

Innovations for Scale and Sustainability in EITC Campaigns

Employer Partnerships for Tax Preparation and Quick Refunds: Lessons from Baltimore, Md.



Economic Opportunities Program

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Summary

Low-income individuals often lack access to financial education, bank accounts and other products and services that can help them manage their money and build savings. The past several years have seen an expansion of programs that attempt to facilitate access to these services, in particular those that use free income tax preparation to help families claim the Earned Income Tax Credit.² But while the programs collectively help hundreds of thousands of working families file tax returns each year, they have struggled with a trio of challenges: achieving scale, impact and sustainability. The desire to do better on these three measures has led some programs to search for new approaches to serving the target population.

The Baltimore CASH Campaign looked to local employers as potential partners in EITC outreach and free tax preparation. These partnerships have been primarily with area hospitals and account for a significant share (approximately 10%) of tax returns completed by the campaign. A new partnership in 2005, with a local retirement community developer/manager, took the model one step further, offering no-cost quick refunds to participating employees as an alternative to commercial Refund Anticipation Loans.

Tax Preparation Partnerships

CASH currently works with three large area hospitals – Johns Hopkins Hospital, University of Maryland Medical Center and Mercy Medical Center – to provide on-site or nearby tax assistance to low-income hospital employees. All together, the employer partnerships account for approximately 10 % of tax returns completed by the CASH Campaign.

While the specific nature of each partnership is unique, they generally work as follows:

¹ Special thanks to the following individuals, who provided information and assistance in developing this paper: Ronae Johnson, Tax Director, Erickson Retirement Communities, and Pam Chaney, Operations Director, Baltimore CASH Campaign.

² The Earned Income Tax Credit (EITC) is a refundable credit available to lower-income individuals and families when they file a tax return. The amount of the credit varies with income and family size, but the largest credits generally go to those earning \$7,500-\$20,000 a year. For Tax Year 2004, the maximum EITC was \$4,300 and the credit phased out at just over \$35,000 in income for married filers with two children. Because it is refundable, the EITC not only reduces the amount of taxes owed, but may result in a refund if the amount of the credit is greater than any taxes due.

- Employers market the service to eligible employees, including payroll and W-2 stuffers, flyers and other outreach. Employers are also asked to provide space for tax preparation, access to a photocopier, paper and other supplies, and to assume responsibility for scheduling appointments for employees.
- Partnerships generally begin with one-day tax preparation events, in which trained CASH volunteers come on-site at the workplace with laptop computers to prepare tax returns. If there is enough interest among employees, a more regular schedule is established, such as every Tuesday and Thursday for a month.
- Ultimately, the most successful partnerships develop into full-season tax sites, managed by the CASH Campaign but operated largely by staff at the employer, who are trained and supervised by the campaign.

The experience of Mercy Medical Center illustrates the potential for partnerships between EITC campaigns and employers. Beyond conducting outreach and scheduling appointments, Mercy assigns approximately 20 staff members to take the CASH tax training and become certified campaign volunteers. These staff members, who come from the Human Resources and Finance Departments, prepare tax returns for hospital employees during lunch hours and before and after shifts. Employees receive extended lunch hours or other paid time to get their taxes done at the site. Staff assignments are based on volume, and the site operates on a flexible timetable to serve all interested employees. In general, no more than 2-3 staff members are pulled from their regular assignments at any given time and care is taken to ensure that no office is left understaffed at any time. Furthermore, the job of scheduling appointments is largely handled by hospital volunteers, who are assigned to the Human Resources Department during tax season and who are also available to help out the department with other telephone and paperwork assignments.

For its part, the CASH Campaign trains staff tax volunteers and facilitates all aspects of setting up the site – including getting software, electronic-filing authority, and other technical aspects, as well as establishing a filing system for tax-related documents that need to be retained or forwarded to the IRS and State Department of Taxation. CASH also provides a site manager, who is either on-site or available by phone whenever the site is open and who takes care of all paperwork, electronic filing rejects and other more complicated issues. The goal is to minimize the degree to which hospital staff need to manage other elements of having a tax site beyond scheduling employees and completing the returns.

The high degree of employer engagement in the partnership is attributable largely to the commitment of all three hospitals to the citywide CASH campaign, as well as to the involvement of Mercy's nonprofit foundation, which adds another layer of high-level management "buy-in" to the program (the tax preparation can be counted as part of the foundation's community service activities). While Mercy's Human Resources Department has experienced some staffing cutbacks, it has been able to compensate by tapping into the better-staffed finance areas of the hospital, include Accounts Receivable and Accounts Payable, as well as the corporate finance and tax departments.

