



Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

EITC in Indian Country: Moving Beyond the Safety Net to Asset Building

Report to the Annie E. Casey Foundation
2008 Native EITC Study

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2008

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Acknowledgements

We would like to acknowledge and thank the Annie E. Casey Foundation for continued commitment and support of not only this research, but also their broader support of program and policy development that focuses on ensuring inclusion of and improving the quality of life for American Indian families and communities. We are grateful to our esteemed colleagues at the Native Financial Education Coalition, First Nations Oweesta Corporation, and First Nations Development Institute for setting the standard of asset-building work in Indian Country. Their continued collaborative spirit and support are sincerely appreciated.

Compassion for the needs of working families in Indian Country and an innovative idea are the key ingredients to the success of this project, for this we extend our thanks to Karen Edwards and Miriam Jorgenson who were not only instrumental in launching this project but have willingly shared their expertise throughout. Graduate students offered the important service of entering survey data. Their efforts ensured that we met the data needs of our research partners. Sincere thanks go out to Jennifer Bolinger, Sherri Brooks, Charlene Caruthers, Matthew Kull, and Eun Lye Lee. Finally, to our staff and teammates at the Buder Center and CSD, your unending support of the daily details did not go unnoticed. Thank you.

EITC in Indian Country: Moving Beyond the Safety Net to Asset Building

For low income individuals and families, the Earned Income Tax Credit (EITC) has important poverty alleviation characteristics. Few populations or places in the United States are as needful of the dollars provided by EITC receipt as Indian Country. The receipt of EITC will not alleviate poverty in Indian Country alone, but can be a viable start by providing thousands of dollars to families in Native communities. During the three years this project has been underway more than 30,000 tax returns have been filed at 18 Voluntary Income Tax Assistance (VITA) sites serving Indian Country. The study examines the number of Native community members who are eligible for EITC, the amount of money flowing to Native community members through EITC, potential uses of EITC income, and opportunities to build community infrastructure and programs that could help EITC and other tax dollars remain in Native communities and serve as leverage for further asset building.

Key words: *native assets, tax refunds, policy, asset building*

Overview

Purpose

The Annie E. Casey Foundation provided support for Center for Social Development (CSD) and the Kathryn M. Buder Center for American Indian Studies (BCAIS), at Washington University in St. Louis, to engage fourteen Volunteer Income Tax Assistance (VITA) campaigns serving Native urban and reservation communities in a research partnership. Project outreach support was provided by the Native Financial Education Coalition and First Nations Oweesta Corporation. This work is a continuation of our EITC research in Native communities spanning Tax Years (TY) 2005-2007. Current study activities took place from October 2007 through September 2008. The primary purpose of the study is to explore potential economic benefits of Earned Income Tax Credit (EITC) receipt for Native individuals and communities. However, for the 2007 tax year we expanded the study site sample to include three additional Native communities, increasing our potential for examining economic conditions and needs in diverse communities.

Based on our previous study, a number of potential economic effects associated with EITC receipt emerged. These effects occur at the individual, household, and community levels and include outcomes such as improved economic self-sufficiency, substantial economic relief for low-income families, and increased economic flow in the local community, which strengthens local businesses. When combined, these effects help to build stronger communities. We examine the amount of money flowing to Native people and potential uses of EITC income for working families. This work illustrates the connection between community infrastructure and programs that facilitate EITC uptake, the effects of retaining dollars in the local economy, and leverage points for building individual and household assets.

Goals and Objectives

The primary goals and objectives of this project include the following:

- Increase the number of Native communities that develop and run VITA sites through education about potential benefits related to developing and sustaining EITC campaigns and tax preparation services in their communities
- Inform the development of Native-focused EITC and asset-building programs particularly towards identification of features that make these programs both more accessible to Native communities and tailored to their needs
- Examine how EITC receipt connects to other asset-building efforts in Indian Country
- Inform the broader asset-building field about the effects of EITC receipt in underserved communities, especially emphasizing the connections between EITC receipt and overall community economic development

Methodology and Design

A collaboration of fourteen Native community-based VITA sites worked in partnership with CSD and BCAIS at Washington University during the 2007 tax season to gain a better understanding of ways in which VITA sites and EITC receipt might better assist Native families and communities meet economic needs. The Native collaborative partners include:

1. Alaska Business Development Center (Alaska)
2. ALU LIKE (Hawaii)
3. Black Hills State University -- serving Newell and Spearfish (South Dakota)
4. Cherokee Nation (Oklahoma)
5. Chief Dull Knife College (Montana)
6. Four Bands Community Fund, Inc. (South Dakota)
7. Lac Courte Oreilles Ojibwe Community College (Wisconsin)
8. Menominee Indian Tribal Association (Wisconsin)
9. Navajo Partnership for Housing (New Mexico)
10. Red Cliff Housing Authority (Wisconsin)
11. Rural Dynamics, Inc. of Montana (Montana)
12. Spotted Eagle, Inc. (Wisconsin)
13. White Earth Investment Initiative (Minnesota)
14. Ysleta del Sur Pueblo (Texas)

The increase in the number of partners not only assured a suitable sample size for research purposes, but also allowed us to expand our assessment of geographic, cultural, and governance differences in EITC receipt and proposed uses compared to our previous study. These sites offered diverse representation of Native Nations and EITC outreach and service efforts. Not only do these sites represent a variety of geographic regions, but they also offer a look at both urban and rural locations. In addition, these VITA sites were housed in a variety of departments, agencies, and institutions, including housing authorities, tribal colleges, tribal business centers, and community-based non-profit organizations. Each site included a primary “host site” from which tax returns were submitted electronically, with several expanding services to satellite sites or roving services. One VITA site served a region that included approximately 73 village communities. This report provides aggregate results from the fourteen Native VITA sites studied, and highlights notable data that emerged during this research collaboration.

