Chapter 5: Earned Income Tax Credit

Educating Grassroots Practitioners
Advocating for Systemic Change
Capitalizing Indian Communities
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Integrated Asset-Building Strategies for Reservation-Based Communities: A 27-Year Retrospective of First Nations Development Institute

Chapter 5: Earned Income Tax Credit
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Other Chapters Available Upon Request
Introduction

This chapter addresses the current and potential economic power related to the receipt of the Earned Income Tax Credit (EITC) in Native communities. Although we begin with a brief description of EITC policy (at both federal and state levels), making a case for its significance in the economic success of all families with low incomes, no attempt is made to provide a comprehensive history and assessment of the EITC, since literally thousands of articles, publications, and websites have been devoted to that effort in recent years.

In the first part of the chapter, we provide a short synopsis of the knowledge of, access to, current receipt of, and the potential for full receipt of the EITC in Native communities. We outline a number of examples of effective EITC programs and Voluntary Income Tax Assistance (VITA) sites serving Native communities — replication of them could lay the groundwork for significant positive economic change in Indian Country — and finally include a description of the key partners and related resources available to assist in these efforts on a broad scale.

In an attempt to describe potential economic development implications of capturing more of the EITC refund dollars available for qualified Native families, we devote the latter part of the chapter to an analysis of data gathered from selected Native-run and Native-serving EITC programs and VITA sites across the country, resulting from a study completed in 2006 by researchers and graduate students at the Kathryn M. Buder Center for American Indian Studies and Center for Social Development at Washington University in St. Louis.

“Our VITA site has really assisted our community, in terms of helping people get EITC and open bank accounts.”

— VITA site manager on Wisconsin reservation
The purpose of the study, funded by the Annie E. Casey Foundation, with additional support from First Nations Development Institute (First Nations) and the Center for Social Development (CSD), was to examine how well EITC dollars are being leveraged for families in Native communities, through on-site volunteer-run tax preparation services. The study also sought to determine what potential impacts the money claimed might have on the economic development plans of Native nations—particularly if Native communities are considering utilizing an integrated asset-building strategy (such as the one outlined earlier in this report). Integrated asset-building strategies combine a number of asset-building initiatives, such as financial education, EITC receipt, free tax preparation when available, Individual Development Accounts (IDAs), affordable financial services, and greater access to reasonably priced credit—initiatives that give people greater opportunities to build individual wealth and hence strengthen the community and its economic health.1

The chapter ends with two addenda items: 1) a list of key websites devoted to providing information regarding promoting and developing EITC campaigns and VITA sites that could be particularly useful to Native communities, and 2) state policy recommendations from the Native Financial Education Coalition (NFEC), intended to help governments better facilitate the receipt of EITC for the families that can best utilize them—including a large number of Native families.

Impacts of Federal EITC Policy on Low-income Families

The Federal Government passed bipartisan legislation creating the Earned Income Tax Credit in 1975, with the initiative becoming permanent in 1978. The two original objectives of the legislation were to reduce taxes for low-income families, and to give work incentives a boost. The main focus of policymakers supporting the policy was to put extra money into the pockets of working parents with low incomes as a work “reward,” or income supplement. To date, the policy seems to be working effectively in that regard.

The EITC may reduce the amount of tax an eligible individual or family owes, and return it in the form of a refund. The key to this policy is that it offers a refundable credit, which is much more valuable to low-income families than other types of tax credits because it does not require the tax filer to owe any taxes to receive the credit. Other types of tax credits or deductions (non-refundable) are worth nothing to most low-income families, especially low-income, single-parent working families, since they have little or no tax obligations to offset.

In 1998, the EITC was responsible for lifting more families with children out of poverty than all other means-tested programs combined, and is currently the largest cash transfer program for qualified low-income parents in the United States.2 In 2001, more than 19 million people throughout the country claimed the credit, receiving more than $32 billion in tax reductions or refunds, making the EITC a larger federal aid program for families with low incomes than food stamps and Temporary Assistance for Needy Families (TANF) combined.3

The EITC began with a modest appropriation that yielded a maximum benefit of just $400 per family. Funding for the policy was increased substantially in 1986, 1990, and 1993, which also increased the amount received by claimants. Initiated by a Republican administration, EITC policy and appropriations grew...
significantly under a Democratic administration, illustrating the bipartisan support the EITC enjoyed throughout its history. President Ronald Reagan was firmly behind the institutionalization of the EITC, stating: “The Earned Income Tax Credit serves as an offset to social security and income taxes and provides work incentives for many low-income families with dependents.” The increases it received mostly targeted working families with children, and at a 1993 event publicizing the then-administration’s role in the increases, President Bill Clinton lauded the expansions and praised a policy that made work its primary goal, stating “[the EITC is] not about more governmental or social workers, or more services. It’s about more groceries and a car, more school clothes for the kids and more encouragement and hope to keep doing the right thing.”

The Internal Revenue Service administers the EITC through the federal income tax system, making it available only to individuals or families who are U.S. citizens or resident aliens who have a valid Social Security number and some earnings, as defined by law. The size of the credit claimed is based on both the amount of income and the number of children living in the home. Initially the credit rises with earnings, reaches a plateau and then goes down as additional dollars are earned. As mentioned above, families may even qualify to receive a refund if they didn’t earn enough to owe federal income taxes in any given year. In the 2006 tax year, the maximum credit for a working family with two or more qualified children (including biological, foster, permanently and totally disabled, step, and adopted), and a family income of less than approximately $38,348 ($36,348 for a single-parent household), was $4,536.

The EITC therefore offers a sizeable economic boost, and important work incentive, for all families, including many Native families, of which one in four live with income levels at or below the federal poverty line. Most Native communities have traditionally suffered extremely high rates of unemployment, which is abating in some communities through the increase in small businesses, hotels, tourism, and new tribally developed and owned industries on or near reservations (including, but not limited to, gaming operations). Individual income for Native people has increased by 30 percent from a decade ago (slightly higher than the increase for the U.S. population overall), but this figure likely results from starting at a much lower point, with the average income of Native individuals at less than $9,000 per year.

Additional Impacts of State EITC Policies on Low-income Families

Traditionally, tax policy at both the state and federal levels has been evaluated in two main ways: 1) how well it serves the asset-building efforts of its main contributors – wealthier households (revenue side), and 2) how well it supplies transfers of funds to lower-income households (expenditure side). The lines between these two ways of looking at the benefits of tax policies have become blurred, with the “expenditure” side having the potential to also serve the asset-building efforts of poor families – who often pay significant taxes as a portion of earned income. There is a clear need for additional research on the general economic effects of taxation policies on low-income families, particularly regarding the role state-level taxation policies play. Data regarding these effects on Native families is particularly needed, since this information has mostly been nonexistent in many studies.
State tax and related policies affect low-income families in a variety of ways that have evolved over time and will likely continue to evolve due to the “new federalism” approach that offers more autonomy in the design and delivery of state policy. Some state tax systems affect the poor only through sales and excise taxes, but others have income thresholds so low that the poor pay personal income taxes. Out of 42 states that levy income taxes, 19 states make two-parent families of four with incomes below the federal poverty line liable for income tax, and 16 of those states make poor single-parent families of three pay income tax. These policies illustrate that the poor often do pay income taxes, and would likely benefit from targeted tax-incentivized asset-building policies.

On a positive note, some states have begun to use the tax system as a means of transferring resources to low-income families through a variety of refundable tax credits, predominantly the EITC. Twenty-one states offer a state EITC in addition to the federal EITC, and of these states, 17 offer refundable credits. Most state EITCs are based on the federal qualifying restrictions; usually offering an additional portion or percentage of the federal refund to working low-income families (the percentage varies from state to state). Federal rules state that the income received must be subject to federal income taxes in order to qualify as earned income for the EITC. State rules do not always require the income to be taxable by the state in order to be considered earned income for the EITC.

Funding for state EITCs comes from a variety of sources, including state general revenue funds (taxes) and TANF funds. States with state-level EITC policies and sizable Native populations include Maine, Minnesota, New York, Oklahoma, Oregon, and Wisconsin. With the exception of Maine, all of the states listed above offer refundable credits.