Expedited Refunds for Employees

The Baltimore CASH Campaign has always been concerned with not just tax preparation and the EITC, but also with promoting asset development and limiting the use of expensive Refund Anticipation Loans (RALs). This last goal has been especially challenging. Despite electronic filing – which, when combined with direct deposit to a bank account, can result in a refund in 8-16 days – the campaign has struggled to compete with the lure of even faster money available by taking out the short-term, high-interest loans offered by commercial tax preparers.

In late 2004, CASH approached John Erickson, CEO of Erickson Retirement Communities, which manages 13 communities across the country, including three in Maryland. Erickson's communities employ a large number of EITC-eligible workers, and CASH's goal was to establish an outreach and tax preparation partnership with Erickson similar to those described above. Erickson's CEO was extremely responsive to the idea, and the first steps were planned towards building such a partnership.

In the course of that initial meeting, however, CASH Campaign staff described the lure of Refund Anticipation Loans and how they cost low-income tax filers a significant share of their anticipated refunds. Mr. Erickson's response to learning about RALs was unexpected – he offered to provide a similar service to employees at no cost to them. Ronae Johnson, Erickson's Tax Director, was called in to the meeting and assigned with working out the details of the program with CASH.

While employee loyalty and improved retention were expected benefits of the program, Erickson's primary motivation was simply to assist employees and save them money. In addition, because the refunds were government payments, the company felt confident that the refunds would come through as expected, making the service a very low-risk way to assist employees.

The design of the quick refunds is remarkably simple:

- Both free tax preparation and the quick refunds are marketed to employees through e-mails and an internal newsletter.
- Employees who use the free tax service are offered the option of receiving their refund in 48 hours rather than waiting for either IRS direct deposit or for a refund check to be mailed to their home.
- Interested employees are asked to sign two documents. The first is an agreement to repay the advance through assignment of the tax refund to Erickson, or through payroll deductions if for any reason the full refund is not received – and to pay any outstanding amounts if the employee ceases to be employed by Erickson. The second is a statement of understanding that the CASH Campaign and its volunteers are not part of the agreement between the employee and Erickson – and therefore not liable for any contingencies related to the advance or the refund.

- Once the e-filed return has been accepted by the IRS and State (this usually takes 2 days), a manual check in the refund amount is drawn from the community's operating account and given to the employee. No fees or interest are charged for this service.
- On the tax return, the community's operating account has been designated for direct deposit of the refund. The refunds are generally received by Erickson in approximately 10 days, and each deposit is accompanied by the taxpayer's name and Social Security Number, allowing for easy tracking of the payments.

Due largely to a late start, the program was implemented only on a very small scale in 2005. A one-day tax preparation event was held at one of Erickson's communities in early February, before the details of the quick refunds had been established. Approximately 10-12 employees signed up for tax preparation and 6 returns were completed. A second one-day event was held in mid-March at a different community and included the quick refund offer. Again, approximately 10 people expressed interest and 6 returns were completed. Two of the six employees took advantage of the quick refund, for a total of \$3,000 in advances provided by Erickson.

The low take-up was expected: by March, many lower-income filers have already completed their tax returns, and, in particular, those who want or need their money quickly have already filed and taken out commercial RALs. However, the experience proved that the quick refunds could be implemented smoothly and easily, and both Erickson and CASH are looking forward to expanding the project in 2006 by starting earlier, expanding outreach and providing the service at all three retirement communities.

Issues for Scale and Sustainability

The model of providing quick tax refunds through employer partnerships offers a simple alternative to Refund Anticipation Loans. Other alternative RALs, generally offered in partnership with banks or credit unions, are more affordable than traditional RALs but still have to contend with interest rates, processing fees, loan applications and credit checks. The employer-provided advances therefore offer a truly free quick refund with little paperwork or bureaucratic demands.

The question of whether this model can be significantly expanded depends on the following questions:

- Will other employers be as open as Erickson in providing quick refunds to employees?
- If a higher level of internal corporate approval is required for the advances (compared with tax preparation), will this represent an obstacle to participation by larger employers?
- Is even the limited oversight needed to track advances and deposits a barrier for human resources and finance departments that are already stretched thin?
- Are there any costs associated with the advances – in processing, cash flow or the risk of non-payment – that will become an issue if the program grows dramatically?

- Will the offer of quick refunds significantly expand take-up of free tax preparation services by employees, leading to increases in program scale?

Companies that already have mechanisms in place to provide pay advances may be more promising partners for quick refunds, both because they already have a system in place for similar advances and because they have demonstrated an openness to assisting employees with short-term financial needs.



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