



Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

VITA Sites

Linking Tax Returns and Asset Building Strategies in Indian Country

Kristen Wagner
Center for Social Development

Karen Edwards
KME Consulting

Amy Locklear Hertel
Kathryn M. Buder Center for American Indian Studies

Miriam Jorgensen
Native Nations Institute - The University of Arizona
Harvard Project on American Indian Economic Development – Harvard
University

Dana Klar
Kathryn M. Buder Center for American Indian Studies

2007
CSD Working Papers
No. 07-32

Campus Box 1196 One Brookings Drive St. Louis, MO 63130-9906 • (314) 935.7433 • www.gwbweb.wustl.edu/csd



Washington University in St. Louis

VITA Sites: Linking Tax Returns and Asset Building Strategies in Indian Country

On an individual and family basis, 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 two years this project has been underway, more than 9,000 tax returns have been filed at 14 Voluntary Income Tax Assistance (VITA) sites serving Indian Country. The study examined 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 the Kathryn M. Buder Center for American Indian Studies (BCAIS) and the Center for Social Development (CSD), 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 during Tax Year (TY) 2005. Current study activities took place from October 2006 through September 2007. The primary purpose of the study is to explore potential economic benefits of Earned Income Tax Credit (EITC) receipt for Native individuals and communities, as it was in the previous study, also. However, for the 2006 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 may occur at the individual, household, and community levels and includes 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 are likely to build stronger communities. As in the previous study, we examine the amount of money flowing to Native people and potential uses of EITC income. 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:

- Increasing the number of Native communities that develop and run VITA sites, through education about potential benefits related to developing and sustaining EITC campaigns/programs in their communities
- Informing the development of Native-focused EITC/asset building programs, particularly towards identifying and sharing features that make these programs both more accessible to Native communities and tailored to their needs
- Informing Native communities on how EITC receipt pertains to other asset-building efforts
- Informing the asset building field in general about the effects of EITC receipt in underserved communities, especially stressing 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 BCAIS and CSD at Washington University during the 2006 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 included:

1. ALU LIKE (Hawaii)
2. Black Hills State University -- serving Newell and Spearfish (South Dakota)
3. Cherokee Nation (Oklahoma)
4. Cheyenne River Lakota Nation Tribal Business Information Center (South Dakota)
5. Rural Dynamic Services of Montana (Montana)
6. Chief Dull Knife College (Montana)
7. Intertribal Council of Arizona (Arizona)
8. Lac Courte Oreilles Ojibwe Community College (Wisconsin)
9. Menominee Indian Tribal Association (Wisconsin)
10. Navajo Partnership for Housing (New Mexico)
11. Red Cliff Housing Authority (Wisconsin)
12. Tanana Chiefs Conference in partnership with the Alaska Business Development Center (Alaska)
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 receipts and proposed uses as compared to our previous study. These sites offered diverse representation of Native Nations and EITC receipt 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, 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; most sites providing services from the host site, with several utilizing satellite sites or roving service provision. One VITA site served a region that included approximately 73 village communities. This report provides aggregate data 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, BCAIS and CSD project staff worked with each VITA site coordinator to develop community surveys that included 18 required “core” study questions and up to 24 additional community questions (see Attachment A). Core study questions were designed to assess VITA site outreach and implementation, while community-specific questions typically focused on the link between receipt of EITC/tax refunds and asset-building activities and interests in participating communities.

Core study questions collected basic demographic data including race or 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 where customers had their taxes prepared last year, typical costs associated with tax preparation services, and where customers heard about VITA sites. Another set of core questions explored asset-related questions, such as intended use of EITC and other tax return dollars, bank account ownership, participation in financial education classes, and customer interest in asset-building activities. In addition to these core study questions, which were created and posed by the Annie E. Casey Foundation and the research team, VITA site coordinators from each participant community were offered an opportunity to pose community-specific questions, increasing the local usefulness of the research. Once survey content and format was 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 in survey development, web-based training sessions on the use of National Tax Assistance (NTA) computer software were offered to site coordinators. Trainings addressed topics such as entering surveys numbers and data into “Tax-Wise” tax preparation software, creating a database that links survey data with TaxWise files, and reporting functions of the software. Webinar training and data linkage features are new project components for this year, and will offer more in-depth information regarding the economic effects of EITC receipt.

