based on a tax filer's pay stub information, which usually comes with an obligation to use the commercial preparers' tax preparation services. Advertisements for "pay-stub RALs" that emphasize help with holiday expenses make it even more important for consumer information campaigns to begin early in the fall instead of after the New Year. *(See the H&R Block sidebar on page 12 as a private sector response to this issue.)*

Linking the EITC with Asset Building

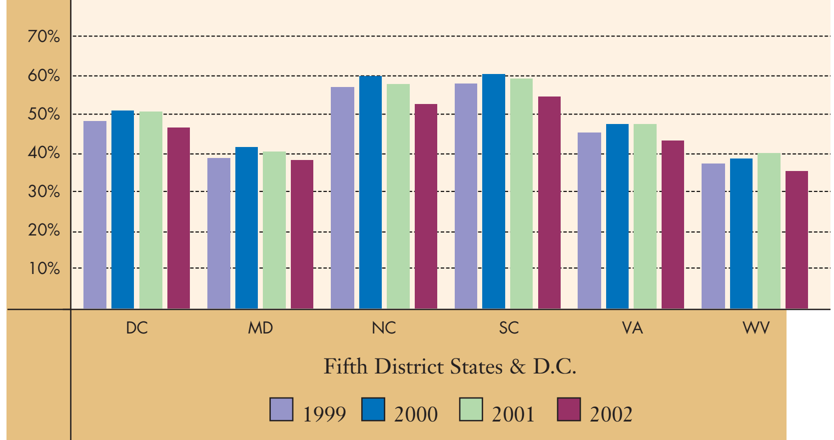
Third, more needs to be done to help families use the EITC to build assets and move them toward economic stability. Almost all EITC recipients receive their EITC in a lump sum with their federal tax refund, using it as a means of forced savings over the year. Thus, tax time is when people get a significant portion of their potential savings. Can families turn those refunds into assets?

Research shows that assets provide greater household and community stability, create long-term thinking and planning, and enhance the well-being and life chances of children.

In addition, the benefits of savings for low- and moderate-income families are greatest because these families are least likely to have access to employer pensions and health insurance. Furthermore, their wages tend not to keep up with the rising costs of housing and education and they often have no financial cushion in the event of job loss or unexpected health care debt. More importantly, recent studies show that only about half of workers participate in an employer-based pension plan in any given year, and participation rates in Individual Retirement Accounts (IRAs) are substantially lower. For low-income workers, the participation rate is even more acute. According to a recent Congressional Budget Office report, only

FIGURE 5

Percent of EITC Recipients Receiving Their Refund via a Refund Anticipation Loan

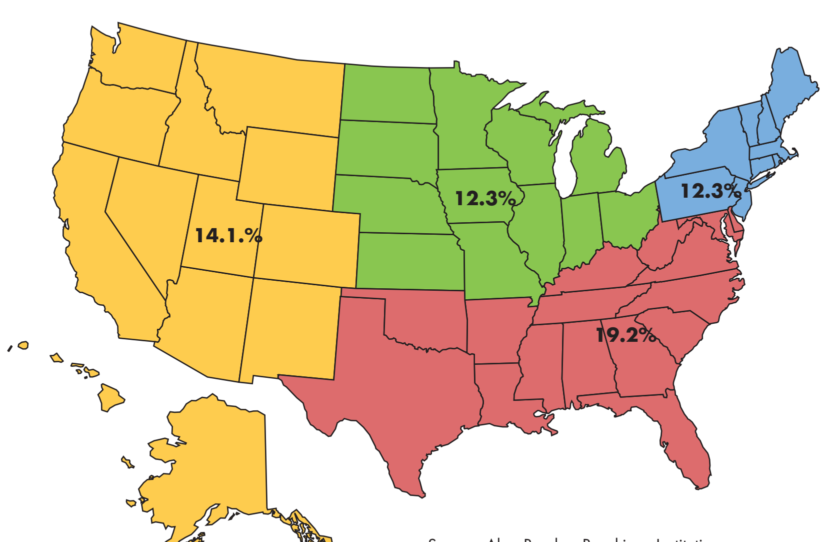


Source: Brookings Institution's Calculations of IRS Data about one-fifth of workers in households with incomes below $20,000 participated in some form of tax-preferred savings plan (including an employer-provided plan or an Individual Retirement Account). For these reasons, the Individual Development Account (IDA) has become an important tool for encouraging more lower-income households to save more. With an IDA, eligible families can save for homeownership, education or entrepreneurship and get those savings matched. Some states have started to match deposits to college savings (529 accounts) for low- and moderate-income families, a move that could eventually reduce the demand for financial aid.