This trend represents a good-faith effort on the parts of states to support the federal goals of EITC, adding a supporting goal of stimulating state and local economies during economic slowdowns by providing an additional and significant level of financial relief to low-income working families. Tribal leaders might consider taking a more aggressive role in encouraging states to include rules in EITC policies that allow all Native people — reservation workers and residents as well as off-reservation workers and residents — to claim state EITCs. With many Native programs facing significant funding reductions, a more significant role in state EITC policy development could complement efforts to ensure that money is not left on the table when tribal members file taxes. Tribal leaders might also choose to take a leading role in supporting a variety of EITC outreach efforts in their communities, to ensure Native people claim both federal and available state credits at tax time.

Local governments also have the ability to enact EITCs, and currently one city and one county have developed local EITCs. Montgomery County, Maryland enacted a 15 percent refundable EITC in 1999, contracting with the state comptroller’s office to send qualifying families additional checks which were paid for from county funds levied from income taxes. Denver, Colorado has also implemented a local EITC, which is funded by the city’s share of the Colorado federal TANF block grant. Started on January 22, 2002, the Denver EITC is set at 20 percent of the federal credit. These local EITC policy options have great potential in Indian Country, where

“Tribes would have to be creative in finding a funding source for a tribally supported EITC.”
tribal governments, who are often the largest employers in their communities, may choose to offer an additional EITC to the workers in their communities. Tribes would have to be creative in finding a funding source for a tribally supported EITC, since tribes do not tax income of employees, and many do not administer their own TANF programs.

At the state EITC level, Wisconsin is a good model of the economic benefits that state EITCs can provide Native people. Wisconsin’s EITC is only available to families with children, and is prorated by number of children. Families with one qualifying child receive 4 percent of the federal amount they qualify for, two qualifying children yields them more, and so on. The federal credit is capped at two children, but the Wisconsin benefit is most generous for families with three or more qualifying children, since families can receive a refundable credit up to the equivalent of 43 percent of their federal EITC amount. In 1998, a Wisconsin family with three children and earnings at the maximum federal EITC credit level received a total of over $5,000 from the state and federal EITCs combined.

Most importantly for tribal members, Wisconsin allows families who live and work on their tribal reservations and want to claim the state EITC to claim it even if their income is excluded from state taxation. The result is that many Native families who have zero income for state income tax purposes still qualify for the state EITC. This innovation occurs because the state rules say that the EITC is calculated as a percentage of federal EITC without referencing the taxability of the income to the state; the exclusion being individuals without children who qualify for the federal EITC. Replication of this type of EITC policy that provides incentives for all state residents to pursue employment could have enormously positive economic impacts on Native families living and working on reservations in many states, due to the fact that treaty and other income for these individuals and families is not taxable by the state, and therefore does not fall under the tax code definition of “earned income.”

Wisconsin also allows the refundable state EITC to be used in conjunction with other refundable credits available in the state. Many Wisconsin EITC-eligible families also qualify for the state Working Families Tax Credit. The Working Families Tax Credit is for those who file as single, head of household, or married filing separately with incomes under $9,000, or those married filing jointly with incomes under $18,000. The credit is not refundable but along with the Married Couples Credit and Renters and Homeowners School Property Tax Credit, any tax liability is likely reduced to zero before applying the refundable EITC.

Additionally, Wisconsin families may qualify for the state’s Homestead Credit even if they have no earned income. The Wisconsin Homestead Credit is based on the total household income compared to the property taxes and mortgage or rent paid. Household income must have been less than $24,500 for 2006. The maximum amount of the Homestead Credit is approximately $1,200. It is not surprising that a policy using the term “homestead” should not benefit a large number of Native families — since there is a requirement that the property lived in must either be subject to state property taxes or have payments made in lieu of property taxes, which does not include trust land (which is not subject to state property taxes). This means that the majority of families living on reservation trust land are not subject to state property taxes. Tribal housing authorities also do not make payments in lieu of property taxes, so those families are not entitled to the Homestead Credit under
either scenario. However, Native families not living on trust land, as is the case with many urban Native families in Wisconsin, may qualify for these credits. Native leadership and citizens in the state could encourage the state to amend this and similar tax laws to benefit all state residents, including those who live on trust lands.

The Importance of Increasing Receipt of the EITC in Native Communities

The EITC has served for 30 years as one of the more creative federal policies for people with low incomes. State versions serve much the same role. This policy has provided a much-needed economic boost to tens of thousands of qualifying families — including a significant number of Native people. However, despite positive results, millions of EITC dollars go unclaimed each year, often by people who need the money the most. The IRS estimates that around 25 percent of all families qualifying for the EITC do not claim the money due them. The amount of unclaimed EITC dollars, in general, are highest in the areas of greatest poverty, including many Native communities. However, according to the Brookings Institution, in 2000 there were 17 ZIP codes where 70 percent or less of qualified tax filers claimed the EITC, and nine of those were located in population areas with high concentrations of Native people (particularly rural areas). While this figure is striking, it is difficult to use this data to determine specifically how many qualified Native people living in those areas actually claimed the EITC. Additional research suggests that the percentage of unclaimed credits is higher than average in many Native communities. Based on an estimate of the high number of Native communities who do not currently offer an EITC program or run a VITA site, it would be reasonable to conclude that the number of qualified Native families claiming the EITC is still dramatically low. Reasons for low receipt of the EITC in Native communities include: lack of understanding about eligibility for the credit, not finding out about the credit, fear of government control over personal finances, not filing federal income taxes, not hearing about the credit in one’s own language, lack of access to tax preparers, and the high cost of tax preparation services.

The last two reasons listed above may be the most significant ones for explaining why many Native families either don’t claim their EITC, or why some claim the credit but don’t realize the full financial benefits of claiming it. According to anecdotal information from Native EITC coordinators, many Native families living on Indian reservations must drive long distances to reach commercial tax preparers if there is no free or other tax preparation service available in their own communities. Even then, the commercial preparers used typically charge exorbitant fees for this service. A significant number of Native families may not have a frame of reference to determine whether or not the fees they are paying for tax preparation are high — since so many of their friends and relatives are paying the same high fees. Nationally, percentages of EITC filers who use commercial tax preparers vary, but estimates range from at least one-half up to two-thirds. It is likely that many Native communities are found at the higher end of that spectrum, due to the absence of viable alternatives. Commercial preparers may charge well over $100 in tax preparation and associated fees, often adding the cost of the popular refund anticipation loan (RAL), which allows electronic filers to receive an instant loan against the amount of their refund.
costs associated with filing taxes in this way may eliminate half or more of the refund due to the filer. RALs can include annual percentage rates of up to 774 percent. The occurrence of predatory preparers in or near Native communities is a particularly pressing problem.

These discouraging figures reflect the need to make VITA sites more readily available in Native communities. In 2006, 2.3 million people across the nation had their taxes prepared at volunteer-run sites, which speaks not only to the universal appeal of these arrangements, but also to the extraordinary amount of money freed up for families to use for personal expenses and/or savings. These volunteer-staffed tax preparation sites may serve Native communities in several essential ways. Their importance in providing a venue through which Native families can claim and realize all of their much-needed EITC dollars is inestimable, but they can also provide a “teachable” moment for providing Native families with information about financial education opportunities, financial products, matched savings products (like IDAs), homeownership information, and so on. Volunteers at Native VITA sites tend to be members of the community, and may have been explicitly approved by trusted tribal and community leaders, which may make them more likely to be trusted with sensitive financial information. Also, local financial services personnel sometimes volunteer to work at Native-serving VITA sites to open checking and/or savings accounts for Native families getting their taxes prepared.

The number of Native-run EITC campaigns and VITA sites serving Native communities has grown from fewer than a dozen just a few years ago to around 50 in the 2006 tax filing year — with several more in the planning stages. These figures do not include sites run by non-Native agencies or organizations that serve significant urban Native populations, or rural Native populations not living on reservations. With 562 federally recognized tribes and Alaska Native villages, a sizeable Native Hawaiian population, and many state-recognized and unrecognized tribes, however, this is still a small number. With additional funding assistance from public and private sources, there is great potential for these numbers to grow rapidly in the coming years.

The best recipe for success in putting EITC dollars in the hands of the Native families who need them may be to combine voluntary tax preparation services with aggressive EITC marketing campaigns, using materials that explain the EITC in a culturally specific way, using Native languages as appropriate. This may go a long way toward addressing concerns and increasing EITC filing among Native people. This strategy, combined with the effective practices (mentioned above) for assisting Native families in determining economically sound ways of using EITC dollars — particularly encouraging saving or investing at least part of the refund — could better assist in the development of powerful strategies to increase the economic strength of Native people and their communities. There are some innovative examples of the above practices taking place in Indian Country, and even though they are not yet the norm, these examples offer great potential for rapid improvement in this area.