Data Collection

In the initial stage of the project, CSD and BCAIS project staff worked with each VITA site coordinator to develop community surveys that included 40 required “core” study questions and up to 15 additional community specific questions. Core study questions collected basic demographic data including race/ethnicity, gender, education level, tribal membership, language spoken in the home, and receipt of welfare benefits in the current tax year. Other core questions addressed outreach and implementation efforts of VITA sites, including tax preparation services previously utilized by customers, typical costs associated with tax preparation services, and where customers heard about VITA sites. Community surveys also inquired about the link between EITC and asset-building strategies such as respondents’ intended use of EITC and other tax return dollars, bank account ownership, participation in financial education classes, and customer interest in asset-building activities.

Beyond these core study questions, VITA site coordinators from each partner community were offered an opportunity to develop community-specific questions, increasing the local usefulness of the research. Some site used this survey as an opportunity for customers to evaluate their services or assess needs for new programs. Once survey content and format were finalized for each community, surveys were produced in hard copy and mailed to each partner organization’s tax preparation site. Data collection was accomplished by volunteers at the VITA sites from January - April, 2007.

In addition to assistance with survey development, web-based training sessions on the use of National Tax Assistance (NTA) computer software was offered to site coordinators. NTA software allows the user to pair survey data with select data from tax files such as household size and income along with the value of tax credits returned to individual tax filers. Trainings addressed topics such as entering surveys numbers and data into Tax Wise tax preparation software, creating a database that links survey data with Tax Wise files, geo-mapping data, and an overview of reporting functions of the software. These data links will offer more in-depth information regarding the economic effects of EITC receipt. Webinar training and data linkage features were offered for a second time this year per request of the community research partners.

Supplementary community information was gathered during phone interviews and a round-table discussion in which over half of the VITA site coordinators participated. Information collected

through these exchanges included the number of persons served through the VITA sites, length of time sites have been operational, methods of outreach and education, successes and challenges related to EITC outreach and implementation of tax preparation services and linkages to other asset-building activities and programs in the communities. This data will assist in answering questions such as: What are characteristics of EITC recipients? In what ways can EITC receipt be better linked to asset building? What types of community partnerships would be most effective in facilitating access to EITC uptake and asset building?

Summary of Findings

VITA Reports

Each VITA site reported Tax Year information for 2007 that included information about the number of returns prepared and refund dollar amounts returned to taxpayers. Totals for the fourteen participating sites are as follows:

Study Sites' Tax Return and Refund Totals	
Total # of 2007 Federal Tax Returns Prepared	13,000
Total EITC Claimed	\$4,000,000
Total Refunds Returned to Families	\$8,000,000

A majority of the study sites have been operational for at least two consecutive years. A few sites have served their community for over seven years, but have only recently become official VITA sites. The number of years a site has been operational in their respective communities has some bearing on the number of returns they prepared for TY 2007.

Community Survey Results

Individual surveys were distributed during tax preparation hours (which varied by site). Customers were asked if they would be willing to complete the survey while waiting for their tax returns to be completed. Customers were assured that survey completion was voluntary and that their information would be kept confidential. They were also assured that their decision to complete the survey would not impact tax preparation service or information in any way.

Approximately 3,693 surveys were collected by the fourteen VITA sites. Of this total, 1847 respondents (50%) were Native American/Alaskan Native/Native Hawaiian. Because each site was allowed to customize its community survey, reported results for some questions may not reflect the total sample size. Thus, results reported below will indicate sample size that most accurately reflects the strength of the finding.

The following is an analysis of the data collected. Race/ethnicity is reported for the total of all survey respondents. The results that follow this population descriptor focus exclusively on native responses. Table headings will indicate the sample portion being reported and the text references will detail responses per group.

Race & Ethnicity

The customer base of VITA sites in this study were primarily Native community members but tax preparation services were available to anyone in the community who wanted them. One of the Native VITA sites serves a statewide geographic area, including urban, rural, and reservation communities, which led to a large percentage of Caucasian VITA site users. The following chart shows the reported racial/ethnic distribution of survey respondents:

Race/Ethnicity	N=3693
Native American/Alaskan Native/Hawaiian	50%
Caucasian	35%
Latino/Hispanic	4%
Other	2%
African American	7%
Asian/Pacific Islander	2%

Tribal Enrollment

VITA sites serving Native communities, particularly reservation communities, are especially interested in knowing how many enrolled tribal members they serve. In this study, 86% (N = 1,564) of Native respondents are enrolled tribal members. Not only will this information help VITA coordinators in planning future EITC programs and tax preparation services, but it is also valuable data for tribal leaders interested in starting and supporting VITA sites. It shows that, typically, tax refund dollars claimed by site users are dollars returning to the sponsoring Native nation’s citizens and voters.

Additional Demographics¹

Demographics of VITA site customers inform site coordinators of who they are reaching and who might be missing from the customer base, so that they may better target future outreach efforts. Demographics from our survey population are as follows:

Gender	n=1750
Female	42%
Male	39%
Married-joint filers	18%
Age	n=1845
16-20	9%
21-30	22%
31-40	17%
41-50	23%
51-60	17%
61+	13%

¹ Note that all results from this point in the report forward reflect native respondents only.

Aggregate results for gender of tax filer show a nearly equal split between males (39%) and females (42%) and married filers (18%) using free VITA services. VITA sites are designed primarily for low-income customers as a means of facilitating access to EITC and other tax-based forms of income supplements. Across the United States low-income households are often characterized by female heads of household. Therefore, it is reasonable to expect females to comprise a large percentage of VITA site users. Yet respondents in this project were nearly equally distributed between male and female. This household characteristic deserves further inquiry. Findings may indicate that VITA services are utilized equally by male and female heads of households in the community because these services are viewed mostly as a community or tribal service without association with low-income or “welfare” programs. The average tax filer age increased this year compared to previous years. Site coordinators indicated that this number reflects increased services related to the economic stimulus credit that was offered this year.