This year, for the first time, the IRS is allowing tax filers to split their refunds in up to three different financial accounts to encourage families to save a portion of their refund *(see Saving Made Easy through "Split Refund" of Taxes on page 15)*. Community organizations are often trusted intermediaries between financial services providers and customers. Tax site program staff also can be key to encouraging customers to take advantage of asset-building opportunities. Early results from pilot savings programs show that U.S. savings bonds available for purchase at free tax preparation sites are popular, especially as gifts for children and grandchildren. Working with a variety of financial institutions, the field is designing and marketing new products to bank the unbanked and help families save and build a more stable financial future. *(See the Bon Secours sidebar on page 9 as a nonprofit response to this issue.)*

FIGURE 6

Overall EITC Receipt is Highest in the South



Source: Alan Berube, Brookings Institution

Getting the Word Out

For these reasons, many states and localities have formed outreach campaigns to increase awareness of the EITC, provide free tax preparation to low- and moderate-income families and link families to asset-building opportunities. EITC Carolinas in Chapel Hill, North Carolina, is one example of such an effort. EITC Carolinas is an initiative of MDC, a nonprofit that has been working to advance equity and expand opportunity across the South for 40 years. EITC Carolinas supports statewide efforts as

Linking EITC Refunds To Asset Building

Kevin Jordan, Director for Working Families, Bon Secours of Maryland Foundation

1. What prompted Bon Secours of Maryland Foundation to become involved in EITC efforts?

The last financial institutions left neighborhoods in the southwest regions of the City of Baltimore in 1998. So, our organization, Bon Secours of Maryland Foundation and Operation ReachOut Southwest (OROSW) decided to prepare a comprehensive community planning process to identify the neighborhoods' needs. A 2001 study revealed that 50 to 75 percent of the area's residents did not have bank accounts. We identified the need to be more proactive regarding people's finances. The *EIC and tax preparation were natural places to begin our work. We found out about the IRS's Volunteer Income Tax Assistance (VITA) program at a meeting held by the Maryland Center for Community Development and decided to get involved. A year later, Bon Secours of Maryland Foundation launched a VITA program to encourage households to claim the EIC and take advantage of wealth-building opportunities.

2. Why did Bon Secours of Maryland Foundation decide to link EITC returns with asset building?

Money from the EIC and tax refunds are two results of tax preparation that could lead people to have a significant amount of cash on hand. We realized that if people would think about using this income for asset building, they could improve their financial situation faster than by simply saving a small amount each month. After conducting focus groups, determining the banking needs of neighborhood residents and receiving assistance from the FDIC, we opened Our Money Place, Inc., in 2003. This nonprofit organization helps Baltimore Metro Region residents develop and meet financial goals that ultimately lead to creating generational wealth. Initially, we wanted Our Money Place to provide financial services for our clients and to be a place where they could have their taxes prepared at low or no cost. Then we realized that we could be a resource to help residents improve their financial management skills and learn how to accumulate assets that could be passed on to the next generation. We partnered with Securityplus Federal Credit Union financial services to offer savings and checking accounts, emergency short-term lending, and market-rate loans.

3. How does Bon Secours of Maryland Foundation differentiate itself from other VITA sites?

We provide a fee-based service for people who do not qualify for VITA because they earn over the income limit allotted for free tax preparation. We're open year around and offer one-on-one financial counseling, in addition to offering classes throughout the year. These classes include credit repair, estate planning, Schedule C tax returns and basic budgeting. Our staff has received specialized training in addition to IRS-VITA training. Our director for financial services has taken several courses and seminars with the IRS and H&R Block. She has extensive training and experience in tax code for bankruptcy and self-employment. Our most popular class, a 12-month homebuyers club, teaches students the necessary steps to save for purchasing a home and preparing for contingencies and emergencies associated with homeownership.

4. How do your constituents feel about linking their EITC returns with asset building?

It usually takes years to encourage clients who have their taxes prepared at the VITA site to understand the importance of linking their

BON SECOURS OF MARYLAND FOUNDATION

refund to an asset-building strategy. During our screening process, we ask clients if they are interested in learning how to become better managers of their financial assets. Many use their refund for immediate debt reduction during the first year at our site. When they return for a second year, we remind them that the previous year they indicated they wanted to use their refunds for wealth creation. Through classes at Our Money Place and reminders throughout the year, we try to help clients make better decisions when managing their debt so that their refund check can be used to generate an asset. People who return regularly begin to understand that the EIC is not just a way to pay off financial obligations and take a well-deserved vacation, but also serves as a means of getting ahead financially.