Benefits and Challenges for Using EITC Refunds as Part of Savings and Investment Efforts in Native Communities

The EITC was designed to give low-income and cash-strapped families much needed resources. President Clinton’s statement mentioned earlier in this chapter
indicates that the benefits and “encouragement” for EITC recipients would be gained from an increased ability to buy “big ticket” household or personal use items that they might not have been able to purchase otherwise. However, there is currently a considerable amount of discussion occurring, in both mainstream and Native EITC circles, about whether or not encouraging EITC dollars to be used to purchase big-ticket items, pay off debt, or pay for daily expenses are effective ways for low-income families to utilize their refunds. This is particularly true for asset-poor families, such as many Native families.

Many nonprofit economic development intermediary organizations, including Native intermediaries, are taking a broader look at the true benefit of the EITC, and see tremendous potential in families using EITC dollars to build assets (at least using part of the dollars received for this purpose). Those who file their taxes electronically in 2007 will be able to choose to deposit the returns in more than one financial account (splitting their refund deposit). Based on previous research, the question may not be whether or not qualified recipients of the EITC can save and invest the refund, but whether or not they will choose to do so, when offered encouragement, education, facilitation, and institutionalized opportunities for savings and investment to happen.22

Many VITA clients nationwide do recognize the value of saving. In 2005, of over 850 clients surveyed in one study, 49 percent agreed or strongly agreed with the statement: “I wish that when I had cash, I was better disciplined and saved it rather than spent it.”23

As we will show later in this chapter, in a study of Native EITC programs, 25 percent of the Native people surveyed stated that they intended to save at least part of their EITC refund.24 For those savings opportunities to be most effective for Native families, access to financial education, reasonably priced financial services, and other strategies (like IDAs) is critical. With the added option of split refunds in the 2007 tax filing year, tax time could provide Native families with an exceptional savings opportunity, and a mechanism that will allow them to commit to saving part of their refund.25

The main caution related to the opportunity for savings and investment of the EITC refund by low-income families is that EITC claimers who want to save but are also receiving public benefits may have to investigate whether or not their benefits would be negatively impacted. Many federal public benefits programs, such as Food Stamps, Medicaid, Supplementary Security Income (SSI), and TANF cash assistance, test assets owned when determining eligibility (or count any owned assets the applicant has against him or her). The definition of assets in these programs generally excludes equity in an owner-based home and personal possessions, but generally includes the value of cars and the balances of any money held in accessible financial accounts (cash available).

Under the 1996 welfare reform law, states are largely allowed to determine income and resource rules for most public benefits, including TANF, food stamps, SSI, and in some cases Medicaid, state children’s health insurance programs, and housing assistance. Employer-based retirement accounts may be protected, but generally IRAs are not. Asset tests for these means-tested programs can be complicated at both the federal and the state levels and vary from state to state and program to program.26 EITC and other asset-building program implementers, especially Native leadership, must research and determine
what kinds of negative policy impacts savings, including those from EITC receipts, might have on families’ benefits — and work to eliminate those impacts for their member families.

Savings in some asset-building programs for low-income people are protected by law from counting as assets (such as certain IDAs). However, savings from EITC refunds are not, and must be evaluated according to individual state rules as to whether or not saving all or part of an EITC refund will negatively affect claimants’ public benefits. EITC receipt may be counted as income or assets or both, depending on how the state views it. However, as previously mentioned, the good news associated with this potential obstacle is that EITC savings for low-income families receiving public benefits would be protected if saved in certain IDAs.

In most states, the resource test (asset limits for benefits) is around $2,000 to $3,000 per applicant, which is very low. If there is additional money in a checking account, this would leave little leeway for families wishing to save even part of EITC refunds. A typical rule is that people receiving public benefits who also receive the EITC must spend the refund down in one to several months — typically not more than nine months, or it will count against a welfare recipient’s benefits. These rules can deter a family from saving or investing all or part of their EITC benefits.

Native families whose tribes receive tribal TANF grants to run their own TANF programs must check their tribal TANF rules to see what the income and resource eligibility rules are. Tribes can choose to impose different rules than the states they are located in, except for food assistance or Medicaid programs, which would still be determined by state and federal rules. Tribal governments have the opportunity to facilitate the savings and asset-building by their citizens through the innovative use of tribal TANF funds, and could reap significant benefits from doing so.

Expanding EITC Outreach and Access in Native Communities

Many interested organizations, agencies, and groups across the country have joined the work of facilitating greater EITC receipt in Native communities. Many of these organizations — which include philanthropy, business, government, and nonprofits — have taken leadership roles in this effort, which has grown significantly in the past several years. If not for these dynamic and innovative entities, Native communities would not have the resources and access for developing and implementing EITC campaigns, programs, and VITA sites that they do today.

Philanthropies in particular have been responsible for a surge of efforts to create effective EITC campaigns, or promotional and marketing blitzes geared toward getting information about the EITC out to many communities. Although several major foundations have supported these efforts in a large ways, receipt of the EITC in general would not be nearly as high as it is today if not for the ongoing work and dedication of the Annie E. Casey Foundation (AECF). AECF has made increased EITC receipt a key part of other family development and support initiatives, and a major philanthropic goal. The foundation has facilitated the creation of many activities, research projects, publications, and other promotional materials related to establishing and growing EITC programs, campaigns, and VITA sites for low-income families across the nation. AECF is a key funder of the
activities and product development of the Native Financial Education Coalition (NFEC).

Many key supporters of effective EITC outreach are members of NFEC. NFEC is a national coalition developed in 2000 and comprised of local, regional, and national organizations and government agencies working together to achieve the common goal of promoting financial education and asset-building activities and initiatives in Native communities. First Nations Oweesta Corporation, in Rapid City, South Dakota, serves as NFEC’s fiscal agent, and employs a coordinator.\(^{28}\)

NFEC, a prime outreach resource for information sharing related to the EITC, is supported by a range of private and public sector partners (including AECF), and creates and hosts an informational website on topics, including EITC. NFEC also facilitates a variety of opportunities for collaboration and information sharing on EITC through a listserv, conference calls, workshop presentations, and policy briefings.

The EITC Committee of NFEC is one of the five major committees of the coalition. The EITC Committee concentrates its efforts on both increasing the receipt of EITC in Native communities and better connecting EITC programs and campaigns to financial education and other asset-building initiatives. The committee numbers over 30 members who meet two to four times a year by conference call and work to develop and implement a yearly strategic plan for accomplishing their goals, which they present at an annual NFEC planning meeting. A retired IRS senior manager has been engaged as a part-time EITC committee facilitator by First Nations Oweesta Corporation.

NFEC’s outreach efforts include promoting several Native-focused EITC campaign marketing tools, including a consumer workbook and an EITC campaign guide (part of First Nations’ Building Native Communities financial education curriculum, outlined in the financial education chapter of this report), all designed to encourage greater EITC receipt in Native communities. Many organizations and entities, such as First Nations Development Institute, First Nations Oweesta Corporation, the Center for Social Development, the Internal Revenue Service, the Federal Reserve Bank, and other government and nonprofit organizations have taken active roles in supporting the Coalition’s EITC activities, and are key to the success of NFEC’s outreach activities.

The IRS has become a vital partner in providing EITC outreach to Native communities. The IRS Office of Indian Tribal Governments, located in Washington, D.C., was established in 2000, and since then the service has centralized and conducted trainings to increase IRS staff awareness of the cultural and legal differences in Indian Country, in order to better facilitate the processing of tax returns and reduce the number of correspondence audits triggered. The IRS provides tax preparation training for volunteers, and provides software for tax preparation services, among other forms of assistance, for numerous VITA sites in Native communities. A number of individual IRS representatives have worked diligently to help Native communities create and promote successful EITC campaigns.

