



You Earned It! You Keep It, Michigan!

## **Michigan's Statewide Earned Income Tax Credit Initiative**

### **2006 Evaluation Report**

Prepared for the Michigan Statewide EITC Coalition  
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# Introduction

The Earned Income Tax Credit (EITC) is a popular and proven method for raising the household income of the working poor. The Federal tax credit allows millions of dollars to flow back into the pockets of workers and subsequently into the local economies in Michigan. Startlingly, an estimated 1.46 million EITC-eligible Michigan workers left over \$400 million EITC refunds unclaimed in 2002.<sup>1</sup>

In order to address this problem, Governor Granholm launched a statewide EITC Initiative to publicize the EITC and increase the claim rate among the eligible populations. Michigan State University entered into an agreement with the Michigan Department of Human Services to establish and facilitate the Michigan Statewide EITC Coalition, whose responsibilities are to generate and carry out activities that will increase EITC uptake rate among eligible Michigan taxpayers. Reed Consulting Services conducted a year end evaluation of the 2005 tax year activities for the Michigan Statewide EITC Coalition. This evaluation documents all the activities that have taken place in Fiscal Year 2006, identify outcomes from these activities, make conclusions and recommendations, and provides information that will assist stakeholders in planning for future work.

## ***Brief Overview of 2006 Statewide EITC Coalition Activities:***

The following are brief descriptions of the 2006 pilots and initiatives for the 2005 tax season covered in this evaluation report.

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<sup>1</sup> Source: GAO 2002

### **Free Tax Preparation Services**

Local tax coalitions provide free tax preparation services for the EITC eligible population as a way to assist low income wage earners and allow them to keep more of their refund.

### **I-CAN!-EIC Tax Preparation Services**

ICAN EIC is a web-based application developed in 2002 that empowers low-wage earners to complete and e-file their federal and some state tax returns on their own for free. ICAN was piloted in several Michigan credit unions and Michigan Works! offices.

### **Innovative Financial Services**

The Michigan Credit Union League and several credit unions worked with the Statewide EITC Coalition to pilot special savings and credit products that offer alternatives to predatory financial service products offered through paid tax preparers that spring up in low income communities.

### **Refund Splitting**

In 2007, the IRS federal individual tax form will provide the tax payer the option of splitting the refund such that the taxpayer can elect up to at least two accounts to which the refund can be routed. The Accounting Aid Society in Detroit was a non-official site in which the refund-splitting was demonstrated.

### **EITC- micro enterprise Initiative**

The Micro enterprise initiative links emerging food-related niche entrepreneurs with access to entrepreneurial education, financial support through small loans and Individual Development Accounts offered through a local credit union, and explores the value of tax-refunds in building equity in those businesses.

### **Annual Learning Exchange**

The Learning Exchange is a one-day conference that brings together a diverse group of professionals who work with low-income wage earners and promote the EITC. The conference allows for networking and information sharing among different levels of practitioners from state policy makers to local tax preparers.

### ***Methodology***

Each of the programs of the 2006 Statewide EITC Coalition was evaluated separately and as a whole. The evaluation of the 2006 activities relied on self-reporting data from each pilot or initiative. In several cases, Reed Consulting Services provided some technical assistance as to what data should be collected. Most of the data provided in this report was provided by leaders in each pilot or initiative. The data was often supplemented by meetings or interviews with key stakeholders in each pilot or initiative.

### ***Findings***

The following sections discuss the objectives and activities of each of the 2006 pilots and initiatives. Each section then documents the outcomes, conclusions, and recommendations. Overall conclusions and recommendations follow the outcomes for each of the individual initiatives.

# Section I: Free Tax Preparation

## Objectives

To provide EITC eligible taxpayers free tax preparation services to increase EITC uptake rate and as an alternative to predatory tax preparation services.

## Summary of Issues

Free tax preparation services have been provided for several years by different Michigan organizations. These organizations include, Community Action Agencies (CAA), AARP, and Senior Volunteer Tax Services. Groups such as the Accounting Aid Society of Detroit provide tax preparation services as well as a host of other financial literacy and support assistance. With the support of the Detroit Internal Revenue Service – Stakeholder, Partnership, Education and Communication office and the Statewide EITC Coalition, local EITC coalition models have emerged. To date, 15 coalitions covering 30 counties complement the CAAs and other volunteer tax preparation services by offering Volunteer Income Tax Assistance (VITA).

One of the main recommendations from the 2005 evaluation report was to better track those receiving free tax preparation services by standardizing data at each VITA site. By providing better data (much of which can be collected from the Taxwise software), VITA sites can be compared and best practices can be documented while assistance is given to new or underperforming sites.

## Activities

Local tax coalitions are organized generally at the county or regional level in order to provide tax preparation services. Tax preparation volunteers are recruited and

trained to provide tax preparation services to low income tax payers. Sites are managed locally. Those sites that offer electronic filing use Taxwise software, which not only generates an electronic tax return but captures data into a final report.

## Outcomes for 2006

The following tables show the tax preparation outcomes for 15 tax coalitions from around the State of Michigan. The 2006 data is from the 2005 tax year. Although 2005 comparison data for each coalition is not available, Table 2 shows the aggregate data for the coalitions and can be compared with 2006.

**Table 1: Tax Preparation Outcomes 2006\***

<b>Coalition</b>	<b># Returns</b>	<b># EITC Returns</b>	<b>%EITC Returns</b>
AAS**	8925	2182	24%
Kent	3636	1086	30%
Wayne	2337	1172	50%
Saginaw	1501	417	28%
Quad County	1360	389	29%
Macomb	1070	349	33%
NW MI	920	123	13%
Oakland	747	417	56%
Kalamazoo	551	242	44%
Berrien	433	260	60%
Van Buren	320	93	29%
Cass	287	121	42%
Genesee	259	137	53%
Cheboygan	140	68	49%
Washtenaw	71	26	37%
<b>Totals</b>	<b>22,557</b>	<b>7,082</b>	<b>31%</b>

\* - Tax returns prepared in 2006 refer to returns prepared for 2005 wages

\*\* - Accounting Aid Society

Local coalitions were able to track general data through Taxwise. Generally there was a great deal of variance in the number and amount of returns prepared across the different coalitions. Larger counties such as Kent, Wayne, and Saginaw all prepared a large number of returns. Across the entire state, approximately 31% of all returns included an EITC refund. In some areas at least half of the returns received the EITC. These coalitions included Wayne, Oakland, Genesee, Cheboygan, and Berrien.

A key objective of the EITC statewide initiative is to ensure that more EITC dollars are claimed. It is important to track these data for each of the tax coalitions to improve on their mix of EITC recipients. Some coalitions had a very low percentage of EITC returns and it is important to understand if this is a result of the demographics or the customer mix and how to target more of the EITC eligible population.

**Table 2: Total Tax Preparation Outcomes – Comparison of 2005 and 2006**

	<b># Returns</b>		<b># EITC Returns</b>		<b>%EITC Returns</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
<b>Totals</b>	<b>15,567</b>	<b>22,557</b>	<b>3,580</b>	<b>7,082</b>	<b>23%</b>	<b>31%</b>

Table 2 shows that overall returns increased dramatically and the number of EITC returns nearly doubled among the tax coalitions. The percentage of EITC returns

increased from 23% to 31% illustrating the efforts of local tax coalitions is resulting in major improvements each year.



Table 3 shows the average EITC refund, total EITC refunds, Average Adjusted Gross

Income, and total refunds altogether.