Additional community information was gathered during phone interviews and an in-person knowledge sharing session offered to the VITA site coordinators. Information collected at these venues included 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 linkage will assist in answering questions such as: What are characteristics of EITC recipients? In what ways are they engaged with asset building? Does their receipt of EITC affect community economic institutions?

Summary of Findings

VITA Reports

Each VITA site reported Tax Year information for 2006 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 2006 Federal Tax Returns Prepared	9,000
Total EITC Claimed	\$3,500,000
Total Refunds Returned to Families	\$7,500,000

A majority of the VITA sites had been operational for at least one previous year, but had not offered services more than five consecutive years. A few sites have served their community five years or more, but have only been official VITA sites for the past few years. 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 2006.

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 also were assured that their decision to complete the survey would not impact tax preparation service or information in any way.

Over 3,200 surveys were collected by the fourteen VITA sites. Of this total, 2,272 respondents (73%) were Native American/Alaskan Native and a significant number of these were from Alaska (n=1,367). 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. Following this population descriptor, the presentation of survey results delineates aggregate Native and non-Native responses. Table headings will indicate what portion of the sample is 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. The following chart shows the reported racial/ethnic distribution of survey respondents:

Race/Ethnicity	N=3183
Native American/Alaskan Native	73%
Caucasian	17%
Latino/Hispanic	6%
Other	2%
African American	0.83%
Asian/Pacific Islander	0.58%
Native Hawaiian	0.39%

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 finding that the study sites served a Native population of 73% indicates that the VITA sites are reaching their targeted customers.

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, 92% (N = 2,975) 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 Demographics

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	% of Native N=2075	% of non-Native N=793
Male	41%	34%
Female	41%	51%
Married-joint filers	18%	15%
Age	% of Native N=2264	% of non-Native N=793
16-20	10%	9%
21-30	25%	23%
31-40	18%	17%
41-50	21%	20%
51-60	15%	15%
61+	11%	14%
Language Spoken at home	% of Native N=2281	% of non-Native N=827
American Indian or Alaskan Native language	22%	-
English	55%	87%
American Indian/Alaskan Native language AND English	22%	-
Spanish	.31%	11%
Level of Education	% of Native (n= 2242)	% of Non-Native (n= 816)
Less than high school of GED	15%	12%
High school graduate or GED	46%	35%
Some college or tech school	26%	33%
Associate degree	6%	7%
Undergraduate degree	3%	8%
Some graduate school	1%	2%
Graduate degree	2%	4%

Aggregate results for gender of tax filer show a nearly equal split between males (41%) and females (41%) using free VITA services. The category “married-joint filers” was a new survey category this year and provides a clearer picture in terms of the characteristics of heads of households. 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.

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 55% indicated that English is the primary language spoken at home. Approximately 22% indicated that they use a combination of English and Native language, and another 22% indicated that they *primarily* speak their Native language at home.

Finding a substantial percentage of homes with Native language speakers indicates a potential need for communities to design 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. However, it should be noted that a large number of individuals responding to this question about language use come from Alaskan Native villages and another significant portion from the Navajo Nation (the largest Native nation in the United States and a nation in which there is significant Native language retention). Together, the Alaska and Navajo VITA sites contribute 12% of Native speakers in this study. If these are also areas in which Native language is the *primary* language of general communication, investments in Native language outreach may be valuable. (They are likely to be less valuable in communities where dual language use is more common.) Finally, any outreach and education effort that uses Native language should identify and consider the kinds of communication/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 26% reported completion of at least some college or tech school, only 12% 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 (61%) had a high school diploma or less.