The Brookings Institution uses aggregate IRS tax data to help Native and non-Native organizations measure how their activities compare with the local market; to advocate support from public, private, and philanthropic sectors for increased levels of free tax assistance; to strategize about where new opportunities lie for adding/expanding services to low-income taxpayers; and to educate governments on the likely benefits of creating new policies to better support the EITC.\(^{29}\)
There are many other successful EITC outreach and support efforts being executed in Native communities, but much more needs to be done in this area, and funding for these efforts is still insufficient. Tribal and state governments could partner with Native communities to better “get the word out” about EITC opportunities, and to increase access to free or low-cost tax preparation services in Native communities. Governments could support EITC outreach efforts by providing television and print advertisements, large facilities and computers for tax preparation sites, and refreshments and babysitting services for tax filers.

Effective EITC Programs in Native Communities

Previously in this chapter, we noted that there are still relatively few EITC programs and VITA sites located in Native communities (American Indian reservations in particular). According to the Brookings Institution, the largest concentration of EITC filers in Indian Country for the 2000 tax filing year were in the Navajo Nation (19,496); Fort Yuma, Arizona (7,140); Tohono O’odham-Pascua Yaqui, Arizona (4,458); Gila River, Arizona (3,228); Fort Apache, Arizona (2,772); and the Nambe-Pojoaque-San Ildefonso-Tewque Pueblos, New Mexico (2,419).

Data from a number of other regions that encompass many Native communities, and included an estimated 65,000 Native EITC claimants in Arizona, Colorado, New Mexico, and Texas, demonstrated that over half of EITC filers received their refund in the form of a loan. These numbers demonstrate the need for more effective EITC campaigns in Native communities that educate consumers on free and low-cost filing alternatives and increased support on the part of tribal and other governments, private philanthropy, and business for expanded access to Native VITA sites and/or reasonably-priced tax preparation services.

Even in the face of this considerable need for improvement, a number of Native-implemented EITC/VITA initiatives have shown great promise in identifying effective practices and establishing and implementing well-utilized EITC programs and VITA sites in Native communities. Tribes can also partner with other organizations to provide VITA services to tribal members. When IRS resources for training new volunteers are scarce, territory offices may refer interested organizations and tribes to established VITA providers for the purpose of developing partnerships. One successful instance of this happening is the Oklahoma Indian Legal Services, which acted in that capacity for the Citizen Potawatomi Nation, when they were interested in starting a site.

The EITC programs and VITA sites described below have already developed effective characteristics that make them good candidates for replication across Indian Country. We chose to highlight these particular sites by the merit of their longevity or potential longevity, innovation, and dedication to increasing EITC receipt and asset-building opportunities in their communities over time. The sites described are partners in the Native EITC research study described later in this chapter, and are all located in states that have a high Native population.

These examples of EITC efforts being implemented in Native communities are both innovative and representative, but by no means unique. New Native EITC programs and VITA sites are being organized at a promising rate; however, much more participation is needed, and many more Native-run EITC campaigns and VITA sites could be implemented and utilized if tribal, state, and federal governments, philanthropy, business, and other entities and organizations stepped up to the plate.
and supplied more of the resources necessary to create and implement these effective economic mechanisms. Research on the benefits of the EITC in Native communities may be one of the key factors in bringing these much-needed resources to the table.

**White Earth Reservation (White Earth, Minnesota)**

The White Earth Reservation was created in 1867 by a treaty between the United States and the Mississippi Band of Chippewa Indians, and is one of seven Ojibwe (also known as Ashinabe or Chippewa) reservations in Minnesota. Chippewa is one of the 10 largest American Indian tribes in the United States, with a total population (in all bands and tribes) of around 150,000. The reservation encompasses about 1300 square miles of land, most of which is not currently owned by the tribe due to allotment and tax forfeiture losses in the early 20th century (only about 10 percent is tribally owned). Tribally owned land is mostly located in Becker, Clearwater, and Mahnomen counties in north-central Minnesota, with 3378 members living there as of the 2000 Census (total White Earth tribal enrollment is 20,225). Average annual income as of January 1997 was only $4,817, and unemployment averaged about 25 percent.

More than half of the taxpayers in one ZIP code on the White Earth Reservation claimed the EITC in 2004, but more than three quarters of those families lost much-needed dollars to paid tax preparation services and refund anticipation loans (RALs). In aggregate, more than $22,000 in EITC funds were diverted to paid tax preparers from these low- to moderate-wage families. This statistic is made even more disturbing by the fact that the poverty rate in the community is 30 percent.

Local community organizations began working together to provide families an alternative for the 2005 tax filing season. In partnership with the AARP Tax-Aide site at Mahube Community Council in Detroit Lakes, the Midwest Minnesota Community Development Corporation (MMCDC) trained volunteers to provide free tax assistance several times per week at additional locations on the reservation, including the Shooting Star Casino, Hotel and Event Center, tribal headquarters, and a number of remote tribal locations — attempting to serve the whole reservation. Many of the volunteers are Native people who work and/or live on the reservation. A week before the casino workers’ W-2s were issued, MMCDC included an advertisement for their free tax services in the workers’ paychecks. The free assistance began the following Monday, the same day the W-2s were issued.

Some homes on the reservation are in remote areas, making it difficult for families to get to the city or the casino. To reach these families, MMCDC is hoping (for the 2006 tax filing season) to use the tribal child care program’s new bookmobile to bring trained volunteers to all five of the remote villages on the reservation at least once during the tax season. The children of filers receive a free book for using the bookmobile while their parents get their taxes prepared. The tribe and MMCDC’s long-term goal is to work with additional partners to develop an alternative RAL product along with a more seamless asset-building delivery system of tax aid, financial literacy training, credit awareness and debt repair promotion, and individual development accounts.12

The 2005 initiative was an important first effort for the tribe, and created the added interest in a variety of asset-building initiatives among tribal members and leaders. This effort is a good example of an effective and cooperative partnership between the tribe and local non-Native nonprofit organizations.
Chief Dull Knife College (Lame Deer, Montana)

Consumer Credit Counseling Services of Montana, Inc. (CCCS) supported six Volunteer Income Tax Assistance (VITA) sites in north-central Montana, beginning February 1, 2005. In partnership with CCCS, American Indian reservation VITA sites were co-sponsored by Chief Dull Knife College (Northern Cheyenne Reservation), Blackfeet Community College (Blackfeet Reservation), Stone Child College (Rocky Boy Indian Reservation), and Fort Belknap Community College (Fort Belknap Reservation). One mobile VITA site traveled to various locations throughout the Great Falls area, and likely served a significant number of Native people. All VITA sites offer low-income families free federal tax preparation and filing. This EITC initiative was the second for CCCS, but the first in partnership with American Indian tribes — last year, CCCS served only two locations in Great Falls.

Chief Dull Knife College (CDKC) is a two-year American Indian land grant college located on the Northern Cheyenne Reservation in Lame Deer, Montana. CDKC has an active extension service, and was uniquely prepared for success with its premier EITC initiative and partnership with CCCS in 2006. As part of a financial education initiative the CDKC extension service instituted just a few years earlier (sponsored by the NFEC committee on tribal colleges and universities, and featured in NFEC’s 2005 annual report), a forum had been provided for CDKC and several other tribal colleges across the country to network and coordinate efforts toward developing and implementing financial education curricula and community-based financial education programs.

CDKC experienced great success with the pilot financial education initiative, which set the stage for an equally successful effort to offer free tax preparation services to the community. Consumer Credit Counseling Services of Montana, First Interstate Bancsystem, and the Federal Reserve Bank of Minneapolis collaborated in this unique partnership intended to develop a consumer credit counseling accreditation curriculum for tribal colleges as well as to bring much needed consumer credit counseling services into tribal communities. The hope is that the financial education pilot program will serve as a model that can be rolled out to tribal colleges across the country, with the support of various NFEC members.

Using tribal members as tax preparation volunteers, CDKC’s extension service continued its mission to bring culturally appropriate asset-building programs and services to their Northern Cheyenne community. The financial education and EITC program initiatives are seen as solid steps in a plan to eventually add such asset-building tools and products as an IDA program, and perhaps a CDFI, into the community. CDKC’s experience demonstrates the effectiveness of innovative and collaborative partnership between Native and non-Native nonprofit and community-based organizations. The CDKC EITC site director was pleased with the first year results, and with this new experience under its belt, CDKC extension service sees potential for serving many more tribal members next year.
Tanana Chiefs Conference (Fairbanks, Alaska)

Tanana Chiefs Conference (TCC), located in Fairbanks, Alaska, is a traditional tribal consortium, representing a service area of 42 Athabascan Villages of interior Alaska. The organization is based on a belief in tribal self-determination and the need for regional Native unity. TCC offers a variety of services and develops and implements many social service and economic development programs for the tribes, and over the last several years has also committed considerable efforts to helping Alaska Natives build and preserve assets. TCC works with Alaska Natives in some of the most remote areas of the state.