* The Earned Income Tax Credit (EITC) is also referred to as the Earned Income Credit (EIC).

well as local community tax campaigns to get the word out about the EITC and to provide free tax preparation and asset-building opportunities. MDC is also involved in efforts to improve North Carolina's statewide asset-building policy framework, including initiatives to adopt a state EITC. Similar to other EITC campaigns that are working in every state in the region, MDC works with a wide variety of national, state and local partners.

Last year, the community tax campaigns EITC Carolinas worked with in North Carolina and South Carolina prepared free tax returns for over 9,000 customers, helped families access over $9.4 million in federal tax refunds and $3.8 million in EITC, and saved low-income families over $1.35 million in tax preparation fees. Additional free tax preparation efforts through VITA, military VITA, and the Tax Counseling for the Elderly program helped thousands more in the Carolinas and across the country.

A Public Sector Response

Increasing EITC Awareness

Carolyn Spohrer
EITC Project Manager,
Virginia Community Action Partnership

1. What is the Virginia Community Action Partnership (VACAP)?

VACAP is the statewide membership association for Virginia's thirty community action agencies (CAAs). Providers of services that help low-income individuals become financially self-sufficient, CAAs were created as part of the federal War on Poverty in the 1960s.

2. How did VACAP become involved in EITC efforts?

VACAP became involved in the EITC in early 2004, when the EITC project manager position was created. Several CAA's and other community groups were already doing free tax preparation. VACAP helped to expand the number of coalitions providing free tax preparation, leading to the creation of the Virginia EITC Initiative. In 2006, The General Assembly appropriated $230,000 the first year (2006-2007) to VACAP to provide grants to local organizations that provide outreach, education and free income tax preparation services to citizens, many who may be eligible for the federal EITC. VACAP then provided EITC mini-grants to 23 organizations providing free tax preparation services and financial literacy programs. VACAP requires its grantees to track data on all aspects of the EITC program, including volunteer hours, the number of filings submitted, the number of filings approved for EITC, the average refund amount, the number requesting direct deposit, and this year, the number participating in split refunds. Grantees are also required to report their success with different outreach tools, such as press releases; public service announcements; and direct contact with local employers, social services providers, and the media.

3. What is CASH?

VACAP conducts a statewide annual campaign called Virginia Creating Assets, Savings and Hope (CASH). Under the campaign, VACAP, Virginia Department of Social Services (VDSS), the Internal

Learning from the Efforts?

- Public service campaigns about the availability of the EITC and alternatives to costly RALs need to start well ahead of tax season; involve a broad array of community partners from the private, public and nonprofit sectors; and are a public investment with a high rate of return to the community.
- Ideally, community practitioners should build a year-round system of asset-building services with multiple access points, a variety of products for savers and incentives such as matched savings accounts for low- and moderate-income families.
- In order to be most successful, savings and asset-building programs need to work on multiple levels by providing financial education for consumers, supporting public and private infra-structure and products to help consumers save, and implementing

(continued on page 14)

Revenue Service and the Virginia Individual Development Account program promote the EITC through education, outreach and awareness; provide free tax preparation to avoid the high cost of professional preparers and refund anticipation loans; and promote financial literacy, savings and asset-building opportunities to the unbanked.

4. How are VACAP and its CASH partners increasing awareness of EITC in the state of Virginia? What is your strategy for targeting potential clients?

One of VACAP's CASH partners, VDSS, includes information about EITC on all its clients' vouchers during tax season. VDSS also sends each local office

a list of clients with a record of receiving income for the tax year so the office can target outreach efforts to clients eligible for EITC. VACAP targets three groups: eligible recipients that file their taxes but don't claim EITC; eligible recipients that choose not to file taxes because they are not required to do so; and eligible recipients that go to professional tax preparers whose fees can offset the value of the EITC. VACAP and its partners target potential clients by partnering with public and civic service providers whose eligibility requirements mirror those of the EITC.

5. What makes a successful EITC Awareness Campaign?

The effort is most effective when information comes from trusted community sources with whom clients have existing relationships. These sources may include faith-based groups, banks and credit unions, local government agencies, schools, IRS-sponsored volunteer income tax assistance (VITA) programs, and community service organizations. Businesses, employers, community leaders and companies are also encouraged to take on partnership roles. VACAP recommends using IRS stock materials such as *Outreach Strategies: Promoting Tax Credits for Working Families*, which recommends distributing information at workplaces about the EITC and free tax preparation; engaging community organizations and public agencies in reaching out through their own networks; holding outreach events that create opportunities to file tax returns; expanding the number and improving the quality of free tax filing sites; and identifying funding sources to sustain outreach efforts.