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:

Type of Outreach and Communication	% of Native (n=2210)	% of Non-Native (n=804)	% of Total (N=3014)
Filed here last year*	40%	41%	40%
Word of Mouth	37%	40%	37%
Flyer/Newspaper/Poster	18%	15%	18%
Radio or TV	4%	2%	4%
Envelope stuffer in paycheck	.5%	1%	1%

*Actually, larger percentages are return customers (see results on tax preparation below). The figures here are lower because the focus of this question is on outreach—what, specifically, drew customers to the site?

Though actual percentages varied slightly between Native and non-Native respondents, the primary source of information identified by all was interaction at the site during the previous tax season, closely followed by word of mouth, and media advertisements such as flyers, newspapers, and posters. The high percentage of information shared through word of mouth (37% of Native, 40% of non-Native) 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.

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 sources in other-than-mostly-Native communities is TV, but in Native communities, other community members and social service providers seem to be vital sources. 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. This research may indicate that signs at public libraries or public administration buildings would probably not be as effective for Native communities as in other communities. 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.

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	% of Native (n=2202)	% of Non-Native (n=818)	% of Total (N=3020)
Had them done here	47%	46%	47%
Paid a tax preparer	15%	20%	16%
Another free place like this	11%	11%	11%

VITA SITES

Did not file	11%	8%	10%
Relative/family/friend prepared my taxes for free	8%	8%	8%
Did my own	4%	6%	5%
Have never filed before	3%	2%	2%

Nearly half of the respondents (47% of total and Native) used the same VITA site 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 – with the research indicating that site coordinators are relaying the message that customers can end up with more money in their pocket if they do not pay for tax preparation.

Vita Site vs. Paid 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 \$100 (within a range of \$20-\$500) for tax preparation services. Estimating from this average cost and the 15% of Native customers who used paid tax preparation in the past, the VITA sites participating in this study saved their Native customers over \$33,000 – 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. A substantial number of survey respondents (66% of total) indicated that it was important to them to receive their refund quickly (i.e. less than seven days). 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. It was also mentioned that some customers fear that the government will take their EITC money back if they owe child support, for example, so they want to get the money fast to more likely hold on to it.

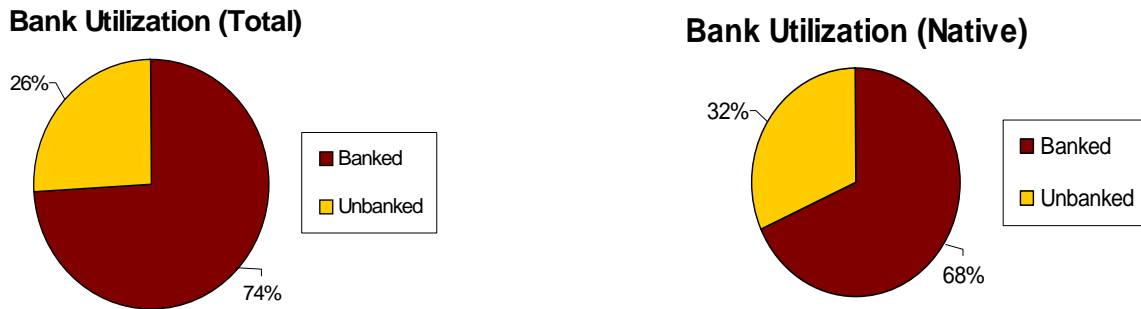
The tribe would benefit from better educating customers about what a rapid refund is, since those who want a rapid refund are actually getting a rapid anticipation loan, or RAL, which is based on their refund, but charges a very high interest rate. There are a number of other exploitative practices occurring during tax season in these communities. One story we were told is that a local department store raises prices during tax season because people are given a check card to spend in the area if they are clients at a Rapid Refund place.

Anecdotal evidence indicates 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 2006 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

Another core question 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 (74% of total, 68% of Native, and 91% of non-Native; n=2913), there is still a high percentage with no bank account¹.

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. A few communities chose to ask customers why they do not currently have accounts. Only a few individuals answered this question, with a consistent response being, “Due to poor credit.” Anecdotal data suggests that this response may mean that individuals have bounced checks or have overdrawn their accounts, but we do not know, with certainty, the cause of poor credit for these individuals. 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.