Tanana Chiefs Conference’s Athabascan Self-Sufficiency Assistance Partnership Program (ASAP) includes TCC’s entire service area in the Doyon region of interior Alaska. This program serves all families in which the head of the household is Alaska Native or American Indian. ASAP began operation in October 1998, and in FY 2004 served an average of 315 families per month. Services provided by the ASAP program focus on job preparation and development and include on-the-job training, short-term job training, counseling and skill building, help with child care expenses, referrals for paid employment, referrals for community work services, structured job searches to teach specific job search skills, transitional services including child care assistance and post-employment services, GED or high school instruction, vocational training, and higher education. Significantly, one of the additional services offered to families includes financial literacy training, and in 2005 an EITC component was added, to help families realize all of their earning potential and consider reserving a portion of their tax refund for savings and investment.

The ASAP program focuses initially on job placement, so that clients qualify for the EITC. TCC created a one-stop service center in each of the village council offices. This model of service coordination promotes a holistic focus on family needs and allows TCC to deliver a variety of services efficiently and effectively. Prior to the transition to the one-stop service centers, there was a 0 percent overall work participation rate for village-based TANF recipients. Now, the ASAP program has met its work participation requirements, assisting families in getting jobs, offering opportunities for training, and matching parents with specialized resources, while also helping families to claim all the money due and available to them at tax time.

ASAP’s EITC component helped 774 recipients apply for the EITC on their tax returns for the 2004 tax filing year, with approximately $570,000 realized in EITC refunds. During the 2005 tax filing year, TCC increased those numbers and offered EITC tax preparation seminars through a renewed contract with Alaska Business Development Center (ABDC), in conjunction with the University of Alaska. TCC provides resources to ABDC that support university students who prepare taxes for Native people in remote villages. The students are excited to do the work, vying for the chance to visit the villages, and the villagers enjoy having them as guests during tax season. This EITC initiative illustrates how to develop effective collaborations and partnerships between Native and non-Native nonprofit organizations.

Not only does TCC work to develop an effective EITC campaign and broad asset-building strategy for the Native people the organization serves, but it has also joined a new and even larger initiative to increase and encourage state and tribal government participation in developing and supporting a statewide asset-building agenda for Alaska. Both the tribal and state government asset-building efforts promote increased availability of CDFIs, IDAs, financial education, and free tax preparation, among other assets initiatives in Alaska.
The Inter Tribal Council of Arizona (ITCA) launched a VITA site in 2005 as part of the City of Phoenix’s EITC campaign. It was open on Saturdays during tax season at the ITCA office from 8 a.m. until noon, and it publicized its services to Native organizations in the Phoenix area. In 2006 ITCA expanded its program by 1) deploying teams of volunteers at three mobile VITA sites to prepare taxes in several reservation communities throughout Arizona, 2) assisting communities to establish their own VITA sites, and 3) providing training and materials on financial education.

The City of Phoenix wanted to expand its outreach efforts in tribal communities (for the 2005 tax filing year), and ITCA wanted to expand the receipt of EITC in the tribes it serves, which was a natural fit. ITCA agreed to partner with the city’s coalition, and was able to utilize its network of Native and tribal organizations to reach out to key contacts in each tribe and reservation. The city coalition partnership allowed ITCA to provide space for its VITA sites and to develop more extensive education and training strategies. In the 2005 tax filing year, the city coalition and ITCA helped 120 Native families file returns resulting in refunds totaling $160,000. In 2006, the most current tax filing year, through this creative and effective urban/rural Native partnership, ITCA served 216 tax filers, and was able to bring in $275,713 in EITC receipts to its member tribes.

This program shows both the success of a multi-tribal effort and the potential for effective Native/non-Native collaboration, drawing many Native communities around a cause that is beneficial to all low-income families in the area. ITCA is encouraging its member tribes to expand supported asset-building initiatives to include greater financial education efforts and IDAs in the 2006 tax filing year and beyond.

Recent EITC Research in Indian Country

A body of research on the effects of asset-building efforts in Native communities, and the potential for future asset-building efforts, is being completed by both researchers and Native communities themselves. However, much more knowledge in this area is needed, particularly of the effects of EITC receipt on Native families and communities. The important information gained from such research could inform communities on the integration of EITC, free or low-cost tax preparation services, and other asset-building initiatives.

A recent study completed during the 2005 tax year by the Kathryn M. Buder Center for American Indian Studies (BCAIS) and the Center for Social Development (CSD) at Washington University in St. Louis engaged 10 VITA sites serving both reservation and urban communities across the country in determining the potential financial and economic impacts of the EITC on Native individuals, families, and communities. These VITA sites were housed in a variety of locations, including housing authorities, tribal colleges, tribal business centers, and community-based nonprofit organizations. The following 10 Native
community sites participated in the project:

<table>
<thead>
<tr>
<th>Native Community</th>
<th>State(s) Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cherokee Nation of Oklahoma</td>
<td>OK</td>
</tr>
<tr>
<td>Cheyenne River Lakota Nation Tribal Business Information Center</td>
<td>SD</td>
</tr>
<tr>
<td>Consumer Credit Counseling Service of Montana</td>
<td>MT</td>
</tr>
<tr>
<td>Inter Tribal Council of Arizona</td>
<td>AZ</td>
</tr>
<tr>
<td>Lac Courte Oreilles Ojibwe Community College</td>
<td>WI</td>
</tr>
<tr>
<td>Midwest Minnesota Community Development Corporation</td>
<td>MN</td>
</tr>
<tr>
<td>Navajo Partnership for Housing</td>
<td>AZ, NM</td>
</tr>
<tr>
<td>Red Cliff Housing Authority</td>
<td>WI</td>
</tr>
<tr>
<td>Tanana Chiefs Conference, in partnership with Alaska Business Development Center</td>
<td>AK</td>
</tr>
<tr>
<td>Tohono O’odham Nation</td>
<td>AZ</td>
</tr>
</tbody>
</table>

These sites worked with the research team to gain a better understanding of how VITA sites and the EITC might assist in transforming their communities both through meeting broad economic development goals and assisting citizens in efforts to build and leverage appreciable assets. In particular, the work recorded the amount of money acquired by Native people through EITC receipt at VITA sites, and examined their plans for EITC and other tax return income.

Many of the findings in this chapter may bear further study, but the authors see the preliminary results from data analysis as key to any significant discussion of the impact of EITC receipt in Native communities.

The results of this study provide insights into the kinds of infrastructure and programs that support the acquisition and retention of the EITC and other tax dollars for the benefit of Native families and entire communities. The need for the work was originally identified and promoted by the Native Financial Education Coalition EITC Committee, and the study was accomplished with support from the Annie E. Casey Foundation, First Nations Development Institute, and the Center for Social Development.

The research project, which includes questions related to assets and asset-building, was conducted in collaboration with the Native communities who participated. It was integral to the project that participating VITA site coordinators be actively involved in the research process. VITA site coordinators helped to develop a number of survey questions that addressed the types of information they hoped would assist their communities and benefit community members. Many of the participating VITA site coordinators are also Native community members who became active participants in the research process, including interpretation of the results.