For more information visit www.vaeitc.org.

Turning Refund Anticipation Loans into Bankable Opportunities

John Thompson, Assistant Vice President, Outreach and Business Development Group, H&R Block

1. Why did H&R Block, a commercial tax preparer, decide to create an asset-building product?

Doing so offered constructive financial solutions for our clients, and at the same time was a solid business opportunity for the company. Understanding and finding the right balance did take some time and hard work. We sought feedback and guidance from our critics—to understand the basis for their views, see other options that might be viable and incorporate those into our own thinking and practices.

Some years ago, the company adopted the mission, "To help our clients achieve their financial objectives by serving as their tax and financial partner." For a significant majority of our clients, the terms of financial partnership are very different from traditional constructs and practices of financial services delivery. Nearly 64 percent of our office clients have adjusted gross incomes (AGIs) under $35,000 per year at the household level, and nearly 80 percent have AGIs under $50,000. Over 3.5 million of our clients surveyed have told us that they do not have a bank account, and we estimate that more than three million more are "underbanked," operating on the fringes of the traditional financial services industry, and in many cases, paying a premium in the process.

Becoming a tax and financial partner to our clients was going to take something different—beginning with a different understanding of the financial lives of our clients on a daily basis, the issues/risks/barriers that they face, the solutions they choose to use and the reasons behind those choices. In pursuing this, we began to learn on our own and through partnerships we developed with leading academicians, practitioners and thinkers to enhance our understanding.

From this discussion and outreach, we created the H&R Block Emerald Prepaid Mastercard® (the Emerald Card) issued by H&R Block Bank, a FDIC bank. The H&R Block Emerald Card is a low-cost card account tailored to the needs of many lower-income clients A client can direct deposit their IRS refund directly on the Emerald Card. The debit card account is initially funded by the client's tax refund, or with proceeds from a refund anticipation loan (RAL) or a refund anticipation "check." Signature and PIN transactions are free, but there are ATM fees for accessing cash and include many of the consumer protections that clients wanted (FDIC insurance, no overdraft capability and protections for lost and stolen cards).

2. What prompted the company's decision to reduce the cost of RALs for recipients of EITC refunds?

A number of factors came together. One, as a part of the process of introducing the Emerald Card, RAL fees when used with the Emerald Card, were reduced. To be clear, the fee reductions are in no way linked to EITC; they apply to all clients who receive the proceeds of a RAL on the Emerald Card. The solution, we felt, would

Photo: AP Images/Paul Sakuma

Photo: Getty Images

create incentives and bridges for clients to use such platforms, and we hoped that the action would trigger reforms throughout the industry. Second, H&R Block received a charter to create H&R Block Bank, which allowed the bank the opportunity to be a card issuer and participate fully in the economics of such products (interchange, spread and so on).Third, a new agreement with HSBC (the bank that provides RALs), provided us an opportunity to make suggestions regarding the pricing of refund loan products, which we didn't have before. Fourth, was an evolution of our understanding through a number of previous pilot programs related to banking solutions.

We have opened more than two million accounts. Clients have received tens of millions of dollars in reduced refund lending costs and clients have avoided more than $50 million in check cashing fees just related to tax time.* If a client chooses to use the account for payroll deposit (more than 80,000 people have already started), then the benefits increase dramatically and continue over time.

For more information about this program, contact John Thompson in Kansas City at 816.854.4759 or email jthompson@hrblock.com.

**These figures are based on estimates of check cashing usage and costs from the Consumer Federation of America, and are net of actual card usage costs incurred by our clients. On average, an Emerald Card client might spend $14-$18 to receive and use an 'average' refund amount of around $2,900. Compare that to a check cashing fee of over $89 (using 3.08 percent average rate), and the immediate benefits begin to accrue for each family.*

WEBSITES

Brookings Institution EITC Home Page
www.brookings.edu/es/urban/eitc.htm

EITC Q&A – IRS
www.irs.gov/pub/irs-pdf/p3211m.pdf

EITC Estimator Tool
www.cbpp.org/eic2007/calculator/eitcchoose.htm

Earned Income Tax Resource Library
www.hud.gov/local/or/library/eitc2005home5.cfm

Earned Income Tax Credit Outreach Kit
www.cbpp.org/eic2007/

Make Tax Time Pay! Outreach Kit
www.cbpp.org/eic2005

National Community Tax Coalition
www.tax-coalition.org

National Community Tax Coalition
www.tax-coalition.org/

West Virginia EITC Coalition
www.wveitc.com

North Carolina & South Carolina EITC for Working Families
www.eitc-carolinas.org

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Our Money Place
www.ourmoneyplace.com/

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www.fdic.gov/consumers/consumer/moneysmart/overview.html

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www.consumerlaw.org/initiatives/refund_anticipation/content/RALBrochure.pdf?