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 bad times, and as an active financial vehicle supporting purchases and living expenses. Low-income individuals face barriers to using their bank accounts in these ways, largely because of minimum deposit requirements that may

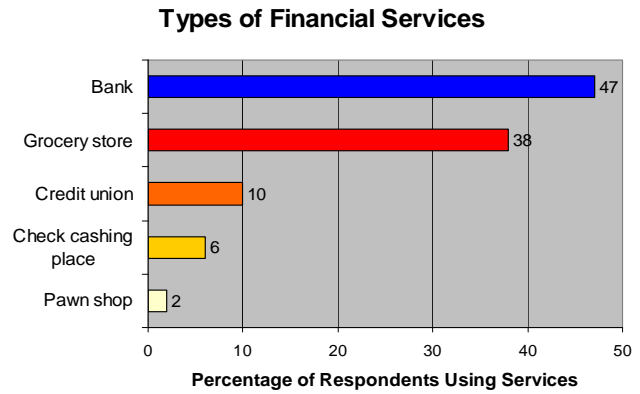
¹ The percentage of individuals indicating that they have bank accounts is substantially lower this year compared to last year. This difference is likely due to a change in our sample (i.e. addition of new sites) and should therefore, not be interpreted as an aggregate change in banking status.

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.

Utilization of Financial Services

In the absence of access to banking services, or 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 suggests a large group of both unbanked and underbanked individuals among the customers of Native-serving VITA sites.

This survey inquired where customers typically cash their paychecks, which is 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. Responses indicate the frequent use of alternative financial services, as follows:



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. 37% of the total sample pays a check cashing fee.

Additional data that supports the strong use of alternative and expensive financial services includes, 60% of respondents using money orders to pay their bills, even though 68% have bank accounts. In addition, 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. Availability and use of local banks and financial institutions may help to put these dollars back in people’s pockets.

Where Paychecks are Cashed	% of Native (n= 2135)	% of Non-Native (n=790)
Bank	47	61
Grocery store	38	7
Credit Union	10	10
Check cashing places	6	3
Pawn shop	2	.5

These findings speak to the need for more available 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 instituting 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 institution

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 IDA. It speeds the receipt of funds (answering the desires of some current users of paid tax preparation services that deposits be received quickly) and increases the ease and likelihood of saving. Direct deposit may become even more important in the near future, 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 (checking and savings, for instance).