The number of years the VITA sites in this study have been operational varies and has some bearing on the number of returns prepared for the 2005 tax year. 2005 was the first year of operation for two of the VITA sites, while five sites have been operational for two tax years, one site for three tax years, and two sites have been operational for five tax years or more. In total, for tax year 2005, these communities prepared 9,746 tax
returns with a total of $3,340,721 EITC dollars claimed, and $7,819,102 in total tax refunds claimed by families. One site’s total refund amount has not been captured at the time of publication, but is planned to be included in later reports on this data. The following chart outlines the basic VITA statistics by site:

<table>
<thead>
<tr>
<th>VITA Site</th>
<th># of Years in Operation</th>
<th># of Returns Prepared 2005</th>
<th>Federal EITC $ Claimed 2005</th>
<th>Total Refund $ Claimed 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanana Chiefs Conference/Alaska Business Development Center</td>
<td>2*</td>
<td>3,016</td>
<td>$1,590,414</td>
<td>$3,699,627</td>
</tr>
<tr>
<td>Cherokee Nation</td>
<td>6</td>
<td>1,333</td>
<td>$468,599</td>
<td>$1,142,729</td>
</tr>
<tr>
<td>Cheyenne River Lakota Nation Tribal Business Information Center</td>
<td>3*</td>
<td>269</td>
<td>$131,756</td>
<td>$369,409</td>
</tr>
<tr>
<td>Consumer Credit Counseling Service of Montana</td>
<td>2</td>
<td>3,900</td>
<td>$679,547</td>
<td>$1,508,008</td>
</tr>
<tr>
<td>Inter Tribal Council of Arizona</td>
<td>2</td>
<td>260</td>
<td>$111,745</td>
<td>$275,713</td>
</tr>
<tr>
<td>Lac Courtes Oreilles Ojibwa College</td>
<td>2</td>
<td>169</td>
<td>$86,831</td>
<td>$194,298</td>
</tr>
<tr>
<td>Midwest Minnesota Community Development Corporation</td>
<td>1</td>
<td>201</td>
<td>$157,931</td>
<td>$322,249</td>
</tr>
<tr>
<td>Navajo Partnership for Housing</td>
<td>1</td>
<td>141</td>
<td>$81,921</td>
<td>$158,373</td>
</tr>
<tr>
<td>Red Cliff Housing Authority</td>
<td>2</td>
<td>77</td>
<td>$31,977</td>
<td>$74,348</td>
</tr>
<tr>
<td>Tohono O’odham Nation</td>
<td>5*</td>
<td>380</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td>9,746</td>
<td>$3,340,721</td>
<td>$7,819,102</td>
</tr>
</tbody>
</table>

*These sites have been providing tax preparation services for over six years, but have only been “official” VITA sites for the number of years indicated. Becoming an official VITA site connects sites to IRS training and additional resources, which make it possible for them to reach out to more community members.

**no data available
Using Community-driven Surveys to Gather Data: Key Findings

Surveys were developed for each site with community input, including a set of core questions developed by researchers to be asked across all communities. In order to capture the unique aspects of the participating VITA/EITC campaigns, VITA site coordinators in each community were given the option of developing individualized questions for their surveys. Researchers then incorporated selected questions into the site surveys for each particular community. A number of core study questions (those questions that were required across all sites) queried demographics and assessed outreach and implementation issues associated with VITA sites. Core study questions included the following:

- Race or ethnicity
- Gender
- Tribal membership
- Language spoken in customers’ home
- Where customers had their taxes prepared last year
- Where customers heard about the VITA site/service
- Banked v. unbanked (whether they had any type of banking account)
- Receipt of public benefits during 2005
- How customers planned to use their EITC/tax refund
- Participation in financial education classes
- Interest in asset-building activities

A number of VITA site coordinators chose to include community-specific questions that focused on the link between receipt of EITC/tax refunds and asset-building interests, activities, and initiatives in their community. Community-specific questions gathered information on such topics as:

- Customers’ prior experience or current interest in financial education or homeownership programs
- Whether or not customers own homes and, if so, whether or not the homes are on tribal land
- Identifying barriers to homeownership
- Using tax refunds for purposes related to subsistence economies

Community surveys were administered during tax preparation hours at each of the 10 VITA sites. Customers were assured that their participation in the study, (completion of the surveys) was voluntary and that the information they provided would be kept strictly confidential. They were also assured that their decision to complete the survey would not in any way impact their tax preparation services, or the actual tax documents filed for them. Some key findings of the surveys, organized into major topic areas are included below.

1. Native People are Being Served

Demographics were gathered to inform site coordinators and tribes of their customer base — not only who was being served, but also to identify groups of customers who are not being reached and who may require more targeted outreach and education. These messages may differ based on the target audience. For example, families with children may want more information regarding the definition of a qualifying child, an elder may appreciate specific information about tax credits for the elderly, and persons who speak a primary language other than English may be more likely to utilize services offered in their Native language. Key demographics from this study are described below.
Race/Ethnicity. Most of the sites participating in this study focused on serving Native community members, but were also open to serving anyone in the community who wanted to use free tax preparation services. A total of 2,700 surveys were collected by 10 VITA sites. Of this total, 1,781 respondents (67.85 percent) were Native American/Alaska Native with a significant number of these respondents from Alaska (n=970). Other races/ethnicities served include: Caucasian (27.58 percent), Latino (1.3 percent), and African American (0.8 percent).

The results presented below represent findings for the pool of Native respondents only, unless otherwise noted.

Tribal Enrollment. VITA sites serving Native communities, particularly reservation communities, were especially interested in knowing how many enrolled tribal members were being served. Of Native respondents, 89.3 percent indicated that they are enrolled tribal members. This information may assist VITA site coordinators and Native leaders in determining if they are serving the economic development and asset-building needs of their membership, and what type of related initiatives their membership want to participate in.

Gender. Relatively equal numbers of male (50.52 percent) and female (49.48 percent) customers were served at each site. This finding is contrary to some previous VITA site research findings that show the individuals most likely to use VITA sites are female heads of households. Though this data is not conclusive, the findings could indicate that Native-serving VITA sites are (or are becoming) more equally utilized by male and female heads of households in the community than those serving non-Native communities.

Language. In an effort to create a welcoming environment accessible to all community members, site coordinators were interested in learning the primary languages spoken by their customer base. In this study, 58.66 percent of Native respondents (n=1,616) indicated that English is the primary language spoken at home, while 27.02 percent of Native respondents indicated that they speak a Native language at home, either as their sole language or in conjunction with English. It is important to note that a large percentage of respondents come from sites in Alaska Native villages and the Navajo Nation, both of which have high percentages of Native language speakers. Finding a substantial percentage of homes with Native language speakers suggests that site coordinators should consider designing outreach and education materials or campaigns in languages most commonly spoken in their communities. Especially since a notable portion of respondents (21.62 percent)
heard about the VITA site via posters or the newspaper, designing outreach materials that customers can more readily identify with might increase VITA participation and EITC receipt.

Another important consideration regarding language is the possible indication that elders constitute a significant portion of VITA customers, as they are most often the community members who speak their Native language. This study did not collect age demographics, so conclusions cannot be definitively made in this regard, but if this is the case, outreach to elders may be an ideal opportunity to focus on tax issues specific to them, while using tax preparation time to also offer outreach related to other programs and areas of interest to this segment of the population. The role of elders as respected community members with substantial influence on subsequent generations may offer an additional benefit in attracting their children and grandchildren to elder-friendly VITA sites.

**Education.** Research suggests a strong relationship between educational attainment, income, and financial stability, often finding that people with lower education levels (high school diploma, GED, or below) are more likely to be lower-income, and therefore more likely to be eligible for EITC. Results from this study indicate that Native-focused VITA sites are serving a significant number of such individuals. Education levels within this sample include 20.08 percent of respondents with less than a high school education and 68.22 percent of respondents who are high school graduates (includes individuals with high school equivalency), with no post-secondary education.

**Public Benefit Recipients.** Of the Native population surveyed, approximately 25 percent indicated that they received or qualified for public benefits in 2005. The type of benefit varied by location and included programs such as Temporary Assistance for Needy Families (TANF), health care insurance such as Medicaid or Medicare, job training and placement assistance, general assistance, and Social Security. The intersection of public benefits and EITC receipt for qualifying families is important for Native leaders to consider when developing asset-building programs, because many welfare programs continue to have asset and income tests.