**Table 3: Tax Preparation Outcomes 2006 – Coalition VITA Sites**

Coalition	Ave EITC Refund		Total EITC		Ave AGI		Total Refunds	
	2005	2006	2005	2006	2005	2006	2005	2006
AAS		\$1,100	\$2,265,014		\$10,775		\$4,283,345	
Kent		\$1,122	\$1,226,827		\$13,135		\$2,505,410	
Wayne		\$935	\$1,095,310		\$10,512		\$1,960,245	
Oakland		\$1,298	\$505,319		\$11,720		\$445,513	
Macomb		\$1,336	\$466,416		\$11,038		\$717,301	
Saginaw		\$1,214	\$444,661		\$12,845		\$972,404	
Quad County		\$1,127	\$438,341		\$14,340		\$910,438	
Berrien		\$864	\$224,508		\$11,429		\$397,278	
Kalamazoo		\$906	\$219,256		\$11,892		\$452,268	
Genesee		\$1,278	\$175,101		\$9,755		\$261,627	
Van Buren		\$1,391	\$130,844		\$11,216		\$254,154	
NW MI		\$681	\$106,259		\$11,911		\$324,169	
Cheboygan		\$1,376	\$93,546		\$11,657		\$175,844	
Cass		\$462	\$55,902		\$7,420		\$119,556	
Washtenaw		\$772	\$20,062		\$14,648		\$63,570	
<b>Totals</b>		<b>\$1,057</b>	<b>\$7,467,366</b>		<b>\$11,600</b>		<b>\$13,843,122</b>	

The average EITC refund ranged from \$462 in Cass County to \$1,391 in Van Buren. These figures only represent those returns prepared at coalition-based VITA sites. Unfortunately, 2005 comparison data for

each coalition site was not available at this time from the IRS. However, aggregate data was available from existing coalitions. Table 4 shows the average refund and total EITC refunds.

**Table 4: Refund Breakdown - Comparison of 2005 and 2006**

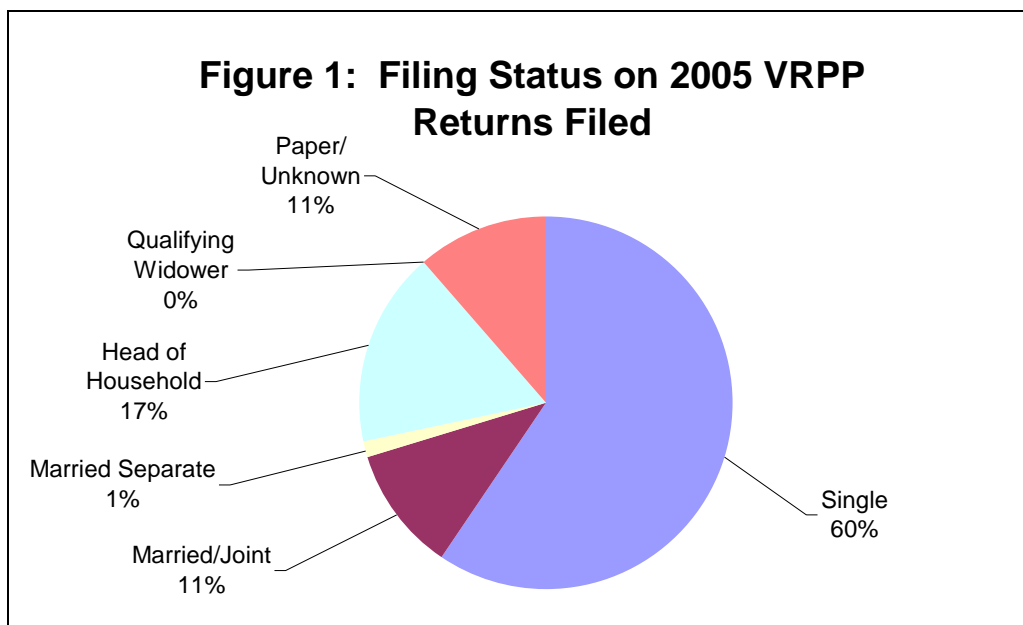
	Ave EITC Refund		Total EITC		Ave AGI		Total Refunds	
	2005	2006	2005	2006	2005	2006	2005	2006
<b>Totals</b>	<b>\$850</b>	<b>\$1,057</b>	<b>\$3,028,173</b>	<b>\$7,467,366</b>	<b>NA</b>	<b>\$11,600</b>	<b>\$13,225,341</b>	<b>\$13,843,122</b>

As shown in Table 4, the total overall refunds rose only slightly, however, the total EITC refunds more than doubled among tax coalitions. The average EITC refund also increased. The data clearly indicates that the free tax preparation services continue to improve at meeting the goal of increasing the utilization of the EITC in Michigan.

The coalitions are motivated to reach EITC-eligible taxpayers, and, therefore, are interested in collecting information that provides a profile of their taxpayer customer. IRS data from 2003 and 2004 compiled on all EITC taxpayers shows that the average EITC refunds received by all eligible taxpayers who file in counties that have coalitions is higher than those taxpayers who use the coalition-run tax

VITA sites. Most likely this indicates that tax coalitions are currently attracting a mix of customers whose income may be part time or whose income is only partially earned. The taxpayer profile is evident in

Figure 1, which shows the filing status of taxpayers who use the coalition-run VITA sites.



Nearly 60% of taxpayers are single. To qualify for the EITC as a single taxpayer, income is under \$12,000, and persons are between the ages of 25-64. Eleven percent (11%) of the filers were married taxpayers filing jointly; and eligible head of household filers was 17%. Some coalitions prepare paper returns, so that data on filing status was not collected for 17% of the population.

preparation services in 2006. For the 2005 tax year, CAA Earned Income Tax Credit and Tax Assistance programs assisted over 18,450 low-income households in Michigan, obtaining over \$6.5 million in EITC refunds and over \$20.8 million in all tax refunds and credits. In addition, CAAs garnered over 12,400 volunteer hours in conjunction with their assistance programs.

The data shows that a greater number of households with higher - yet still EITC-eligible income parameters – utilize paid tax preparation services more often than the coalition-managed VITA sites. Coalitions may want to address this through more deliberate marketing strategies to employed taxpayers.

## Conclusions and Recommendations

**Continue to measure and assess free tax preparation services.** By all anecdotal and quantitative accounts, tax preparation services are a resounding success. The number of people served continues to grow each year. Measuring the success can help

In addition to the tax coalitions, Community Action Agencies also provided tax

to streamline and target services to serve a greater number of people.

**Develop standardized data collection across tax coalitions.** In order to measure the impact of free tax preparation services across the state, there needs to be a standardized effort in data collection. Two issues emerged in Statewide EITC Coalition meetings that deal with the standardized data collection discussion:

- 1) Coalitions are not aware of how data could be captured through the Taxwise software reporting features, and
- 2) There is no information mandate through the current funding source for EITC preparation services in Michigan.

Currently, only very basic information is collected that can be compared across the different coalitions. It would seem prudent for the VITA field to collect the same data so that information can be shared. It is recommended that the Coalition work with the IRS and MDHS to establish success measures with each coalition, determine how and what data could be collected as benchmarks of success, and how information collected could be integrated into planning processes at the local level.

**Catalog efforts of local Tax Coalitions.** The levels of success among the different tax coalitions have been diverse. Some coalitions have been in the business for years while some are new. In addition, there are differences in the demographics of each community. Indicators such as the percentage of EITC returns prepared, average EITC refund, contrasted with the total number of returns and refunds illustrate major differences between tax coalitions. In

order to provide data that can help each coalition improve, there needs to be a better coordinated effort to catalog each of the efforts beyond collecting pure quantitative data. Some of this information is shared annually at the Learning Exchange. However, a series of short case studies documenting the efforts of some of the more successful tax coalitions can give other coalitions valuable guidance on how to restructure their services.

**Contrast data with Census and IRS data to develop standards.** Each region of the state has a different mix of socioeconomics and demographics. Some have a harder to serve population. One of the key focuses of tax preparation is to draw EITC eligible tax payers to get their taxes prepared. Using IRS and census data, it can be determined what percentage of the population is EITC eligible. From these data, tax coalitions can better understand the population they are working with and set strategies and goals that better focus on their populations' needs.

**Develop a marketing kit.** Each tax coalition is different and several provide additional services. However, it appears that some of the tax coalitions could use guidance on marketing tax preparation services to the EITC eligible population. It may be very helpful to have a marketing kit that offers targeted strategies on reaching the working population in different geographical locales.

**Continue to incorporate financial literacy into the free tax preparation services for the EITC eligible population.** For EITC recipients, it is often the only time of the year that they will have discretionary income at their disposal. This appears to be a window of opportunity to provide information on and direct access to safe, affordable financial service options. Studies

have shown that the optimum time to engage the tax payer is during the time when taxes are being prepared. Tax payers become aware of the amount of their refund, which has been found to be a turning point in their openness to options such as direct deposit or saving a portion of their return for future financial security.