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www.responsiblelending.org/issues/refund/

a policy and regulatory environment that protects consumers and supports them in their efforts to build a stable financial future.

Overall, experience with the EITC program shows that tax incentives can work. With straightforward information and free assistance, lower-income workers will file for the credit. The challenge lies ahead of leveraging the benefits of the EITC into a wealth-building tool. Lessons from the field and continued improvements in policy will help the program to reach its maximum potential.

Dr. Gorham directs the EITC Carolinas initiative at MDC, Inc. and focuses on the economics of work poverty and asset building for low and moderate-income families. Her previous positions have included senior research associate at the Center for Urban and Regional Studies (CURS) at UNC-Chapel Hill, staff member for the Joint Economic Committee and the Subcommittee on Intergovernmental Relations and Human Resources of the U.S. Congress, and consultant to the North Carolina Governor's Rural Prosperity Task Force and the Office of Economic Development at the University of North Carolina at Chapel Hill.

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CONTACT

EITC CASH Campaigns:
Virginia - Carolyn Spohrer, 804.644.0417

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www.nber.org/papers/w9472.pdf

Relationship between the EITC and Food Stamp Program Participation Among Households with Children
www.urban.org/UploadedPDF/411033_EITC.pdf

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www.nber.org/papers/W7599.pdf

NEWSFLASH

Saving Made Easy through "Split Refund" of Taxes

Beginning in 2007, the IRS is offering a "split refund" option to allow the direct deposit of refunds into two or three savings or checking accounts. Now, tax filers have the convenience of dividing up their refund in accounts to spend on immediate needs and save for future use.

The split refund emerged in response to "a growing crisis—the disappearance of savings in the American economy," according to scholars at the New America Foundation (New America), who promote the split refund as a means of jumpstarting Americans' savings. In 2005, the personal savings rate was the lowest in the U.S. since the Great Depression.

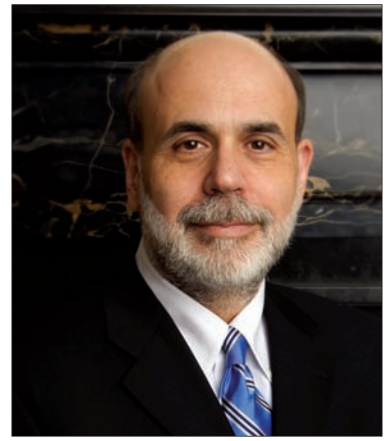
Whether the objective is to promote retirement security, improve educational attainment, provide a financial cushion for life transitions or increase national savings, according to New America, the need to increase household savings is vitally clear.

Considering that the average refund is $2,000, and the research that shows 401(k) participants save more when they use direct deposit, New America points to tax filing as a good place to start encouraging savings, especially since all Americans file taxes. Filers will receive a combined total of more than $200 billion in refunds. If they were to deposit 25 percent of those refunds into savings accounts, total new savings each year could exceed $55 billion.

The IRS offers more information at http://www.irs.gov/individuals/article/0,,id=163764,00.html. There is a link to Frequently Asked Questions and to Form 8888: Direct Deposit of Refund to More Than One Account, which is similar to forms used for direct deposit of wages or other common transactions.

✧ CRA TURNS 30 ✧

Remarks by Chairman Ben S. Bernanke At the Community Affairs Research Conference, Washington, D.C., March 30, 2007



The Community Reinvestment Act: Its Evolution and New Challenges

The Future of the CRA

"... The CRA was created to help ensure lower-income communities have access to credit and financial services. When it passed the legislation, the Congress could not have foreseen the extensive changes in financial markets and the economy that have occurred over the past thirty years; thus, the decision to write the statute broadly and with considerable flexibility appears wise in retrospect. In implementing the law, the banking agencies have tried to learn from market developments, from research, and from the comments of financial institutions, consumers, and other interested parties. The regulations have thus changed over time in response to the changing financial landscape and as we have learned more about what works and what doesn't. We do not know how the economy and the financial system will change in coming decades, but it is safe to assume that change will be rapid. Considerable creativity and flexibility will thus be necessary to ensure that the CRA continues to assist community economic development without placing an undue burden on financial institutions."

The entire speech can be accessed at www.federalreserve.gov/boarddocs/speeches/2007/20070330/default.htm