Language Spoken at Home

Language spoken at home is of interest to VITA sites wanting to develop more effective education and outreach communication strategies for the communities they serve. Among Native respondents, only 70% indicated that English is the primary language spoken at home. Approximately 19% indicated that they use a combination of English and Native language, and another 11% indicated that they *primarily* speak their Native language at home.

Language Spoken at home	n=1847
English	70%
Native language and English	19%
Native language	11%

Knowing that there are a notable percentage of community members who speak their native language, VITA sites have an opportunity to incorporate this cultural aspect into their services by designing outreach and education materials in languages most commonly spoken in their communities. Designing materials with which customers can more readily identify might increase VITA site use and EITC receipt. If these are

also areas in which Native language is the *primary* language of general communication, investments in Native language outreach may be valuable. Finally, any outreach and education effort that uses Native language should identify and consider the kinds of communication and marketing efforts that are effective in Native communities.

Language indicators also may be signaling that a significant portion of VITA customers are elders in their communities, as they are most often the community members who practice their Native language. This is supported by data in this study, in which 33% of the native language speakers were aged 61 or older. In communities where this is the case, outreach and education may want to focus on tax issues specific to older people and elders.

Education

Related to education, this research indicates that people with lower education levels (high school diploma, GED, or below) are more likely to also have lower incomes, and therefore be more likely to be eligible for EITC. These data indicate that VITA sites serving Natives are providing tax preparation services to the most likely pool of individuals and families. Though 85% reported completion of at least some college or tech school, only 16% of Native customers reported completion of an associates degree or higher. Fifteen percent reported having less than a high school degree or GED certification. A majority of the population surveyed (58%) had a high school diploma or less.

Level of Education	n= 1818
Less than high school or GED	15%
High school graduate or GED	44%
Some college or tech school	26%
Associate degree	7%
Undergraduate degree	3%
Some graduate school	1%
Graduate degree	5%

VITA Site Community Outreach

An important EITC program development and planning activity that VITA coordinators must undertake is outreach and education in their communities. Sites coordinators indicated that it was important for them to know which forms of marketing and outreach tools are most effective in informing customers of the services available and for encouraging them to use a VITA site over other (more predatory) tax preparation businesses. In order to gauge the most effective method of new customer acquisition respondents were asked how they found out about free VITA services. The responses are as follows:

Outreach and Communication	n=1830
Word of Mouth	38%
Filed here last year	36%
Flyer/Newspaper/Poster	21%
Radio or TV	5%
Envelope stuffer in paycheck	1%

The primary source of information identified by all was word of mouth followed by interaction at the site during the previous tax season and media advertisements such as flyers, newspapers, and posters. The high percentage of information shared through word of mouth and return customers (74% total) indicates that local VITA sites are building positive relationships with community members and that more community-based, person-to-person (or leadership-to-community) sharing of information could be made an even more effective marketing tool. The primary marketing tool among site coordinators is the poster advertisement that is placed on bulletin boards of grocery stores, banks, community centers, and churches each year. A few partnered with local businesses and media centers that provided free advertisement through newspaper and radio.

We care about this from a policy standpoint because it tells us how to better reach out to customers and reminds us that the methods of reaching out in mainstream communities may not work as well in Native communities. A vital information source in many communities is television, but in Native

communities, other community members and social service organizations provide more widespread communication sources. Posters at tribal or community college library or housing authority (more common gathering and meeting places) may be a more effective communication strategy for Natives outreach efforts. Word of mouth works best in a community where most people know each other and where a good social network exists through which to share information. This is the case in many tribal communities.

Tax Preparation Services

Customers who take advantage of VITA services save a significant amount of money that otherwise would have been spent paying for commercial tax preparation services. One indicator of how much money remains with the customer over years is whether or not they paid for tax preparation services in the past. Study results are as follows:

Past Tax Preparation	n=1794
Had them done here	46%
Did not file	17%
Paid a tax preparer	16%
Another free place like this	12%
Relative/friend prepared my taxes for free	7%
Did my own	3%

Nearly half of the respondents (46%) used the same VITA site as last year. This is a good indicator that customers may be saving a significant amount of money over time, and that Native-serving VITA programs are building positive relationships with community members. The number of customers using paid preparers has remained constant over the past three years in these communities averaging 14% – 16% in any given year. These findings indicate that site coordinators are relaying the message that customers that they can end up with more money in their pocket if they do not pay for tax preparation and are willing to wait a few days for this benefit.

Vita Site vs. Commercial Preparer

One of the goals of VITA campaigns is to reduce transaction costs associated with filing taxes. In this study, customers who used commercial preparers in prior years paid an average of \$138 (within a range of \$20-\$400) for tax preparation services. Estimating from this average cost and the 16% of Native customers who used paid tax preparation in the past, the VITA sites participating in this study saved their Native customers nearly \$40,000; a significant amount under any circumstance. Thus, both through improved access to tax refunds and through tax preparation-related cost savings, Native-serving VITA sites are improving customers’ livelihoods and generating significant funds for potential reinvestment in the local economy.