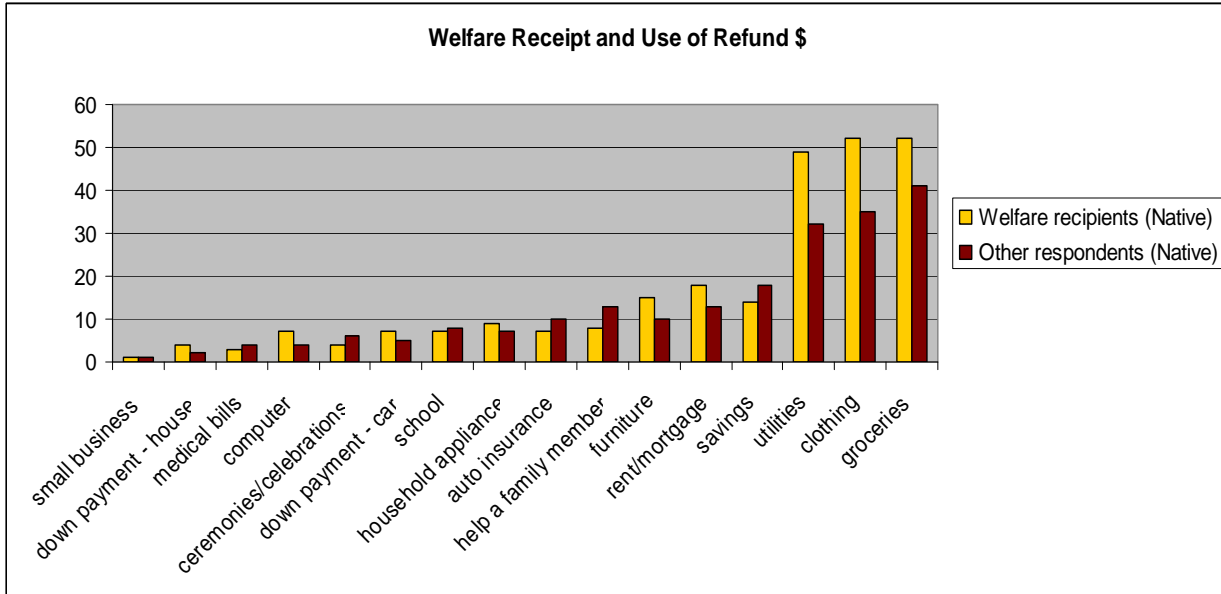
Public Benefit Recipients

Another core question asked respondents to indicate if they or their families received public assistance or were eligible for public assistance in 2006. Among respondents, approximately 37% of native respondents and 22% of non-native respondents (33% of total) indicated that they received or qualified for public benefits in 2006. Respondents also had the opportunity to write in public benefits they received that were not listed. Interestingly, some respondents received Supplemental Security Income (SSI) and Section 8 Housing. This is an important finding for tribes that want to encourage EITC recipients to save some of their EITC dollars in IDAs, since in most cases EITC requires that refunds be spent down within a year. It is important to note that this requirement may be waived if refund dollars are placed in IDAs supported by TANF and/or AFIA dollars. Therefore, tribes may want to consider such programs as part of a comprehensive economic development strategy.

Welfare Receipt and Use of Refunds

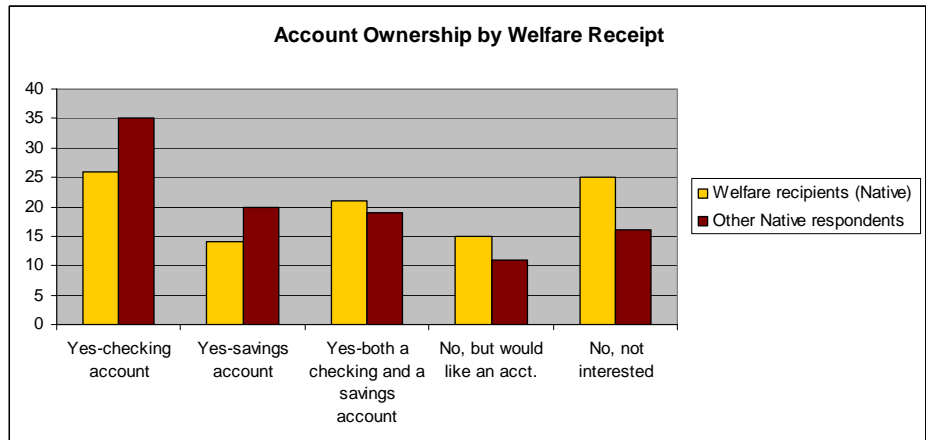
Results indicate that a much higher percentage of welfare respondents use their tax refund dollars to cover daily living expenses such as groceries, clothing, and utilities compared to those who do not receive welfare benefits. These uses mirror the original intent of EITC legislation, which was to give people extra money for both expenses and “big ticket” items such as appliances and cars. However, respondents, regardless of welfare receipt, indicate that aside from covering basic living expenses, their next intended use of their refund dollars is to save them. Most respondents indicated that they would save their refund dollars in case of emergency. Significantly, a substantial number also indicated specific short-term savings goals, which include auto repair, home repair, auto loan, and school expenses for their children.

Tribes might use this finding and take extraordinary means to encourage community EITC refund recipients to save part of their refund in matched savings accounts, or other investment accounts, for longer-term asset-building goals. However, it could take time to make this come about, since people would have to be encouraged to get into a new habit of saving, and not to look forward to having a yearly windfall of money to spend in more immediate ways.