### 2. Free Tax Preparation Services Lead to Significant EITC Receipt

The primary purpose of establishing VITA sites in Native communities is to offer a free, much-needed service to working families and individuals that not only assists them in meeting their tax filing obligation, but also facilitates the receipt of eligible tax refunds so that more of their hard-earned dollars might be retained by Native families and individuals (avoiding losses to refund anticipation loans and other fees). The high number of enrolled tribal members filing, in addition to several other factors such as the number of public benefit recipients (25 percent of total filers), persons with no more than a high school education or equivalency (88.3 percent of total), and those who are “unbanked” (11.74 percent of total), provides important evidence that VITA sites are reaching target populations for EITC receipt. Yet, as mentioned previously in this chapter, even though the EITC provides a substantial economic boost to low-income working individuals and families, it is estimated that 25 percent of eligible workers do not claim the EITC largely due to a lack of awareness of their eligibility to do so.
Educational and outreach efforts related to VITA campaigns nationwide are beginning to reduce the number of unclaimed tax credits. Some positive impacts of these efforts were illustrated in this study. The percentage of customers who had not filed in the prior tax year (14.66 percent) is consistent with national data on low-income filers (12 percent). The Brookings Institution (2006) suggests that rather than trying to estimate the number of non-filers in a community, local leaders should instead focus on increasing the number of workers filing claims by 5 percent each year. This is a more manageable goal that will still yield significant results for local workers as well as the local economy. The Brookings Institution offers guidance for such an approach and community level EITC data by ZIP code, on their website.

Approximately half of the respondents (50.18 percent) had utilized the same VITA site in the previous tax year, while 43.98 percent had not used VITA site services in the previous year. Of those who had not used VITA site services, approximately 15 percent had not filed taxes in the previous year and an additional 15 percent had paid a tax preparer. The number of return customers is typical of the increase in service utilization seen by VITA coordinators from year to year (often doubling in size, particularly from the first year to the second) and indicates a significant increase in VITA site users. But the number of new filers was much higher than the 5 percent increase defined as “significant” by Brookings. This supports the assumption of many advocates that not filing for the EITC is even more common in Native communities and that low-cost tax preparation is a much-needed service. These numbers also indicate that tribes are utilizing EITC and VITA programs to build positive relationships with their members and communicate the message that they can end up with even more money if they do not pay exorbitant fees for tax preparation services. Site coordinators shared stories of customers who stated they did not know they had to file taxes, indicating a need for greater community education regarding tax filing rules and options. The fact that so many previous non-filers submitted their tax returns through VITA sites indicates that well-publicized and trusted sites may provide critical venues for a large number of Native people who would not otherwise file their taxes.

The experience of many low-income tax filers, who give up a significant portion of their tax return dollars to pay for commercial tax preparation services, is especially true for Native filers where there is a lack of free or low-cost tax preparation services in or near their communities. The main goals of Native VITA campaign leaders include both creating new filing opportunities for people in their communities and reducing transaction costs associated with filing taxes. The free filing service that Native-serving VITA sites offer provides significant savings to low-income working Native families – money that can be put both toward needed expenses and building assets. In addition to these primary goals, there is also great potential for these dollars to be returned to, and support, local economies. Of the respondents in this study, a significant number (14.66 percent) used commercial tax preparers in the previous tax year, paying fees in amounts ranging from $20 to $500 (with an average payment of approximately $100). These findings translate into substantial savings for Native individuals and families who are now using VITA services. Despite these savings, many customers may still go to commercial preparers if they believe they will receive their refund faster. A majority (73 percent) of respondents in this study indicated that it was important to them to receive their refund quickly. For some, the eagerness to receive their
refund quickly is related to the need to pay off overdue bills. Anecdotal data suggest another motivation for use of commercial tax preparers from outside the community is concern over the privacy of financial data. Both of these concerns could be addressed by effective marketing. Native EITC campaign coordinators may want to consider focusing marketing materials to stress the significantly short turnaround time for electronic tax filing at VITA sites (particularly through direct deposit) and communicate the steps taken to protect tax filers’ privacy.

3. The Availability and Utilization of Financial Services in Native Communities is Poor

Having a relationship with a trusted financial institution may help to facilitate asset-building activities for Native people. This study explored what portion of Native community members are banked — meaning that they utilize mainstream financial services through an existing transaction account, such as a checking account, savings account, or both. It also sought to learn the unbanked rate among Native community members and learn more about what alternative financial services they may be using. The results were surprising. In this study, 88.26 percent of Native respondents compared to 46.21 percent of non-Native respondents (n=2,416) indicated that they own at least one type of transaction account, many of whom own both checking and savings accounts. The percentage of banked clients was fairly consistent across all communities with an average banked rate of 71 percent.

Though it is encouraging that such a high percentage of customers have bank accounts, this still leaves a significant percentage of customers with no type of bank account. Of those with no transaction account, most indicated that “poor credit” was the reason. Another possible reason why there is a relatively high rate of unbanked individuals is that in many of the reservation communities, financial services such as a bank are not available in the community and are a considerable distance away from the reservation. One interesting finding may relate to this issue: 88.26 percent of Native respondents indicated that they have bank accounts but only 66.97 percent indicate that they use a bank to cash their paychecks. This finding indicates that respondents have some familiarity with mainstream financial institutions (and may even have or have recently had an account in one or more), but that barriers may exist to using their accounts. One barrier may simply be geographic isolation. More information is needed in order to determine why such a discrepancy in these two findings exists, and what types of financial services and products would be most useful in Native communities.

In communities where there are no commercial banking institutions, customers are forced to use alternate financial services, many of which charge fees that are moderately or extremely higher than accepted norms. The lack of mainstream financial services was evident in the Native communities in this study. In fact, the most common venue for check cashing was a local store (77.55 percent), with additional non-traditional financial institutions including pawn shops (20.27 percent) and check-cashing businesses (13.41 percent). While respondents could choose more than one location, and 66.97 percent did utilize the bank, in many Native communities the only commercial business available may be local store — including grocery stores, gas stations, and/or convenience stores. These businesses often charge significant fees for cashing checks, or fees that add up to significant outlays of money over time.
These findings are particularly important for Native communities that are considering developing or modifying asset-building strategies and/or community economic development plans. The above results speak to the need for financial education, credit repair classes, and greater availability of mainstream financial services (or reasonably-priced alternative financial services) in Native communities. An important advantage of having a bank or other financial transaction account is the ability to use direct deposit for receipt of the EITC and other tax return dollars. Ownership of a financial transaction account will become even more important beginning with tax filing year 2006, since the opportunity to split refunds between different types of accounts will be available, but only through direct deposit of funds. This financial mechanism makes saving easier and, therefore, more likely.

4. Linking EITC to Other Asset-building Initiatives

Native communities face unique challenges to economic development, including low educational attainment, high unemployment rates, and limited access to mainstream or other reasonably-priced financial institutions. Native leaders are increasingly realizing the potential benefit of linking EITC and asset-building strategies to improve the financial security of households in their communities. Helping families to gain some much-needed funds and use them to accumulate assets has the potential to improve the overall economic health of entire communities. In order to gauge community need and interest in asset-building activities, this study examined ways that community members intended to use their tax refund; what they have saved for in the past; their participation in asset-related classes such as financial education, credit repair, and homeownership; and their interest in these types of activities and programs.

5. Planned Use of Tax Refund by Native Respondents

To better understand how the EITC will help working individuals and families in Native communities, filers were asked how they planned to use their tax refund. The graph below illustrates intended uses.

![Planned Use of Tax Refund](image)

Although personal expenses was an expected use, we must keep in mind that the intent of the original EITC legislation was to give people additional income to meet household expenses, and this has remained a major reason for its ongoing support for many years. Despite this, intentions for using EITC refunds for savings and asset-building opportunities are beginning to surface more and more in these types of studies. A notable percentage of EITC recipients in this study (25 percent) hope
to save at least a portion of their tax return dollars. However, it may be difficult for many Native individuals and families to actually achieve this goal, as there is often a limited amount of discretionary funds available within low-income households, and families often perceive savings as something that is beyond their reach. This saving challenge is made clearer by considering the large number of respondents (45.99 percent) who indicated that they planned to use their tax refund for “personal expenses.” This question was not defined in the survey, but respondents indicated that they would need to use their tax refund for basic consumption needs such as groceries, rent, utilities, children’s clothing, and other monthly expenses. Tax refund dollars also serve as a buffer for emergency expenses such as car repairs and medical bills that exceed insurance copayments, or are used in lieu of insurance – also indicating, however, an existing faculty for at least short-term savings.

Even when tax filers in the study did not need to use the refund dollars for basic needs, they indicated that they were setting aside refunds for several consumable products that some might argue are necessities. These consumable goods may include the purchase of a vehicle (21.84 percent). The purchase of a vehicle may be a particularly important asset to the self-sufficiency of working families and the related economic development of communities. Vehicle ownership is critical in gaining and sustaining employment, especially for those living in remote communities without access to public transportation, such as reservations. Other consumable goods such as furniture (16 percent), especially if purchased from Native businesses, could stimulate the local tribal economy. In this study, fewer respondents indicated their intention to put the refund dollars toward the purchase of a home (9 percent). Investment in education may pose a significant strain on the economic circumstances of low-income, working families, making the significant number of respondents planning to use their tax refund for educational expenses for themselves or a family member (16.16 percent) a phenomenon worth further study.