Despite these savings, community sources indicate that there are many filers in these communities who are still using paid preparers, believing they receive their refunds faster that way. For some, this urgency is related to the need to pay off overdue bills quickly. One respondent said getting this amount of money is a Godsend and waiting a few days is out of the question because he or she

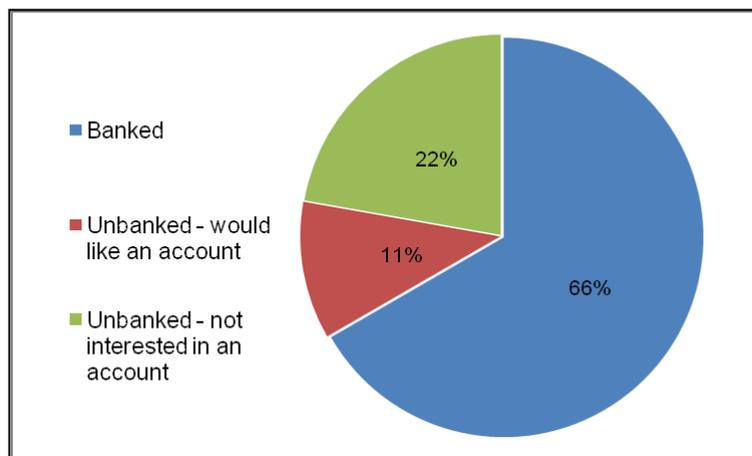
doesn't have this amount of money usually. Site coordinators shared examples of customers who initially came to the VITA site to file their taxes, but were not satisfied with the refund amount they were going to receive. The customer then went to a commercial preparer in an attempt to 'get more money' only to return to the VITA site stating that they 'got the best deal here'. It was also mentioned that some customers fear that the government will take their EITC money back if they owe child support, so they want to get the money fast to more likely hold on to it.

Respondents who previously took out a rapid anticipation loans (RAL) indicated that they paid an average of \$196 for this service. However, the percentage of respondents who received a RAL decreased this year from 12% in previous years to 8% in the current year. This reflects the efforts of VITA programs to educate customers about what a rapid refund is, since those who want a rapid refund are actually getting a rapid anticipation loan, or RAL, which is based on their refund, but charges a very high interest rate.

Anecdotal evidence suggests that there are also substantial numbers of clients who didn't know they should have filed taxes prior to encountering EITC and VITA outreach information. This speaks to the need for greater community education regarding tax filing rules. Moreover, the fact that former non-filers used Native-serving VITA sites to file in TY 2007 signals another benefit of well-advertised and well-trusted VITA sites; they play a critical role in bringing individuals into compliance and decreasing the risk that they would be subject to audits and financial penalties for non-compliance.

Banked vs. Unbanked

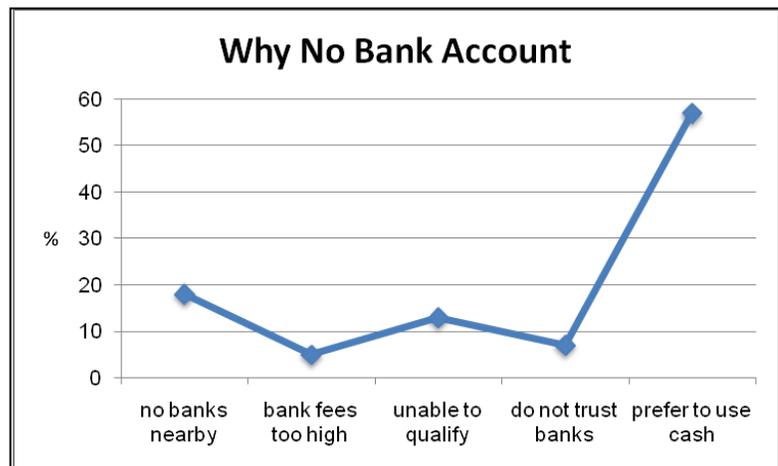
Research suggests that facilitation through conventional financial services is essential to successful financial management and building assets. We asked VITA site customers to indicate whether they currently have a checking account, savings account, or both. In the figures below, "banked" refers to owning a transaction account (a checking account, savings account, or both types of accounts), while "unbanked" refers to customers who do not currently own any type of financial transaction account.



Though it is encouraging that such a high percentage of customers have bank accounts (66%; n=1700), there is still a high percentage with no bank account (33%)². These results reflect aggregate data in that all native communities have been pooled into one category. It is important to note that the banked vs. unbanked data vary substantially by Native community, often depending on how accessible the financial services are to community members.

In addition to the “unbanked,” the results indicate that there may also be many who are “underbanked,” a term we use to describe having an account but being unable to take true economic advantage of it. For instance, most middle and high-income American consumers use their bank accounts for such purposes as collateral for credit, a safety net in touch economic times, and as an active financial vehicle supporting purchases and daily living expenses. Low-income individuals face barriers to using their bank accounts in these ways, largely because of minimum deposit requirements that may be high, fees charged for accounts with low balances, and charges placed on many individual transactions, which may occur even when certain minimum balances are met.

In order to better understand why individuals do not have bank accounts we asked them to indicate which of the following categories best describes their unbanked status: 1) no banks nearby, 2) bank fees too high, 3) unable to qualify, 4) do not trust banks, and 5) prefer to use cash. The overwhelming response was that individuals prefer to use cash. In many native communities where conventional financial services are limited, cash economies are prevalent. Moreover,



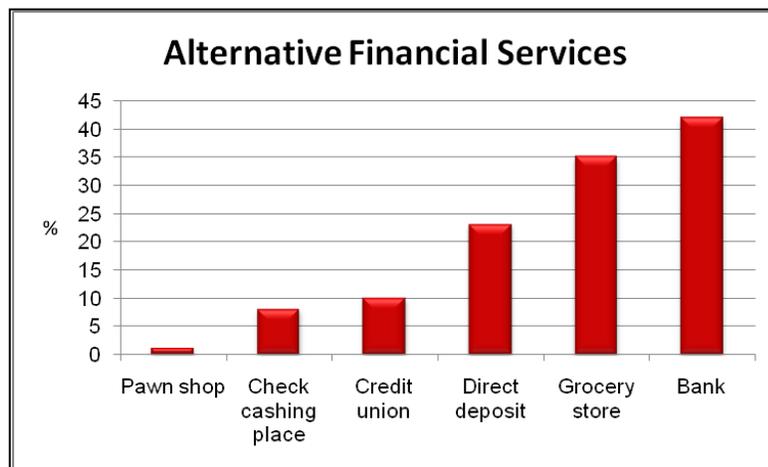
underdeveloped local markets necessitate the need for informal markets, also cash based, to meet the consumer needs of community members. Though the response category, ‘unable to qualify’ is somewhat unclear, anecdotal data suggests that this response may mean that individuals have poor credit due to bounced checks or overdrawn accounts, no established credit history, or that they do not have the minimum balance available to open an account. Another possible reason for a relatively high rate of unbanked individuals is that banking services are unavailable in many reservation communities or are located far away from the customer’s residence. The percentage of respondents who indicated that the reason for no bank account is that there are no banks nearby (19%) sends a strong message about the need and desire for access to financial services in these communities.