Welfare Receipt and Account Ownership

Account ownership is slightly lower for individuals receiving welfare benefits compared to those who do not receive welfare assistance, but savings account ownership is relatively equal at approximately 20% of survey respondents in each category. Among welfare recipients, 26% have a checking account,



14% have savings accounts, 21% own both checking and savings accounts, 15% do not have a bank account but would like to have one, and 25% do not have a bank account and are not interested in opening an account. Account ownership is only slightly higher for individuals who do not receive welfare benefits. This information challenges the notion that low-income families, particularly welfare recipients do not want or need banking services.

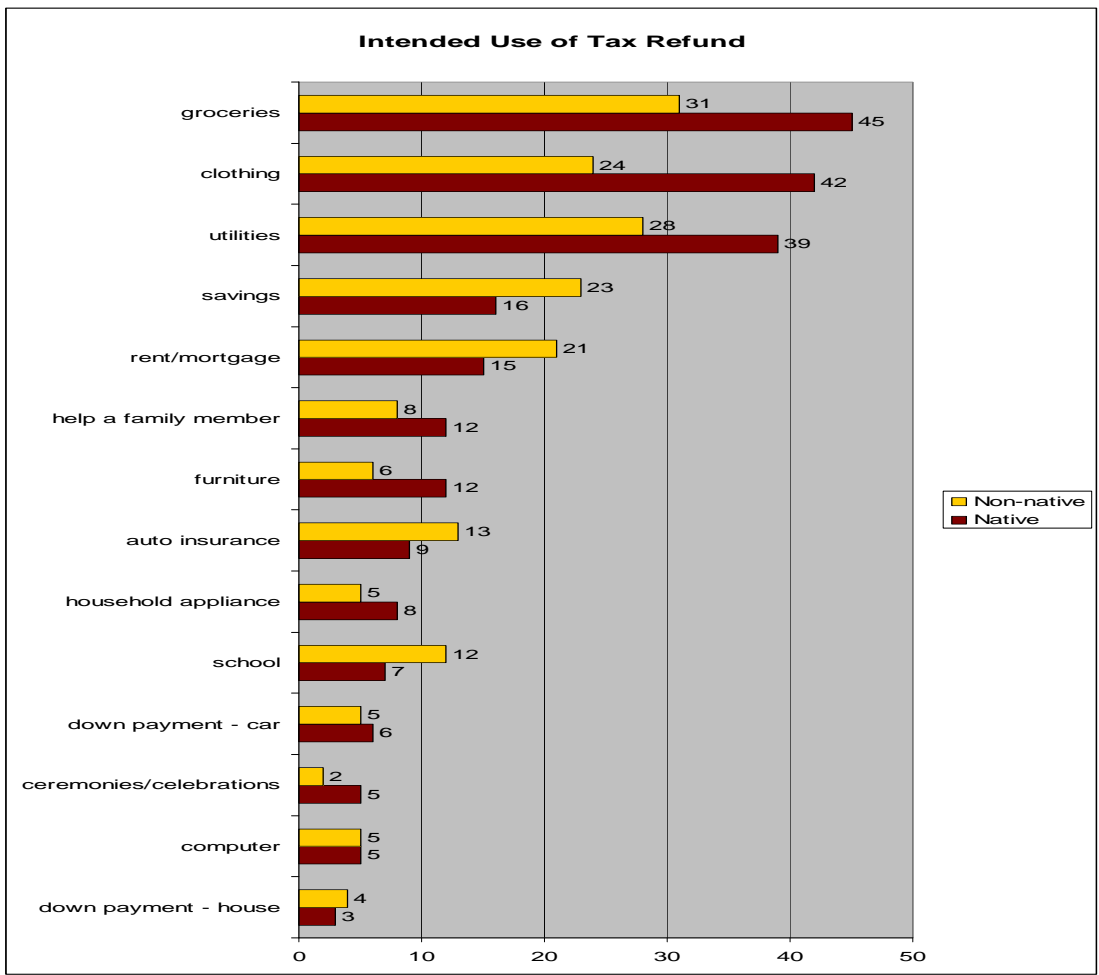
Links to Asset Building

VITA sites offer a venue for tribes to deliver vital 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. VITA site coordinators in this study 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 what asset building topics community members might be interested in learning more about.