## Section II: ICAN! EIC™ Software

### Objectives

To provide “gap” coverage for users and encourage new entities to provide free tax preparation access across Michigan using tax preparation software created by the Legal Aid Society of Orange County. The I-CAN!-EIC™ allows EITC-eligible taxpayers to electronically file their federal income taxes and apply for the EITC online at no charge.

### Summary of Issues

The Michigan Poverty Law Program (MPLP) has taken the lead on promoting the availability of I-CAN!-EIC™ in Michigan as part of a grant from the State EITC Coalition. While the state continues to develop needed community based free tax clinics to assist low-income filers the traditional brick and mortar cannot reach all of the needy. Many rural areas such as the Upper Peninsula are without affordable tax preparation assistance. I-CAN!-EIC™ is intended to help fill these gaps.

### Activities

The I-CAN!-EIC™ initiative had three main activities. The first was to set up pilot access sites in Michigan Works offices and Michigan credit unions. The Michigan Poverty Law Program (MPLP) setup I-CAN!-EIC™ access sites in 20 key Michigan Works and over 100 credit union

locations. These partners had computers available to their memberships which often have a high percentage of EITC-eligible workers.

The second activity included training and technical assistance. MLPL trained partner staff at pilot sites on the I-CAN!-EIC™ program and provided technical assistance necessary to ensure smooth operation of the site during tax season.

Third, I-CAN!-EIC™ made Federal and State forms available through web access. While the I-CAN!-EIC™ program already has the forms necessary to complete federal income tax returns and claim the federal EITC it did not yet have the forms necessary for completing a Michigan return and claiming Michigan credits. The MCUL financially supported the development of the Michigan individual tax form such that all EITC-eligible filers could file federal and state returns using I-CAN!-EIC™.

### Outcomes for 2005-2006

The I-CAN!-EIC™ program was used dramatically more in 2006, increasing EITC claims nearly ten times more than for the 2004 tax year. Total returns filed using I-CAN!-EIC™ increased from 91 to 708. Table 5 illustrates the increased usage of I-CAN!-EIC™.

**Table 5: I-CAN!-EIC™ Returns**

Tax Year	Total returns	Dollars refunded	EITC
2005	708	\$ 1,413,865.00	\$1,009,367.00
2004	91	\$ 159,851.00	\$ 105,787.00
2003	54	\$ 95,864.00	\$ 71,295.00

## **Conclusions and Recommendations**

### **I-CAN!-EIC™ is a viable program.**

Through conversations with the Michigan Poverty Law Program and the Michigan Credit Union League, there is a consensus that I-CAN!-EIC™ is definitely a tool that can increase EITC refunds in Michigan.

**Continue to expand outreach.** Because most feel that I-CAN!-EIC™ is still a viable tool, the access to I-CAN!-EIC™ should continue to be expanded. The Michigan Poverty Law Program and the Michigan Credit Union League have been very active in promoting and expanding the I-CAN!-EIC™ program. This strategy should continue and work to include other groups with high percentages of EITC-eligible constituencies such as Michigan Works! and the Michigan Library Association.

**Screen people earlier.** Most of the problems cited by participant credit unions with the I-CAN!-EIC™ centered on those taxpayers who were not eligible to use I-CAN!-EIC™. Many of these taxpayers began to use the program only to find out after an initial investment of time that they were ineligible. Many of the taxpayers served by tax preparation sites need to file property tax or home heating credits. I-CAN!-EIC™ does not service these taxpayers because the software is not programmed for property tax or home heating credits. According to the Michigan Poverty Law Center it will be very difficult to get these modules programmed in,

therefore it is essential to make sure those using I-CAN! EIC™ understand these limitations at the beginning of their process rather than after they have spent considerable time entering information into I-CAN!-EIC™. Efforts have already been taken to create a system that can screen taxpayers out earlier if they are not eligible.

## Section III: Innovative Financial Services: Savings Accounts and Refund Anticipation Loans

### Objectives:

The purpose of the Innovative Financial Services pilot was to explore ways for Michigan credit unions to serve low and moderate income tax payers. Through this pilot, the credit unions could begin to offer financial products that would connect the financial services industry to the low income wage earner population, promote asset building at the one time of the year when low and moderate income taxpayers have additional discretionary funds, and offer ways to allow taxpayers to keep more of their refund.

The credit union would be testing out both the value of the information provided, the number of individuals who saved a portion of their refunds, and obtaining information from the consumer on the ease of both filing and direct depositing. Ultimately, the goal is to provide valuable lessons learned on connecting low wage earners with safe, affordable financial services.

### Summary of Issues:

The Michigan Credit Union League (MCUL) has elevated the social mission of credit unions to serve low and moderate income wage earners and has identified the EITC as a vehicle for serving more low wage earners. The MCUL, in fact, has incorporated the EITC into its strategic plan and also views it as a way to satisfy the Community Reinvestment Initiative

formulated with the Michigan Office of Financial and Insurance Services<sup>2</sup>.

With the MCUL providing its leadership, several credit unions across the state began offering the I-CAN!-EIC<sup>TM</sup> program. Two Michigan credit unions participated in the pilot program to offer financial services designed to attract and provide incentive based savings vehicles to EITC eligible taxpayers in addition to providing I-CAN!-EIC<sup>TM</sup> access.

One of the major reasons why credit unions would like to become more active with this population is to combat the predatory lending institutions and pay day lenders who are financed by banks. These institutions, along with for profit tax preparers, generally offer instant tax refunds for EITC recipients at a high cost. This cost is the same as a short term loan at a very high rate of interest. The EITC-eligible population often utilizes these services at the cost of a significant portion of their refund.

Ultimately the MCUL and its member credit unions across Michigan are working to find a way to offer financial programs and related services that maximize the value of low wage earners' overall household income, which includes tax refunds, while

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<sup>2</sup> CRI was conceived early in 2004 by the Michigan Credit Union League as a way to combat growing criticism by the banking industry, community groups and some members of Congress that credit unions had strayed from their original social mission. CRI was also seen as an opportunity for expanding credit unions' good works on behalf of members and their communities. (Taken from MCUL)

maintaining sound and safe business practices.

## Activities

As part of the 2006 EITC initiative, two credit unions hosted I-CAN!-EIC™ at their premises and developed additional programs to serve these populations. The Financial Health Credit Union in Lansing and the ELGA<sup>3</sup> Credit Union (Flint region) both offered I-CAN!-EIC™ access in their buildings. FHCU marketed I-CAN!-EIC™ through its website as well as distributing approximately 20,000 brochures. ELGA marketed its services primarily through networking with other organizations in the area. ELGA also decided to provide more full service to their members and customers by becoming a referral for the local VITA tax site. They not only hosted I-CAN!-EIC™ but also had four associates who counseled customers on savings and direct deposit. Both Credit Unions offered some financial products with mixed results.

## Outcomes

For reasons not in their control, both credit unions had a late start with implementation for the 2005 tax year. As a result, utilization rates of both the tax preparation services and related financial services were low. Both credit unions believed that their marketing efforts did little to attract potential customers. Based on a post-tax season briefing held at the MCUL, both credit unions shared qualitative information that has valuable implications for next tax season.

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<sup>3</sup> ELGA started out as the credit union for Consumers Energy. When it originated in 1951, they had a contest to name the credit union. The winner was ELGA and it stands for Electric and Gas. Since then, ELGA has allowed different membership and is known as ELGA in the community.

FHCU created a website link of which there was very little use in the community, but has potential for advertising throughout the year. FHCU also created a brochure that had to be changed to remove information about the Refund Anticipation Loan (RAL) before it could go out due to a conflict with the Legal Aid Society of Orange County<sup>4</sup>. FHCU eventually did print and distribute nearly 20,000 brochures. Despite the mass marketing, FHCU had very few people come in to use I-CAN!-EIC™ or other financial services. Much of this can be attributed to the late start. An additional challenge is that FHCU services the Lansing region and does not have a relatively large pool of EITC recipients demographically. FHCU only had one person file and put 10% of the refund into a savings account.