² The percentage of individuals indicating that they have bank accounts is substantially lower this year compared to last year. This difference is likely due to a change in our sample (i.e. addition of new sites) and should therefore, not be interpreted as an aggregate change in banking status.

Utilization of Financial Services

Limited access to banking services or the absence of banking services that offer adequate flexibility to low-income users, customers are forced to use so-called ‘predatory’ alternate financial services, many of which charge high to extremely high transaction costs. Indeed, it is the prevalent use of fringe banking services, especially on reservations or close to Native communities that precipitates a large group of both unbanked and underbanked individuals among the customers of Native-serving VITA sites.

Once we established utilization rates of bank accounts, we wanted to know more about where customers typically cash their paychecks; a strong indicator of the type of “financial institution” they are most in the habit of using. Respondents were allowed to choose more than one option about where they cashed their checks including pawn shops, check cashing places, credit unions, grocery stores and the bank. Direct deposit was also listed as a choice for those who deposit their paycheck versus cashing it. Responses indicate the frequent use of alternative financial services, as follows:



Bank services (both banks and credit unions) are utilized by approximately 52% of respondents. Direct deposit is the preferred method used by 23% of respondents. For customers whose banks are located great distances from their community, direct deposit is the most convenient way to access their money. The number of responses for “grocery store” reflects the combined results for three answer choices (grocery store, local store, and store). Other respondents indicated that they cash their paychecks at the local gas station, post office, and even their workplace. Many respondents wrote that they use services such as these because there are no banks available in their community. In fact, for many, they must travel one hundred miles or more to access banking services.

Even though 66% of respondents indicate that they have bank accounts many still use expensive, alternative financial services. For example, 56% of respondents use money orders to pay their bills, 15% of those using money orders to pay their bills have both checking and savings accounts, 8% have checking accounts, and 15% have savings accounts. At an average cost of \$1.50 per money order, individuals are paying a substantial amount of money in fees. Furthermore, a substantial portion of respondents (39%) pay a check cashing fees. Availability and use of local banks and financial institutions may help to put these dollars back in people’s pockets.

These findings speak to the need to increase access to financial education, credit repair classes, and financial services in Native communities, as well as low-cost, flexible, and targeted banking services. These may be particularly important findings for communities that are considering initiating or supporting a financial institution as part of their asset-building strategy. With regard to EITC and other tax return dollars, an important advantage of having a bank or other financial transaction account is the ability to use direct deposit for receipt of these funds. Direct deposit may also be used for additional asset-building accounts, such as matched savings accounts like an individual development account (IDA). Bank accounts also speed the receipt of funds (answering the desires of some current users of paid tax preparation services that deposits be received quickly) and increase the ease and likelihood of saving. Direct deposit may become even more important due to IRS rule changes that allow filers who sign up for direct deposit to split refunds between as many as three different types of accounts (e.g. checking, savings, and retirement).

Public Benefit Recipients

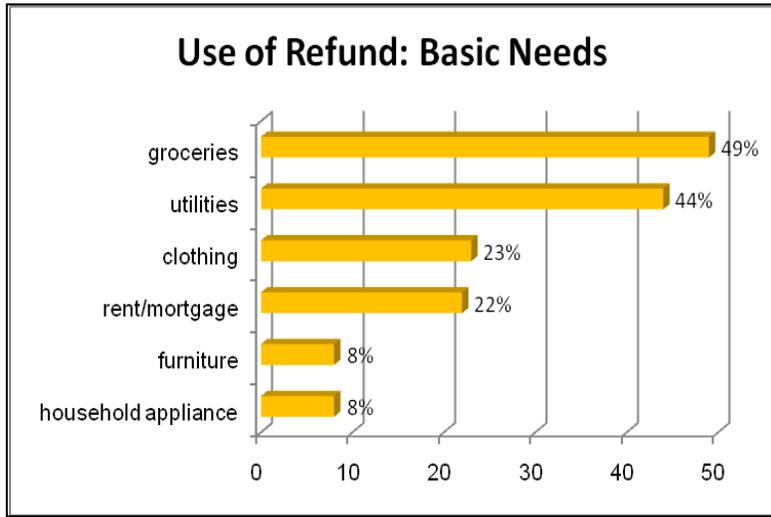
The EITC provides a substantial income boost for working families, but many low-income households must still rely on public benefits to make ends meet. We asked respondents to indicate if they or their families received public assistance or were eligible for public assistance in 2007. Among respondents, approximately 40% indicated that they received or qualified for public benefits including food stamps, Medicaid (or other forms of healthcare assistance), and SSI in 2007. This is an important finding for tribes that want to encourage EITC recipients to save some of their EITC dollars since this resource is considered income in means-tested public benefits programs for the three months following receipt (twelve months for food stamps). It is important to note that refund dollars are protected from means-testing in a number of states if they are placed in IDAs. Therefore, tribes may want to consider such programs as part of a comprehensive economic development strategy.