Planned Use of Tax Refund

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. These efforts could be the boost needed to lay a foundation for being able to save modest sums, having them matched, and building assets.



Tax refund dollars 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. Of this native sub-sample (n = 1204), over half of respondents indicated that 25% of their refund dollars were used for necessities, 30% of respondents allocated half of their refund for such expenses, 13% of respondents use 75% of their total refund to cover essential expenses and 7% must put all of their refund toward daily living expenses.

Notably, the results indicate that many recipients hope to save (16% of Native respondents, 23% of non-Native respondents). As above, this suggests a need for more financial institutions in or near Native communities, as well as the need for locally institutionalized savings programs. And, while a lower percentage of Native respondents indicated a desire to “save,” the response does not necessarily imply a lower propensity for asset building. It may in fact signal different paths toward asset building. A slightly lower percentage of Native respondents compared to non-Native respondents say they plan to invest their tax refund/credit in a home (3% of Native, 4% of non-Native), a vehicle (6% of Native, 5% of non-Native), durable goods such as furniture (12% Native, 6% of non-Native), and education for themselves or a family member (7% of Native, 12% of non-Native). Importantly, different public policies and values are also revealed in this data, since differential expectations to help family (11% Native, 8% of non-Native) highlight the communal assets approach that thrives in many American Indian and Alaska Native cultures.

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 attempts to ensure greater financial security and as protection from financial shocks.

Participation in Financial Literacy Programs

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 accumulation². One indicator of financial literacy is whether an individual has participated in classes or workshops on financial topics. Participation rates of financial education participation within this sample are as follows:

² 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. (2006). 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-sum.html>

Class Type	% of Native (n=2091)	% of Non-Native (n=770)
Financial education (basic personal financial management)	9.67% (2005) 8% (2006)	1.46% (2005) 9% (2006)
Credit repair	18.24% (2005) 3% (2006)	16.67% (2005) 4% (2006)
Home ownership	11.11% (2005) 6% (2006)	2.00% (2005) 8% (2006)
Small business development	5% (2006)	4% (2006)

Participation in all categories is higher for Native community members than non-native community members. In communities where Individual Development Account (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 than in those communities with no such programs. This may be because IDAs and CDFIs require financial education classes as part of program participation; it would be interesting to discover if community members observe the success of friends and neighbors who have participated in these programs and become more likely to take advantage of these services themselves. The higher number of individuals indicating that they have received credit repair education may be due to the fact that nearly 16% of respondents received tax preparation assistance from an organization that provides consumer credit counseling services.

Savings

Though a majority of respondents indicated that refund dollars are being used to cover basic expenses, results from this study indicate that working families are already engaged in saving. 16% of survey respondents plan to save at least a portion of these supplemental dollars. Respondents were asked how much they have in savings and the average personal savings averaged \$1500. For many, there is a specific savings goal in mind, which include both short term and long term goals. Such goals include auto and home repair, auto and home purchase, and school related expenses.

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 and, therefore, wanted to assess community interest in such programs. Only a small percentage (10.22%) of respondents had previously heard of matched savings accounts or IDAs. However, a majority (60%) of respondents indicated they would participate in an IDA program if it were available in their community.³

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. Communities seeking to implement these programs, however, must be aware of the costs involved (both in terms of managing the program and matching savings) and participants must be aware of the requirements to save regularly, follow program training rules, and ultimately convert financial assets to approved uses, among others. In other words, the programs *are* very useful, but they are also more complicated than we made them sound.