ELGA Credit Union is located in a more financially depressed area of Genesee County; large populations of EITC-eligible residents live within its service area. ELGA had eight (8) people complete their taxes using I-CAN!-EIC™. For those eight people, the total returns amounted to \$16,532 in total returns, \$9,459 of which were EITC dollars for an average EITC refund of approximately \$1,182. ELGA also had several taxpayers who attempted to use I-CAN!-EIC™ but could not due to the limitations of the software.

ELGA had a different experience than FHCU in the fact that they made a decision early on to offer a wider array of services to taxpayers. This decision was precipitated by software limitations and the number of users who were unable to complete their taxes using I-CAN!-EIC™. ELGA was

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<sup>4</sup> The Legal Aid Society of Orange County created ICAN-EIC! and retains its proprietary rights. As part of the agreement, the Legal Aid Society currently does not allow the marketing of RALs along with ICAN tax preparation.



determined not to turn anyone away, so they joined the Genesee County EITC Tax Coalition. As a result, this partnership was a referral source for taxpayers interested in ELGA's incentive-based savings account program, entitled, "Personal Development Accounts." The referral arrangement was mutually beneficial; when people came in who were not eligible for I-CAN!-EIC™, ELGA was able to refer them to the VITA site. ELGA was able to provide service for several individuals although the utilization was still not very high for I-CAN!-EIC™. ELGA did have several people who used the internet and indicated they would market that more next year. Where ELGA had the most positive results was through partnership building and leveraging the I-CAN!-EIC™ and EITC services into grants.

ELGA established a relationship with the University of Michigan Flint campus which will be on-site next year offering VITA services. ELGA anticipates an increase in the number of people who will utilize the services because of this partnership. ELGA also established a relationship with the Resource Center in Genesee County which helped to publicize their efforts. Through the tax coalition, ELGA was able to connect with Metro Housing and will now be establishing a program dealing with financial training for the hearing impaired. ELGA also received grants from the National Credit Union Foundation as well as the Community Foundation of Greater Flint. The grant with the Community Foundation enabled ELGA to establish the Personal Development Accounts program. ELGA distributed gift certificates on Martin Luther King Day to publicize this program. The certificates offered to pay the opening fee for a new savings account (\$4.99) and make the first deposit into the account (\$5.00). After opening the account, the program matches some of the long-term savings.

ELGA had 30 people enrolled in the program as of August of 2006.

In the summer of 2006, ELGA also established a Save-Borrow-Build Your Credit program. EITC filers who have credit problems are eligible for the program. The taxpayer must save a minimum of \$350. Once the person has saved \$350 he or she is eligible to receive a \$250 loan. The \$250 loan is deposited into the savings account and the person would then have a savings balance of \$600. That money in the savings cannot be withdrawn until the loan is paid-in-full. The member must make monthly payments for 12 months. They are required to attend financial and goal setting classes. As of August 2006, there were 20 people enrolled in the program.

The additional grants and partnerships make possible ELGA's ability to penetrate the market and provide affordable financial services that are competitive in the market. ELGA's leadership stated that because of I-CAN!-EIC™ and their relationship with the local tax coalition, different partnerships along with opportunities for grants and funding were more available.

Both credit unions indicated that they learned a great deal about providing these services and have committed to continuing with the program next year. Both feel that they are in a very good position to have success for 2007 given what they have learned including beginning marketing efforts early in the 4th quarter, acquiring the necessary training to provide good overall service, and establishing financial products for this population.

## Conclusions and Recommendations

Throughout the Savings and RAL pilot, both participating credit unions learned several lessons about how to implement this type of a program. Leaders from ELGA and FHCU both felt more prepared to administer these programs more successfully for the 2006 tax year. The following recommendations are organized under three general themes: Tax preparation services, financial services and product delivery, and value to credit unions.

### Tax Preparation Services

**Get an early start.** Both credit unions felt it was important to get an earlier start. In the first year, both faced several challenges to get the program up and running including delays in getting I-CAN!-EIC™ running. Feedback from the credit unions indicate that many EITC recipients often will not even wait until they have their W2 forms and will simply bring their last paycheck stub in order to expedite their return. Both credit unions felt it would be advantageous to begin marketing activities early in the fourth quarter to be ready to serve the public at the beginning of the year.

**Target marketing to EITC constituent entities.** Public libraries are often a place where many low income wage earners get information. Many of these wage earners do not have a relationship with a financial institution. The level of success can be increased if other groups are brought into the effort. Other groups such as Michigan Works!, employer groups, housing coalitions, community development corporations, and other public service organizations could help with marketing directly to the EITC-eligible population.

## Financial Services Products and Delivery.

**Develop RALs.** For-profit tax preparers who serve the EITC eligible population offer full financial services. In order for Credit Unions to be competitive, it is essential that they also offer full services including refund anticipation loans. Refund anticipation loans are typically the financial product of least resort for credit unions. Encouraging tax payers to direct deposit and save a portion of their refund has greater financial promise for both credit unions and taxpayers in reaching financial solvency. However, in order to be competitive, credit unions must develop RALs that would help attract new customers in the EITC-eligible population while still keeping the risk to the credit unions low.

**RALS and I-CAN!-EIC™.** In the 2005 tax year, the Legal Aid Society would not allow RALs to be marketed with I-CAN!-EIC™ because of the fear that it may exploit low-income wage earners in a similar fashion as pay day lending institutions and for-profit tax preparers. Credit unions are membership-based non-profit financial institutions; therefore, they must meet a double-bottom line: ensuring that members are financially healthy ensures that the credit union is financially healthy. Credit Unions need to develop and offer a continuum of products, including loan products that meet members' needs. If Credit Unions can develop a RAL that meets these criteria, they can work with the Legal Aid Society to convince them to allow the marketing of RALs along with I-CAN!-EIC™ which may increase the number of people who come through the door.

**Continue with I-CAN!-EIC™.** Even with its limitations, the I-CAN!-EIC™ tax program provides the opportunity to offer

valuable tax assistance to the EITC eligible population. The participating credit unions responded that I-CAN!-EIC™ is definitely a good vehicle to get people in the door at credit unions. While the program offers a great tool for attracting potential EITC recipients, there are some improvements that need to be made to the software, including ensuring that the requirements for using I-CAN!-EIC™ are expressed early so a taxpayer does not spend a large amount of time only to be stopped from the system after their investment of time. There are also issues with the Michigan property tax credit that may need to be addressed with the software.

**Financial Education-Financial Services complement:** Credit Unions made it clear that financial education is a critical component. Many tax payers are not connected to banks or banking services due to a high degree of debt; persons in debt are least likely to save money if there is a chance that this money could be garnished. Creating and sticking to a solvency plan is of paramount importance if a person is to move out of chronic debt. ELGA Credit Union is using its Personal Development Accounts as an incentive to save, which coupling financial education to those accounts. Credit Unions can tailor financial services and products to cultivate and help grow this market.

**Credit Unions as entrepreneurs.** ELGA Credit Union demonstrated that increasing partnerships with other community groups greatly benefited their efforts and led to additional opportunities to provide financial services to EITC-eligible workers. ELGA joined the local tax coalition which provided an opportunity to network with many different local organizations such as UM Mott Flint Campus and the Housing Resource Center. In addition, by partnering

with different funding sources like the local community foundation and the National Credit Union League, ELGA was able to supplement their services financially.

**Reaching out to other credit unions through education and training.** The credit unions suggested that MCUL host EITC-based information and training. The IRS and Accounting Aid Society offer volunteer-based training to start VITA sites. The I-CAN!-EIC™ -EIC training offered through the MPLP had mixed feedback. It was offered both face to face and through web-conferencing. Most of those who attended believe that on-site and hands on training were the best training to receive. FHCU felt that they would like to receive training to become a VITA site. MCUL representatives thought training would be a good idea but were hesitant to endorse that Credit Unions become VITA sites. The responsibilities of being an on-site provider of tax services may go beyond the scope of credit union services. To reach the goal of increased financial product delivery to EITC eligible, Credit Unions will have to self-determine the extent of their involvement. The MCUL has drafted an informational document that gives credit unions information on a continuum of involvement, from minimal to full-scale tax preparation services. Educational training would be concomitant to the credit unions' choice of involvement.