Planned Use of Tax Refund Dollars

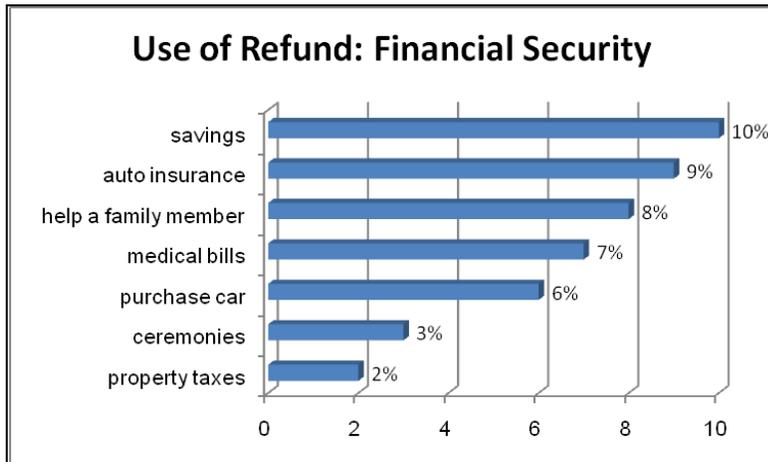
Tax refund dollars are often substantial sums of money entering the household of working families every year. It is important to understand how these dollars are being used by individuals and families and explore ways that these dollars may be leveraged toward asset-building and investment-type financial products. Survey respondents were asked to indicate how they planned to use their tax refund and were allowed to choose multiple answers. Respondents indicated that their primary planned use of tax return dollars was to cover basic living expenses such as groceries, clothing, and utilities. One could interpret this to mean that many people aren't using this particular extra income to build assets; however, one could also interpret this that respondents are working and using all the money at their disposal to stay out of debt, or prevent themselves from falling deeper in debt or poverty by covering the particular expenses they list. In addition to meeting basic needs, respondents also indicated ways they are using EITC to ensure financial security for their families, and building assets for social mobility. A more detailed discussion of these planned uses follows.

EITC: Meeting Basic Needs

As illustrated in the chart to the right, a significant percentage of respondents allocate EITC dollars to cover basic needs such as groceries, utilities, clothing, and rent. Of native respondents (n = 1707), approximately 32% of respondents indicated that they anticipate using at least half of their refund dollars for necessities such as those listed above. Nearly a fourth of respondents (22%) will allocate seventy-five percent or more of their total refund to cover essential expenses and 18% must put all of their refund toward daily living expenses. Tax refund dollars may also serve as a buffer for emergency expenses such as car repairs and medical bills that exceed insurance co-payments, or are used in lieu of insurance. Another survey question inquired about what portion of their tax return was used for necessities. For these individuals, EITC serves as an important safety net that buffers them from severe financial hardship.



EITC: Financial Security



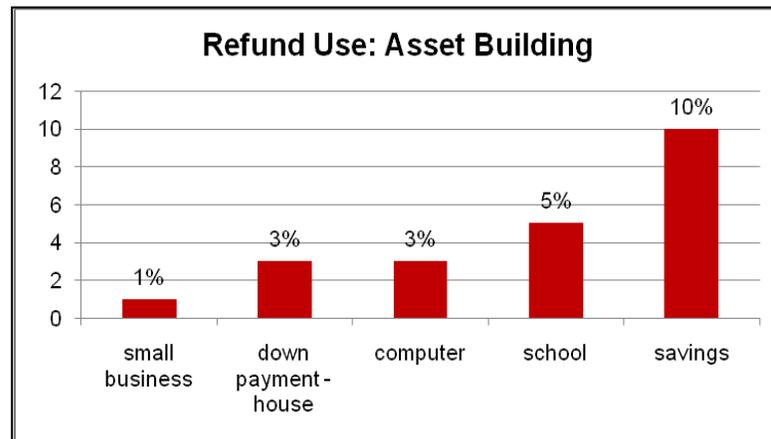
Notably, survey results indicate that many recipients hope to save their tax return dollars (10%). In addition to saving, there are a number of other ways working families protect themselves from economic shocks such as: maintaining auto insurance, keeping up with medical bills, purchasing a vehicle, and staying up to date on property taxes.

Social capital can also take the form of financial security. Expectations to help family (8%) highlight the

communal assets approach that thrives in many American Indian cultures. Results indicate notable investment by native community members in areas such as helping a family member and saving for traditional ceremonies. Refund dollars are also being used to build emergency funds, to cover home and auto repairs and catch up on overdue bills. Each of these strategies can be viewed as attempts to ensure protection from financial shocks and build greater financial security.

EITC: Asset Building

Community partners expressed interest in exploring ways that EITC might be linked with other asset-building strategies to increase the financial security of households in their communities. In order to gauge community need and interest in asset-building activities, they chose a variety of questions to include on the survey, a sampling of which seek to discover: how customers planned to use their tax refund, what customers have saved for in the past, customers' past participation in financial education and related financial literacy classes, and asset-building topics community members might be interested in learning more about.



Saving. Though a majority of respondents indicate that refund dollars are used to cover basic expenses, results from this study indicate that working families are also saving. Approximately 10% of survey respondents plan to save at least a portion of these supplemental dollars. Many have already established savings accounts with an average personal savings amount of \$1500. A number of respondents indicated specific savings goal including both short term and long term goals. Such goals include auto and home repair, auto and home purchase, school related expenses for themselves and their children, and investment in their small business.

Assets and Income Generation. Beyond savings, Native respondents indicate that they plan to invest their tax refund/credit in education for themselves or a family member (5%), a computer for both education and small business purposes (3%), down payment on a home (3%), and small business (1%). Approximately 18% of respondents indicate that they will invest at least half of their tax refund dollars in income generating items and activities. Respondents reinvest their tax dollars in small business and subsistence-related items such as tools, hunting and fishing gear, and vehicles. Many also listed payment of professional licenses and training as ways that they build both human and financial capital. This desire to save and invest in assets suggests a need for more financial institutions in or near Native communities, access to credit, and the development of locally institutionalized savings programs.