People seem to want opportunities for saving, and state that they would likely use some of their EITC refund to do so. Linking matched savings programs like IDA and EITC programs could better facilitate these types of asset-building activities. A policy became effective in 2007 that allows EITC money to be direct deposited into more than one account. 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 the first year was strikingly low. That means more knowledge and marketing about the potential of using such an opportunity, and encouragement, education, and facilitation towards saving and investment may need to be done in all communities to encourage using at least part of EITC refunds for saving and investment.

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	% of Native (n=2014)	% of Non-Native (n=593)	% of Total (N=2607)
Energy/utility assistance	32%	21%	30%
Job training	23%	9%	20%
Food assistance	19%	11%	17%
Health insurance	16%	23%	17%
Buying a home	14%	11%	13%
Financial education	13%	11%	12%
Debt/credit counseling	11%	9%	10%
Car/truck loans	11%	7%	10%
Small business	11%	9%	10%
Children’s savings accounts	10%	6%	9%
Child care assistance	8%	5%	8%
Bank/credit union accounts	6%	2%	5%

This data suggests that people are still struggling to deal with energy costs, lack of meaningful and well-paying employment, 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 following 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 an experimental 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

% of refund used to purchase items/services outside of community	% of Native (n=2014)	% of Non-Native (n=593)
25%	45%	57%
50%	29%	16%
75%	19%	18%
100%	8%	9%

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.

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.

Implementation

This project was aimed at providing beneficial information to VITA site coordinators that they could use in program development and then 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, helping to develop survey questions, collecting data, and interpreting and using the 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 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-participatory and community-relevant research. Site coordinators were key to framing and explaining how tax filing helped people in their communities.

This method of participatory research will hopefully become the standard for effective and appropriate research practices in Indian Country. Such an approach will likely take longer and, given the need to secure community engagement, it may also require added expense. However, the payoff and results could be huge. Research built on participatory practice not only asks the “right” questions and usable 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 all 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 who need the money the most. Much of these unclaimed EITC dollars in general are highest in the areas of greatest 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 provide useful information for specific Native nations, but become a powerful tool in convincing many other Native nations of the wisdom 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 these “promotional” purposes 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 best process for collecting data in Native communities, and it is with these community benefits in mind that we propose the following recommendations:

1. This study should be repeated at least one more year and expanded to include additional communities that represent both urban and reservation based native communities. Expanding the sample representation would allow for a comparative assessment of the needs of working families across Indian Country.
2. Site visits are a necessary component to the data collection process, as they build trust and a collaborative spirit with an eagerness to do the work and should continue to be an integral part of the knowledge building process.
3. Site visits/training need to occur before January (when tax prep services begin) and should include volunteers in order to gain their support and understanding of how the information may be used to best benefit their communities.
4. Future research should take a closer look at financial behaviors: the actual use of refunds versus the intended use of refunds.
5. Results indicate the desire for individuals to save their EITC dollars for financial security and asset building goals. Savings mechanism that could be paired with EITC receipt should be further explored and instituted. The split refund option that is currently available may be a place to start, but there are still questions to be answered, such as who is using this option, in what ways, and for what reasons?
6. Larger questions should continue to be explored; questions related to policy and asset building, including, “What are the federal and state policy implications of such research?” Could policies or rules and regulations be changed in such a way that make the receipt of EITC have even more positive impacts on Native communities? With the knowledge that federal-level EITC dollars can have transforming effects for low-income families, state-level EITC policies should be encouraged as such a policy that would further enhance these outcomes for working families.

Recommendations

- Development of media and/or marketing strategies to increase the number of Native communities participating in VITA programs, and in the process, to educate Native community members and leaders about the benefits of developing and sustaining EITC/VITA campaigns/programs in their communities.
- Inform the larger asset-building agenda in Native communities. This may begin with increasing access to financial services for these communities. For some communities this may mean development of a local bank or credit union, for others where these services are already available, it may mean encouraging financial institutions to lower fees for certain accounts, or encouraging more use of direct deposit. Even a basic savings account may put individuals and families on the road to greater financial security and asset building. 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.
- 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.

- Inform the asset building field overall, especially emphasizing the potential connections between EITC receipt and overall community economic development.