**Focus marketing efforts on getting people in the door.** The first year's activities provided each credit union with a valuable learning experience and provided significant knowledge in order to set up their program next year. However, in the first year, there was minimal uptake among the target population. Credit Unions will have to continue to focus their marketing efforts on getting people into the door. Many of the

desired targets currently do not have relationships with credit unions.

## **Value To Credit Unions**

**Continue discussion about business case for serving low income.** One credit union made the point that there is a business case for serving low income households or pay day lenders would not survive. The MCUL and the individual credit unions need to continue to explore and discuss their mission as it relates to serving the low income population and develop products that are targeted towards the low income population. These products will need to address the issues that may come along with serving this population including no credit and bad credit. Part of these discussions need to center on how credit unions can mitigate the risk of working with low income population.

**Credit Unions need to find ways to make RALs feasible.** The Credit Unions reported that RALs is a valuable product for some taxpayers. EITC refunds are not exempt from withholding unfortunately creating a significant amount of risk for Credit Unions offering RALs. Credit Unions need to experiment and develop ways to make RALs workable in a way that helps them meet their social mission but also protects its bottom line and other membership.

## **MCUL should work with Credit Unions to get social mission into strategic plan.**

The MCUL has been commended for doing more on EITC activity than many other statewide credit union associations across the country. In order for credit unions to see the financial benefit of the double bottom line, addressing the financial incentives to credit unions could be part of an overall business plan. The MCUL could work with Credit Unions to help identify how they will implement and measure success of alternative financial services to EITC-eligible populations.

## Section IV: Refund Splitting

### Objectives

To pilot a system for low income wage earners to split their tax refund such that two purposes are served: 1) route refunds to multiple accounts to encourage savings behavior, and 2) promote direct deposit. Ideally taxpayers would direct at least a portion of their refund into a savings account while taking the other portion for consumption.

### Summary of Issues

In 2007, the Internal Revenue Service Federal Individual tax form will provide the tax payer the option of splitting his or her personal tax refund in a way that allows the taxpayer to select at least two accounts to which the refund can be routed. The IRS' goal is to expedite direct deposit usage over a paper check system. The benefits touted by free tax preparation sites is the opportunity for more taxpayers to become connected with banks and savings accounts, and equally important, to increase savings toward asset building among EITC eligible taxpayers. Another key goal is to give taxpayers an avenue in which they are able to put some of their return towards savings. The goal is to foster and encourage savings at a time in which the taxpayer has a large enough sum of money to make investing into a savings account a viable possibility.

For the 2005 tax year, Doorway to Dreams (D2D) piloted a splitting tool at approximately 8 sites across the Nation including New York, Denver, Chicago, and Seattle. The goal was to determine how to best promote refund splitting to foster savings and to identify cost effective, techniques to support splitting that could be

scaled to any community. D2D also hoped to determine client preferences and models of site management. The Accounting Aid Society (AAS) of Detroit participated in this pilot. Although not an official D2D pilot site, the AAS followed the same protocols and used the same basic contract and services.

### Activities

The Accounting Aid Society of Detroit piloted the refund splitting program in its Duffield tax preparation location. The Duffield site was chosen for two reasons: 1) Several of the volunteers had extensive experience in financial education, and 2) This site primarily offered electronic filing. Volunteers were informed about the refund splitting and given the opportunity to discuss the refund splitting with taxpayers who visited the site.

In order to participate in the tax refund splitting program, taxpayers were required to fill out a contract included in a client authorization kit. The authorization kit was nine pages and included an authorization agreement, a privacy notice acknowledgement, and an evaluation survey to help improve the program.

### Outcomes for 2005-2006

The Duffield site for tax preparation serviced 388 taxpayers and assisted in bringing \$155,263 in federal refunds back to its taxpayers. Unfortunately, volunteers were not able to get anyone to split their refund in this tax year. The 0% uptake rate was similar to other official pilot sites around the nation that saw approximately a 1.5% uptake rate.

AAS staff indicated that the low uptake rate was the result of several factors:

**Extensive contract and forms.** Taxpayers who visited the site were unwilling to fill out the extensive contract needed in order to establish a savings account in which he or she could save a portion of the return. Reportedly many of the taxpayers were either intimidated by the length and content or just did not want to bother with it.

**Refund splitting only for Federal Returns.** Many of the taxpayers seen at the Duffield site were for heating and/or property tax credits. The refund split was set up only for Federal returns.

**Disconnect between program goals and volunteers.** It appears that in order to make an impact, the volunteers must have a firm handle on the goals of the program to effectively develop a relationship and gain a level of trust with the taxpayer. In this case, the volunteers did not have a firm grasp of the ultimate goals of giving the taxpayer a tool in which they could save a portion of their return. Therefore, the refund splitting was not sold to very many individuals. In many cases, individuals were already direct depositing into a checking or savings account and the volunteers did not push the taxpayer to split their refund.

**Some Taxpayers did not have bank accounts.** In order to do a refund split, the taxpayer must have a bank account.

**Familiarity with usual process.** Several of the taxpayers were regulars to that site and familiar with the usual process. It was reported that these taxpayers were comfortable with the regular process and were unlikely to deviate to try something new.

**Bank Cards.** Many of the taxpayers were receiving their refund on a Chase Bridge card. The Bridge card allows the taxpayer access to his or her money through ATM machines.

**Pilot.** The pilot was new and nobody was familiar with it. It lacked the overall credibility of something that has been done for years.

As part of their National pilot, D2D had both tax preparers who participated in the pilot and tax refund recipients who split their refunds take surveys<sup>5</sup>. D2D found that approximately 28% of those who split their refund decided to do so while seated with a tax preparer. Of those who split their refund, 30% did so because it is free, 29% did so because it was easy, and approximately 33% did so because it was easy to save. Unfortunately, it is unclear the number of taxpayers who answered the survey. One conclusion that can be made is that there are different reasons why taxpayers would choose to split their refund and deposit some into savings.

On the tax preparer side, there is a philosophical consensus that tax time is a good time to discuss savings. The results of the tax preparer survey (which had 93 responses) illustrated that:

- 72%: tax time a good time to talk about saving
- 92% clients should be encouraged to save
- 94% appropriate to discuss savings accounts with clients
- 97% willing to promote direct deposit

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<sup>5</sup> The following data was provided by D2D and taken from a May 16<sup>th</sup> presentation by Tim Flacke and Jeff Zinsmeyer entitled “Asset Building Working Group: Refunds to Assets – R2A

- 86% say it is a good idea to discuss refund splitting with client
- 83% willing to promote saving part of refund

However, only 43% agree that the preparer is the most appropriate person at site to promote savings. It appears that the objections from reluctant preparers listed by D2D included:

- Complicated – paperwork and time intensive
- Suspicion – HR Block involvement, site intentions
- Not their role, do not like to promote banks

It appears that according to National data, there is a divergence of opinion among tax preparers over what their role is in encouraging savings. While nearly all agree that encouraging savings is a good thing, especially around tax time, the debate is over who is the most appropriate contact to counsel or encourage taxpayers to use this opportunity to save part of their refund.

## Conclusions and Recommendations

In 2006-2007, Federal IRS forms will allow all taxpayers to split their refunds. While the lengthy contract and forms will no longer be necessary, there are still some steps that can be taken to encourage refund splitting and ultimately increase savings among this population.

**Develop rapport.** In order to increase savings among those receiving EITC or other tax credits, it is critical for the volunteer to develop some rapport with the taxpayer to the point where they can discuss savings. Often the taxpayer will not think of

savings and the volunteers at tax preparation sites can discuss that option with them.

**Sell security and savings.** Many taxpayers appreciate the option to direct deposit their refunds due to safety concerns. These taxpayers are already a step ahead of those who want their refund in one big check. It may be easier to discuss saving a portion of the refund with those who already are familiar with direct deposit.

**Expand refund splitting.** Next year refund splitting will only be available on Federal forms. In order to encourage savings for all working poor, it will be necessary to allow refund splitting on tax credits at the state level also.

**Ensure clear goals.** In any initiative, the goals must be made clear. If the goal of the initiative is to encourage savings among low income taxpayers, then volunteers and staff must be trained on the best practices from working with the taxpayer down to the paperwork needed to be filled out. The goals must be clear to everyone to accomplish these challenging goals.