Institutional Mechanisms for Savings and Asset Building

Matched savings accounts, often called Individual Development Accounts (or IDAs), have proven to be a viable asset-building strategy for low-income families across the U.S., and they are yielding positive results in Native communities as well. A majority of the communities in this study do not yet have matched savings account programs. However, a majority (59%) of respondents indicated they would participate in an IDA program if it were available in their community.³

Split refund option. People want structured opportunities to save and state that they would likely use some of their EITC refund to save if provided access to such mechanisms. Linking matched savings programs like IDA and EITC programs could better facilitate these types of asset-building activities. The split-refund option, available to tax payers, which allows individuals to deposit all or a portion of their tax return dollars into one, two, or three financial accounts, may be one way to facilitate savings. This means that tax return dollars could go into a structured account like an IDA, educational, and/or retirement account, as well as a checking account. However, the take up on the policy during the past two years has been strikingly low. Data from this study reflects this lack of knowledge with 86% of respondents indicating that were not aware of this option. More education and marketing about the potential of using such an opportunity, along with institutional mechanisms that provide facilitation toward saving and investment may need to be provided in all communities to encourage using at least a portion of EITC dollars for saving and investment.

Building the Foundation for Asset Building

Financial education. There is increased evidence to support the relationship between financial capability (i.e., knowledge and skills related to the management of personal finances), financial security, and wealth accumulation⁴. One indicator of financial literacy is whether an individual has participated in classes or workshops on financial topics. Participation rates of financial education participation have continued to grow in native communities as illustrated below:

³ Because matched savings accounts appear to offer “free money,” enthusiasm for such programs is to be expected. Indeed, the short explanation offered in the community surveys (“A matched saving account program is one in which you save a \$1 and you are matched \$1, giving you a total of \$2 in your savings account. If one were offered in your community, would you be interested?”) probably made positive responses to this question likely.

⁴ For more information regarding the connection between financial capability, financial security, and wealth accumulation, see the following:

Clancy, M., Grinstein-Weiss, M., & Schreiner, M. (2001). *Financial Education and Savings Outcomes in Individual Development Accounts*. Center for Social Development: Washington University.

Lyons, A., Chang, Y., & Scherpf, E. (2007). Translating financial education into behavior change for low-income populations. *Financial Counseling and Planning*, 17(2), 27-45.

Staten, M. E., Elliehausen, G., & Lundquist, E. C. (2002). *The Impact of Credit Counseling on Subsequent Borrower Credit Usage and Payment Behavior*. : Credit Research Center, Georgetown University.

Vitt, L. A., Anderson, C., Kent, J., Lyter, D. M., Siegenthaler, J. K., Ward, J. (2000). *Personal finance and the rush to competence: Financial literacy education in the U.S.* Retrieved November 21, 2005 from <http://www.isfs.org/exec-summ.html>

Class Type	n=1597
Financial education (basic personal financial management)	6% (2005)
	8% (2006)
	10% (2007)
Credit repair	1% (2005)
	3% (2006)
	5% (2007)
Home ownership	7% (2005)
	6% (2006)
	8% (2007)
Small business development	5% (2006)
	6% (2007)

VITA sites offer a venue for tribes to deliver important financial information to community members. Nationwide, many VITA sites not only provide customers with such information, but these “service” sites are beginning to establish critical links to asset-building programs and services. In communities where IDA programs or Community Development Financial Institutions (CDFI) exist, participation rates in financial literacy classes such as basic financial education, credit repair, and homeownership are higher (by approximately 2% in this study sample) than in communities with no such programs. This may be because IDAs and CDFIs require financial education classes as part of program participation. Community partners suggest that due to the power of word of mouth, community members who observe the success of friends and neighbors who have participated in these programs are more likely to take advantage of these services themselves.

Community Need

In addition to specific questions about asset building, survey respondents were asked more generally about what type of information they would like to receive. Respondents were allowed to select more than one answer from the following:

Requested information	n=1573
Energy/utility assistance	45%
Job training	45%
Health insurance	29%
Food assistance	28%
Debt/credit counseling	26%
Financial education	23%
Child care assistance	23%
Buying a home	21%
Small business	20%
Retirement planning	19%
Children’s savings accounts	18%
Car/truck loans	17%
Bank/credit union accounts	11%

This data suggests that people are still struggling to deal with energy costs, lack of adequate employment wages, and enough money for food and health-related costs. These are the basic supports that, when missing, eat away at money that could go for savings. Communities may need to deal with these issues as a piece of their asset-building strategy. Furthermore, these results indicate that subsequent to the need for these basic supports and services, individuals are interested in learning more about asset-building products and services. This suggests that tribal governments or local organizations should consider identifying or developing appropriate saving vehicles for community members, seek out home ownership education and purchasing information for community members, and identify and work to overcome the specific barriers to home purchase in their communities.

Community and Economic Impact

A number of sites included supplemental series of questions that considered the opportunities for investing tax refund dollars in the local economy. While these questions (and answers) may not be as relevant for the urban sites in the sample, they can provide important information to rural and reservation communities that are seeking ways to expand the local economy and keep more of the dollars that come into the pockets of community members circulating at home.