**Determine best role of tax preparer.** The Michigan pilot did not uncover a divide among tax preparers; however, data at the National level indicates that there may be differences in opinion among tax preparers over their role in encouraging savings. This is a critical discussion that must take place in order to ensure the goals are clear for volunteers and those who work with EITC eligible tax payers.





## Section V: EITC-Micro-enterprise Initiative

### Objectives

The purpose of the EITC-Micro enterprise pilot initiative was to explore the value of tax-refunds in building equity in primarily agriculture related micro-businesses, and the extent to which non-filing small entrepreneurs are willing to report their income in order to gain the EITC.

### Summary of Issues

The EITC is the largest federal aid program targeting the working poor. However, there is an entire population of working poor operating outside of the formal economy in micro-enterprises. Micro-enterprise entrepreneurs are often unlikely to consider themselves to be business owners or even self-employed. Consequently they are unlikely to seek out business or tax assistance that can open up thousands of dollars of financial assistance including the EITC.

Agency officials for the Michigan Department of Human Services and Michigan Department of Labor and Economic Growth learned of an innovative tax education and preparation service out of Mendocino County, California. This program worked to educate potential and current clients about the EITC and provide outreach and financial education to micro enterprises.

In Michigan, officials viewed this program as evidence that claiming the EITC might provide emerging entrepreneurs a mechanism for increased investment in their small enterprise consequently giving them an incentive to legitimize their businesses. As a result, the Statewide EITC Coalition

decided to explore the possibility of linking the EITC to entrepreneurship.

### Activities

The model being used in the Van Buren County EITC-micro enterprise initiative uses the peer model of micro enterprise development. Information is shared both by business educators and among the farmers/entrepreneurs themselves. EITC informational flyers were disseminated among the entrepreneurs and included in their educational materials. A tax seminar was offered as part of the entrepreneurial course. The focus of the EITC information was on the financial value of tax refunds (especially the EITC) to the overall farm business.

The entrepreneurs were informed of local resources that would help with tax return preparation. The majority of the entrepreneurs used their EITC returns to pay property taxes. According to Lee Arboreal, the coordinator of the Van Buren Local Food Entrepreneur Initiative, "Agriculture entrepreneurs could see how the EITC refund could be used to pay property taxes. Then, the first market checks in May could be turned back into the business rather than be relegated to debt. Debt is paid off, and then monies earned can be reinvested in the business".

### Outcomes for 2005-2006

The outcomes from the EITC Micro enterprise pilot were analyzed for individual, business, and program outcomes. In many cases, the outcomes are anecdotal for the first year as there is not a wealth of time that has passed in order to collect data. In the first year, there were reportedly nine (9)

entrepreneurs who participated in the Van Buren Local Food Entrepreneur Initiative.

### Individual Outcomes

Through applying for the EITC, entrepreneurs reported that the timing of income tax refunds can offset the typical negative cash flow of planting season. This is a critical finding for this pilot because the EITC refund allows entrepreneurs to reinvest the refund directly into their business. Entrepreneurs noted that filing for taxes and claiming refunds have the greatest impact on businesses that are growing using substantial re-investment by the entrepreneurs who also must work another job. Many of the withholdings in these cases are refunded giving the business a predictable financial stream.

At this point, none of the entrepreneurs indicated that they used a portion of their refund to save and increase credit worthiness, although reportedly, it appears to the entrepreneurs who took part in the pilot that full disclosure of revenues and transparent accounting opens doors to grants, loans, and income support through the tax system. However, these conclusions are only observations as there is no hard data to prove that at this point.

### Business Outcomes

Small micro enterprise agriculture entrepreneurs have a strong history and culture for bartering. The farming lifestyle is often one of personal relations and exists outside the cash economy in which everything is reported and invoiced. Through this pilot, several entrepreneurs were exposed to the more formalized cash economy and reporting mechanisms. Although these entrepreneurs will not give up their strong preference for bartering, they have been exposed to how formalized reporting and filing may help them. In

addition, entrepreneurs reported that their only financial records in the past have been kept for tax purposes. By enhancing these simple records, entrepreneurs can be given more tools to understand their businesses and use the information to grow and make wise business decisions.

Entrepreneurs were also asked if there were some positive reasons to formalize their businesses (Doing Business As). Entrepreneurs in the peer group did not see any tax implications for filing DBA's although some who held Individual Development Accounts felt that DBA's did lend more legitimacy to their business image.

### Program Outcomes

The goal of finding EITC-eligible entrepreneurs was made easier because EITC claimants are a ready made peer group. By intersecting EITC claimants and agriculture entrepreneurs, this pilot was able to find participants. As a result, collaboration among this peer group has increased and they have continued to share information. This peer group has increased its contacts with Michigan State University Extension, local financial institutions, and other entrepreneurs who may serve as mentors. To this point however, it has not resulted in additional financial products or program funding.

## **Conclusions and Recommendations**

The EITC Micro-enterprise initiative is still very new and had a limited scope this year. The outcomes data was primarily anecdotal and does not provide a great deal of hard evidence on the actual outcomes. This type of pilot has not been done in many places and the concepts are still very new. It continues to be worthy to explore the nature

of these micro enterprises in order to assess the impacts the EITC may have on these entities. There is great potential for the state of Michigan to understand the informal economy of micro enterprises and small agriculture entrepreneurs. Furthermore, the State can learn how to connect these entrepreneurs to the formalized system in order to increase the number claiming EITC as well as utilizing financial assistance and other products that can help grow their businesses.

**Continue the Micro enterprise pilot.**

Tapping into small entrepreneurs who exist mainly in an informal economy is such a new concept that it is critical to learn more about it. Agriculture is such a large part of the Michigan economy and the potential to connect with small entrepreneurs may have a lot of implications not only for EITC but for the economy.

**Expand the peer group.** The first year provided a glimpse of this economy. In future years it will be critical to expand the peer group to increase the amount of data available.

**Continue to measure to assess if more businesses are becoming formalized.**

Ultimately more businesses and micro enterprise entities should become formalized as a “Doing business as” (DBA) or “Limited Liability Companies” (LLC) in order to receive tax benefits as well as financial and other types of assistance.

**Continue to measure whether filing taxes has a positive impact on the cash flow and equity building potential in small business development.** It should not be a detriment for entrepreneurs to formalize their business. The impact on cash flow and equity must be measured to show how the EITC and other assistance can aide these businesses.



## Section VI: Learning Exchange

### Objectives

As part of its yearly efforts, the Statewide EITC Coalition hosts an annual Learning Exchange to debrief the past year's efforts, network and share ideas on how to improve, and give thoughts and advice for next year's efforts.

### Summary of Issues

The Learning Exchange is the biggest networking and informational sharing event for those involved with EITC in Michigan.

### Activities

The third annual Statewide EITC Learning Exchange took place on Friday, June 2, 2006. The all-day event was held at the Michigan State Housing Development Authority in Lansing.

The Learning Exchange provides an opportunity for practitioners from Community Action Agencies, tax coalitions, the IRS, and several other relevant organizations who work with low income wage earners to share information from their projects or region with others. The 2006 Learning Exchange had four major sessions including a review of the 2005 tax season in which several different experiences of local efforts were shared; a discussion on scale and sustainability; financial education and services; and Policy Issues with special guest Julie Kruse from the National Community Tax Coalition.

### Outcomes for 2005-2006

Turnout was great with approximately 75-80 people present. The discussion and questions in each section was vibrant with nearly everyone participating in some way. Participants in the learning exchange were asked to share their opinions on an evaluation form before leaving for the day. The following data illustrates the feedback that was received.

Table 6 illustrates feedback on the value of each session. Participants were asked to rate the value of each section on a scale of 1 to 10 with 1 equal to "not very valuable" and 10 equal to "very valuable."

**Table 6: Value of Each Session**

<b>Please rate the value of each session:</b>	<b>Total number of people answering survey question</b>	<b>Mode</b>	<b>Mean Answer (Average)*</b>
Sharing our efforts	48	10	8.58
Scale and Sustainability	47	10	8.64
Policy Issues	42	10	8.45
Financial Education and Services	45	10	8.53
Wrap Up	24	10	8.88

\* - Scale was 1 to 10 with 10 equal to Very Valuable and 1 equal to Not very valuable

The value of each session was rated very highly, typically in the 8.5 range for each session. The wrap up and scale and sustainability discussions were rated the highest.

Table 7 shows participants opinions on a series of questions based on a 10 point scale with 1 equal to “strongly disagree” to 10 equal to “strongly agree.”

**Table 7: Organization and Opportunity**

<b>Question</b>	<b>Total number of people answering survey question</b>	<b>Mode</b>	<b>Mean Answer (Average)*</b>
The learning exchange provided an opportunity to share ideas and provide information.	48	10	9.13
The learning exchange was organized efficiently.	47	10	9.09
The facilities were adequate for this event.	47	10	9.19
Overall, the learning exchange is valuable and should be continued.	47	10	9.62

\* - Scale was 1 to 10 with 10 equal to strongly agree and 1 equal to strongly disagree

When asked if the Learning Exchange should be continued, the average score was a 9.62 indicating that the Learning Exchange is very valuable and has widespread support to continue on a year-to-year basis.

Participants were also asked to explain what they felt was the strongest attribute of the Learning Exchange. Participants clearly felt that information sharing, learning about best practices, and networking were the best attributes of the Learning Exchange.

Several mentioned the diversity of attendees at the workshop as a tremendous benefit for networking and information sharing as well. Participants also enjoyed Julie Kruse’s presentation as it gave them some national perspective.

Participants were also asked to explain what they felt were the weakest attributes of the Learning Exchange. Several of the comments dealt with the large group or facility problems. For example, a few of the respondents felt there should be more breakout groups and that the large group facilitation was a little difficult. The facility problems dealt with the large room and technology problems. In summary there really was not a strong theme present about the weakest attributes among the responses provided. All the responses were aggregated and delivered to the Exchange’s

organizers for improvement in subsequent events.

Participants were also asked what participants want changed or improved in next year’s Learning Exchange. Participants again shared some thoughts; however, there was not a clear theme that anything should be dramatically changed. The most prevailing theme was that participants felt that the Learning Exchange was still evolving and improving each year and they were happy that improvements were constantly being made.

Table 8 represents the importance participants placed on the following possible goals for next year. Participants were asked to rate a service or policy area as “extremely important,” “important,” or “not very important.”

**Table 8: Focusing on the Future**

	n	Extremely important	Important	Not very important
<b><u>Tax Preparation Services</u></b>				
Additional technical assistance	43	51%	44%	5%
Additional volunteers	43	67%	30%	2%
Improve marketing efforts	45	60%	38%	2%
Target EITC eligible tax payers	44	64%	34%	2%
<b><u>EITC Policy</u></b>				
Federal or state-offered options for people to save	42	48%	50%	2%
Seek State of Michigan EITC	43	49%	47%	5%
<b><u>Financial Education and Services</u></b>				
Assistance with saving a portion of tax credit	46	48%	52%	0%
Provide more financial counseling	43	58%	42%	0%
<b><u>New Areas</u></b>				
Piloting new retirement savings options	41	32%	44%	24%
Build partnerships with private sector: employers, tax preparation services, etc.	43	63%	30%	7%

The participants clearly placed a great deal of importance on tax preparation services, including recruiting additional volunteers, more targeting of EITC eligible tax payers, and improving marketing efforts.

Participants also placed a large value on building partnerships with the private sector and providing more financial counseling. It appears the only category stakeholders were skeptical of was piloting new retirement savings options, with only 32% considering it very important and 24% considering it not very important.

Participants were also given the opportunity to provide additional comments. Several provided some general comments which included: distributing more information regarding efforts to both Republicans and Democrats, more info on combined I-CAN!-EIC™ -EIC/VITA sites, a training run by IRS and Treasury, increased partnership with the private sector, delivering state package earlier for training, and finding out the best use of media using Julie Kruse's media survey data. Again, there were not a large number of responses and therefore no clear theme among the comments, however, each comment was delivered to the Exchange's organizers for follow-up.

## **Conclusions and Recommendations**

**Continue the Learning Exchange.** All the data collected indicates that the Learning Exchange has been a tremendous success. Participants rated high nearly every aspect of the Learning Exchange as a way to network and share information. Those organizing the Learning Exchange should continue to seek feedback from stakeholders and continue to improve the Exchange as it continues to be a great way to share information across the state.



## Section VII: Overall Conclusions and Recommendations

The 2005 tax year expanded upon previous efforts spawning several new pilot initiatives and involving new partnerships. In many cases, the successes of the Statewide EITC Initiative are obvious. The free tax preparation and tax coalitions remain strong and continue to serve more EITC taxpayers each year. The I-CAN-EIC! program, despite several glitches, had its number of users grow substantially. Credit Unions became a major partner in 2005. The annual Learning Exchange was again given spectacular ratings.

In some cases the successes were not as apparent quantitatively, yet there was a great deal learned. The Micro enterprise pilot is a very new idea and showed that in the agriculture community, taking advantage of the EITC may help offset the typical negative cash flow of planning season and gives these entrepreneurs a more predictable financial stream. It also helped to expose entrepreneurs to a more formalized system of financial reporting and how these simple records can help their business in addition to tax purposes.

Credit Unions participating in the savings and RALs pilot have built a great foundation to increase services for next year. The credit unions learned they must publicize EITC services earlier and in different venues in order to attract more EITC eligible people. The Credit Unions also showed that increasing partnerships in the community can be a tremendous asset and provide linkages to many other services.

The tax splitting pilot did not have any users. However, next year it will be on IRS

forms and tax coalitions may use the experiences gained this year to inform them on how to address tax refund splitting and the opportunity for low income taxpayers to save a portion of their return. This pilot illustrated that the relationship between the tax preparer and the tax payer is very important for building trust and ultimately allowing the opportunity to discuss saving a portion of the refund as an option.

Overall, the recommendations follow two themes.

### ***Continued Evaluation***

#### **Continue evaluation of this statewide initiative.**

The EITC has historically been a popular tax credit. Tremendous strides have been taken in Michigan to increase the utilization of EITC among the working poor and low income tax payers including free tax preparation services and several other pilot initiatives financed by the Statewide EITC Coalition. These efforts have not only increased the number of those receiving the EITC in Michigan, but have spawned several new initiatives with unanticipated positive consequences. The EITC efforts must continue to be documented and used to inform policy makers and practitioners in order to learn from and enhance the EITC efforts.

**Better data collection.** In order to increase the effectiveness of the evaluation, there needs to be concerted efforts to standardize data collection with the free tax preparation and other initiatives. This must be developed and agreed upon before the tax efforts begin. With other initiatives, there

needs to be a detailed discussion on what needs to be collected in order to have data that is usable and will contribute to continuous improvement.

**Continue learning exchange.** As an evaluation and information sharing tool, the annual learning exchange was greatly valued by nearly everyone who attended.

### ***Expansion of EITC Efforts***

**Increase partners.** Each year of the EITC, more organizations are included into the statewide efforts. For the 2005 tax year, The MCUL and two Credit Unions began to take an increased role in providing products and services to EITC eligible populations. Micro enterprise business men and women were informed of the EITC. In the future years, additional partners need to continue to be added. These may include public school groups, Chamber of Commerce, and Utility companies. Additional partners can help market the EITC as well as provide additional creativity and opportunities that can enhance EITC efforts.

**Market findings.** There are a number of lessons learned from the 2006 efforts as well as preceding years. These efforts need to be marketed, especially to legislators on both the Republican and Democratic sides. The EITC is a unique policy that has often had a degree of bipartisan support. Among those in social services, it is viewed as a critical piece to assist the working poor. In the view of businesses and local economic development organizations, the EITC infuses disposable money into the local economies. This year's evaluation report and other marketing of the EITC should be distributed as widely as possible.

**Encourage entrepreneurial policy.** At the state and local level, the EITC efforts have seen some tremendous innovations such as ELGA Credit Union and their strategic use of community partners. As a support, the State of Michigan and the statewide EITC coalition should continue to seed innovative pilots and encourage creativity. Often these initiatives are not cost prohibitive and can provide outstanding innovations and results.