Local economic multiplier	n=1847
Purchase items in local community	46%
Purchase items in communities within 60 miles of native community	20%
Purchase items more than 60 miles away from local native community	24%

Nearly half of the respondents (46%) indicate that they purchase items in their local community, but there are a number of products and services that are not available in the local market, forcing consumers to purchase items outside of their community. For some, this means shopping with 60 miles of their community (20%) but others must travel substantial distances, often exceeding a 60 mile radius (24%). One of the primary goods sought by consumers outside of their community is groceries (46%). 54% of respondents indicate that they purchase groceries elsewhere because they are too expensive in their local stores. Even with the cost of fuel, consumers drive up to 60 miles for basic needs such as milk, eggs, and laundry detergent. Clothing (57%) and household appliances (35%) are two additional examples of goods purchased outside of local communities; the primary reason cited is lack of availability.

For reservation and rural Native communities interested in leveraging tax refund dollars and cycling them through the local economies, these results support the development opportunities that many tribal entrepreneurs and Native nations themselves are currently pursuing. Tribal governments may want to encourage the development of such businesses to start a virtuous cycle of community reinvestment and local economic development.

Implications of the Data

This project was aimed at providing beneficial information to VITA site coordinators that they could use in their own program development and pass along to community leaders to inform the overall asset-building and economic development strategies of their communities. Collaboration with and support of Native-serving VITA sites was the driving force behind the research methodology and process. VITA site coordinators were actively involved at all stages of the project, collaborating on survey development, data collection and interpretation, and utilization of the research findings. Another project goal was to strive for positive interaction between Native community members, site volunteers, and BCAIS and CSD staff at all stages in the project. Site visits, phone calls, a round-table gathering at Washington University, the return of organized site-specific data to each VITA site, and the creation and production of site-relevant promotion brochures all were undertaken with the goal of producing useful community-relevant research. Site coordinators were essential to framing and explaining how tax filing helped people in their communities.

This method of participatory research is becoming the standard for effective and appropriate research practices in Indian Country. Such an approach takes more time and given the need to secure community engagement, may also require added expense. However, the payoff and results are worthwhile. Research built on participatory practice not only asks the “right” questions and produces practical answers for communities; it also provides immediate benefits to Native nations.

Connecting Strategies

A common theme emerged related to project participation: site coordinators decided that their VITA site could do “so much more” for their communities, above and beyond tax return preparation. Many site coordinators made connections between EITC/VITA services and other asset building tools such as financial literacy, helping people become “banked”, and homeownership education. Several of the sites collaborated with other community-based organizations to provide education and outreach in special areas at their VITA sites.

Cultural Values

Consideration of cultural values became important for a number of reasons:

- The types of questions included in the surveys and the ways in which questions were worded were largely dependent on the definition of and value assigned to what many would consider “mainstream” assets. Though common themes emerged, there were some variations across communities.
- Survey question choices were largely driven by community stakeholders’ vision for broader asset-building strategies in their communities. Their definition of what assets mean in their community drove the survey development, data collection, and data analysis process.

Conclusions and Recommendations

EITC has proven to be one of the most effective economic policy strategies instituted in the last twenty-five years. This policy has proven effective at encouraging job retention and increasing resources for low-income families and has provided an imperative economic boost to substantial numbers of qualifying families, including a significant number of Native people. Despite these positive effects, millions of EITC dollars go unclaimed each year, often by individuals and families most in need. Much of these unclaimed EITC dollars are from regions with the greatest levels of poverty, which is where the money is needed the most. These areas include many Native communities. A better understanding of EITC receipt in Indian Country is important for more effective policy making. For example, the knowledge that most recipients hope to save and invest their tax credit in order to buy a home or other asset indicates that the tribal government or local organizations ought to identify or develop appropriate saving vehicles, seek out home ownership education, and identify and work to overcome barriers to asset building.

Ultimately, such data not only provides useful information for specific Native nations, but becomes a powerful tool in convincing many other Native nations of the value of this asset-building approach. Each community's success and discovery of useful information serves as a powerful motivator for individuals and leaders in non-participating Native nations to discover how much peer communities are benefiting from the EITC. Having more and better data available for this type of knowledge exchange can change even more lives and more communities.

Information gained through this study provides a glimpse into the benefits of VITA sites and the EITC dollars being returned to community members. However, it should be considered only preliminary, since additional interpretation of data would be helpful to communities, for drawing more definite conclusions. The research is also an attempt to uncover the best process for collecting data in Native communities, and it is with these community benefits in mind that we propose the following recommendations:

1. The diversity of native communities requires a flexible approach to program and policy development. This is only possible through a broad understanding of the supports needed and solutions envisioned by native people. Expanding this project to include regions of Indian Country not yet included would broaden the scope of this study and enhance our understanding of the impact of EITC in native communities
2. In order to gain a deeper understanding of the impact on the financial portfolio of working families, future research should take a closer look at financial behaviors: the actual use of refunds versus the intended use of refunds.
3. Results indicate the desire for individuals to save their EITC dollars for financial security and asset building goals. Saving mechanisms that could be paired with EITC receipt should be further explored and instituted. The split refund option may be a place to start, but based on results from this study greater outreach and education must be pursued in order to create access to this opportunity.
4. Continue the development of marketing strategies to increase the number of Native communities participating in VITA programs. Furthermore, educate Native community

members and leaders about the benefits of developing and sustaining EITC/VITA campaigns/programs in their communities.

5. Expand peer networking opportunities for native VITA site coordinators.
6. Inform the larger asset-building agenda in Native communities. This may begin with increasing access to financial services for these communities. If tax refunds were deposited into savings each year and leveraged through asset building programs such as IDAs, the transformative effect for these households could be significant.
7. Inform the development of a variety of Native-focused financial products and services that enable low-income EITC eligible families to build assets while building credit, repairing credit, and reducing debt levels. These products and services should be designed in a more accessible way to the Native communities they serve and are more tailored to community needs. Such initiatives may include financial education programs, home ownership programs and services, credit counseling, reasonably-priced small loans, or small business development.
8. Inform the asset building field overall, especially emphasizing the potential connections between EITC receipt and overall community economic development.