**Provide assistance.** The work with local tax coalitions and different partner groups has shown that it can be a valuable opportunity to apply for different grants and funding from large foundations or other organizations. ELGA Credit Union demonstrated this by securing grants from local foundations and from the National Credit Union League. Efforts such as these should be supported with grant writing assistance and/or networking opportunities in order to leverage these opportunities to assist in EITC efforts.

# Appendix A: Learning Exchange Questionnaire

**The Third Annual Statewide EITC Learning Exchange  
Friday, June 2, 2006  
Evaluation Form**

Please rate the value of each session:	Not Very Valuable		Neutral						Very Valuable	
Sharing our efforts	1	2	3	4	5	6	7	8	9	10
Scale and Sustainability	1	2	3	4	5	6	7	8	9	10
Policy Issues	1	2	3	4	5	6	7	8	9	10
Financial Education and Services	1	2	3	4	5	6	7	8	9	10
Wrap Up	1	2	3	4	5	6	7	8	9	10

Question	Strongly Disagree		Neutral						Strongly Agree	
The learning exchange provided an opportunity to share ideas and provide information.	1	2	3	4	5	6	7	8	9	10
The learning exchange was organized efficiently.	1	2	3	4	5	6	7	8	9	10
The facilities were adequate for this event.	1	2	3	4	5	6	7	8	9	10
Overall, the learning exchange is valuable and should be continued.	1	2	3	4	5	6	7	8	9	10

What was the strongest (best) attribute of the learning exchange?

What was the weakest (worst) attribute of the learning exchange?

What changes, additions or deletions would you recommend to improve this event?

(over)

**Focusing on the Future:  
EITC in 2006**

For the following areas of the EITC statewide initiative, please indicate with a checkmark which items you feel are important to expand or pilot in future EITC outreach efforts.

	<b>Extremely important</b>	<b>Important</b>	<b>Not very important</b>
<b><u>Tax Preparation Services</u></b>			
Additional technical assistance			
Additional volunteers			
Improve marketing efforts			
Target EITC eligible tax payers			
Other:			
<b><u>EITC Policy</u></b>			
Federal or state-offered options for people to save			
Seek State of Michigan Earned Income Tax Credit			
Other:			
<b><u>Financial Education and Services</u></b>			
Assistance with saving a portion of tax credit			
Provide more financial counseling			
Other:			
<b><u>New Areas</u></b>			
Piloting new retirement savings options			
Build partnerships with the private sector: employers, tax preparation services, etc.			
Other (please list):			

Additional comments:

## **Appendix B: Biography**

**Brian Reed, M.P.A.**

Brian Reed is an experienced public policy researcher with ten years of active research experience. He is currently employed as an Assistant City Manager in Eaton Rapids, and was previously employed for more than five years as a research analyst and project manager for Public Policy Associates. Mr. Reed also owns the consulting firm Reed Consulting Services. He holds a master's degree in Public Policy and Public Administration from Michigan State University and a bachelor's degree from Grand Valley State University.

**Susan Cocciarelli; Celeste Starks**

CS Mott Group for Sustainable Food Systems at Michigan State University

Susan Cocciarelli Chaired the Michigan Statewide EITC Coalition. Celeste Starks coordinated communication among all local coalitions and Statewide Coalition members. This was the third year that Michigan State University provided services to the state of Michigan in its efforts to ensure all EITC eligible taxpayers filed for the federal EITC.

**Marianne Udow**

Michigan Department of Human Services

All state appropriations for EITC preparation services were coordinated through the Michigan Department of Human Services.

**Ramondo Gee**

Internal Revenue Service – Stakeholder, Partnership, Education and Communication office – Detroit Office. The IRS-SPEC office is the key liaison among all community coalitions by offering technical assistance and resources to set up and maintain VITA services, as well as ensuring quality control.

## **Appendix C: Michigan Statewide EITC Coalition Members**



## **The Michigan Statewide Earned Income Tax Coalition**

The Michigan Statewide Earned Income Tax Coalition is a coalition of organizations committed to supporting work and reducing poverty for Michigan's low to moderate income individuals and families through means that garner all tax credits and refunds, maximize the value of all income tax credits and refunds, promote asset building, and work toward financial security.

### **Statewide EITC Coalition Goals**

1. Strengthening access to affordable, ethical tax preparation services for the working poor.
2. Maximizing the value of income supports for working households
3. Advocating for and taking legislative action regarding policy that advances the working poor toward financial security

### **2006 Statewide EITC Coalition Members**

AARP-Tax Aide  
Michigan Department of Human Services  
Michigan Community Reinvestment Coalition  
Michigan Department of Labor and Economic Growth  
Michigan Department of Treasury  
Community Economic Development Association of Michigan  
Michigan State University Extension  
Michigan State University Sustainable Food Systems  
Michigan Community Action Agency Association  
Internal Revenue Service- Detroit SPEC Office  
Financial Health Credit Union  
ELGA Credit Union  
Federal Reserve Bank of Chicago  
FDIC  
Oakland Livingston Human Services Agency  
Michigan Poverty Law Program  
Michigan Municipal League  
Michigan League for Human Services  
Michigan Works! Association  
Michigan Credit Union League  
Accounting Aid Society  
Lighthouse  
Volunteer Centers of Michigan  
Michigan Association of CPAs  
United Way of Michigan  
Local EITC Coalitions: Berrien and Cass, Calhoun, Cheboygan, Eaton, Genesee, Ingham, Kalamazoo, Kent, Northwest Lower Michigan, Oakland, Saginaw, Van Buren, Washtenaw, Wayne

# Appendix D: Local Michigan Coalitions

**Cheboygan County**

Patty Spinella – 231-627-8815

**Kent County**

Brenda Brames- [KCTCC@unitedwaycares.com](mailto:KCTCC@unitedwaycares.com) - 616-752-8647

**Kalamazoo County**

Jim Walters – [walters@upjohninstitute.org](mailto:walters@upjohninstitute.org) - 269-385-0478

**Washtenaw County**

Deryl Beasley - [beasleyd@ewashtenaw.org](mailto:beasleyd@ewashtenaw.org) - 734-544-3053

Terry Clark – Jones - [jonest@ewashtenaw.org](mailto:jonest@ewashtenaw.org) - 734-222-3943

**Wayne County**

Marshall Hunt - [mjhunt@accountingaidsociety.org](mailto:mjhunt@accountingaidsociety.org) - 313-647-9620, XT 208

Rebecca Carlice –Deloof - [carlice-deloofr@michigan.gov](mailto:carlice-deloofr@michigan.gov) – 313-456-1242

**Oakland County**

Greg Sterns - [gsterns@lighthouseoakland.org](mailto:gsterns@lighthouseoakland.org) - 248-920-6000

Susan Mosqueda -[susano@olhsa.org](mailto:susano@olhsa.org) - (248)209-2600

**Macomb County**

IJ Campbell - [ijcampbell@roseville-mi.com](mailto:ijcampbell@roseville-mi.com) - 586-445-5423

**Genesee County**

Adia Wheeler- 810-232-6300

**Van Buren, Berrien and Cass Counties**

Leslie Nadolski - [leslinadolski@yahoo.com](mailto:leslinadolski@yahoo.com) - 269-369-7025

Judy Peterson - [jpeterson@smcaa.com](mailto:jpeterson@smcaa.com) - 269-925-9077

**Calhoun County**

Diane Dickey - [dianed@caascsm.org](mailto:dianed@caascsm.org) - 269-963-6748

Karla Fales - [karlaf@caascsm.org](mailto:karlaf@caascsm.org) - 269-441-1613

**Saginaw County**

Marsha Cooley - [MCooley@unitedwaysaginaw.org](mailto:MCooley@unitedwaysaginaw.org) - 989-755-0433, xt 203

**Eaton County**

Stephanie Marine 517 484 2929 ext. 2618

**Ingham County**

Phil Thompson 517 393 7077

**Midland County**

Paula Carr 989 832 7937

**NW MI Coalition**

Susan McQuaid - [susan@unitedway.tcnet.org](mailto:susan@unitedway.tcnet.org) - 231-947-3200



You Earned It! You Keep It, Michigan!

The Michigan Statewide EITC Coalition  
[www.michiganeic.org](http://www.michiganeic.org)

The Michigan EITC Statewide Coalition  
1-800-865-8683