In order to build successful local economies, it is important to match strategies to the cultural context for which they will be applied. In this study, an important example of this emerged from the villages of Alaska. Seventy-three percent of respondents from Alaska indicated that they plan to use at least half of their tax refund for subsistence items such as chainsaws, fishing supplies, and hunting equipment. An additional cultural consideration is that in many Native communities, family members (and often close friends) may pool their resources in order to meet financial needs. In this study, 13.72 percent of respondents planned to use their tax refund to help a family member. This use could have particular cultural resonance with Native communities in the Pacific Northwest, as Dr. Eddie Brown, former Assistant Secretary of Indian Affairs and Director of American Indian Studies at Arizona State University, observes:

In traditional American Indian cultures, assets are given away. Think about ceremonies, like potlatches or give-aways at powwows. Sharing and reciprocity are important. The whole point of possessing assets is that one can use and share them. Status and power are derived from the ability to share and to provide others in the community with the resources that they need. The pride of acquiring something is being able to give it away.

Though EITC dollars may be used to help make ends meet for a number of working individuals and families, it is also evident from this study that a substantial portion
of them are interested in building assets and making financial decisions that move them in that direction.

6. EITC Receipt and Links to Asset-building Programs

The infusion of EITC dollars into the local economy can contribute not only to the economic stability of individuals and families, but may lead to asset accumulation for the long-term financial security of the whole community. Offering ways to leverage EITC refund dollars through programs such as individual development accounts (IDAs) may also help Native workers fulfill their saving and investment goals, while creating stronger communities.

Individual Development Accounts (IDAs) have proven to be a viable asset-building strategy for low-income families across the United States. With increased outreach and education, IDAs are yielding positive results in Native communities. A majority of the communities in this study do not yet have IDA programs but wanted to assess community interest in such a program. The community survey presented a short description of an IDA and asked if survey respondents would be interested in participating in an IDA program if one were available in their community. Though only 10.22 percent of respondents had heard of IDAs, 73.61 percent of survey respondents expressed interest in establishing IDAs if the opportunity were available in their community.

7. Native Participation in Financial Education and Financial Literacy Programs

Financial management skills have been shown to be a significant factor in attaining financial security and accumulating assets. One indicator of financial skills is whether an individual has participated in classes or workshops on financial topics. In order to gain a better understanding of the levels of financial education and literacy in the participant communities, survey respondents were asked if they had ever participated in classes that dealt with financial management skills or asset-focused topics (like homebuyer education). The highest percentage of respondents (18.24 percent) had participated in classes that addressed credit repair, whereas 9.67 percent had received some form of basic education on personal financial management, and 11.11 percent of respondents had received some training related to homeownership issues. The higher response rate indicating credit repair education may reflect the fact that approximately 34.81 percent of respondents received their free tax preparation assistance through an organization that also provides consumer credit counseling services. Though it is encouraging that low-income working individuals are utilizing some form of financial education, approximately 60 percent of respondents did not indicate receipt of any form of financial education. The increased prevalence of predatory financial services in Native communities underlines the need for financial education about the potentially damaging effects of using such services. Integrating financial education into EITC and VITA programs may be an important strategy to reduce, and ultimately prevent, the presence of predatory lenders in Native communities. In this study, participation rates in financial management classes are much higher in communities that offer IDA programs or financial services through a community development financial institution (CDFI), than in communities without this infrastructure in place. This may be due to the fact that such programs often require financial education classes in order to participate. However, their mere existence may encourage community members to increase
their financial knowledge as successful participants share their stories with family and friends and can point them to an accessible and trusted community service.

If financial management skills are developed using financial education curricula that include information on tax filing rights and responsibilities, consumers may gain an increased awareness of the EITC and other tax credits available to them, providing them with the necessary skills, knowledge, and resources to claim what they have earned. Financial education related to predatory lending and the real costs associated with refund anticipation loans may also reduce the use of such services and products, allowing Native earners to keep more of their hard-earned dollars and encouraging them to put a portion of their refund toward asset-building goals.

8. Community Needs

VITA site coordinators in the communities that participated in this study were interested in developing asset-building programs that would leverage the EITC dollars their customers received. In addition to questions about EITC and general asset building, survey respondents were queried about other types of asset-related information they might like to receive. Respondents were most interested in information about buying a home (36.32 percent). They also indicated a strong interest in learning more about purchasing a car/truck (33.85 percent), budgeting (23.27 percent), small business development (21.59 percent), children’s savings accounts (21.16 percent), credit/debit cards (16.85 percent), and bank/credit union accounts (15.77 percent). These results indicate that tribal governments and/or local organizations would benefit from identifying or developing appropriate savings vehicles for community members. These governments and organizations could also seek out and offer homeownership education, and information on other major wealth-building opportunities, while working to identify ways to overcome any barriers to homeownership and other major asset-building opportunities in their communities.

Conclusions and Recommendations for Increasing the Effects of EITC in Native Communities

Federal and state EITC laws reflect one of the most effective economic policy strategies instituted in the last 25 years. These policies have proven effective at both encouraging job retention and increasing resources for all low-income families, including Native families. The money these policies supply from simply claiming refundable tax credits was not designed to replace other needed resources provided by minimum wage and “living wage” policies, but to augment them, increasing the self-sufficiency and buying power of low-income families and communities in the United States. The EITC has had a slow take-up rate in communities nationwide, particularly where the extra resources are needed the most—in underserved and impoverished communities, such as many Native American, Alaska Native, and Native Hawaiian communities.

These policies may also be under threat of reduction or termination, if concerned governments, partner organizations, and ordinary citizens do not ensure take-up rates increase so that the economic benefits can flow to low-income families. This case will be made easier by the pursuit of more research that provides hard data on the positive effects the EITC can have on low-income families and communities—particularly research illustrat-
ing effects of this policy related to creating stronger family economic bases. The need for and relevance of this research in Native communities, where people have been many times taken advantage of by outside researchers, is particularly pressing. Unscrupulous research practices have resulted in a general mistrust of research by both tribal leaders and community members. Native communities are also often significantly neglected in important studies due to the challenge of finding existing baseline data.

Major headway has been made in Native communities to increase both the knowledge and the receipt of the EITC, thanks to a large number of committed organizations and entities from a variety of public and private sectors, but much more could be done in this area. Only a relatively small number of tribes and Native communities run EITC campaigns and VITA sites in their communities, or even collaborate on them, although existing Native initiatives include some outstanding examples of effective practices. Federal, state, and tribal governments all have important roles to play in encouraging, collaborating on, and funding these efforts — particularly in the area of making EITC and other refundable tax credit policies more effectively designed to work for all populations. Trusted community-based programs and services play, and will continue to play, a critical role in developing and maintaining economic well-being in Native communities.

A better understanding of EITC receipt in Native communities can provide program leaders, tribal governments, and others with important insights. Knowing who in the community receives the EITC (Natives v. non-Natives, tribal citizens v. non-citizens) and what their anticipated uses of the funds include, are critical pieces of information for more effective community planning and policy making. For example, if many tax refund recipients hope to save and invest their tax credit in order to buy a home or other asset, this would indicate that tribal governments, Native organizations, and their partners must identify or develop appropriate programs to help individuals achieve these goals.

Ultimately, data such as that from the study outlined in this chapter not only provide useful information for the specific Native nations participating, but could become a powerful tool in convincing many Native nations of the economic wisdom of investing in EITC outreach and VITA site development, and the addition of asset-building components to any economic development approach. It can be a powerful motivator for individuals and leaders in Native nations that do not participate in EITC outreach to discover the level to which peer communities are benefiting from high receipt of the EITC.

The results of studies on EITC benefits in Native communities will inform policy and the broader asset-building field about the influence EITC/VITA campaigns have on all people’s asset-building behavior. Development of asset-building initiatives in Native communities should be designed to be accessible to Native community members and should be tailored to such pressing needs as opportunities for greater financial education, access to viable financial services, and saving and investment.
Endnotes

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4 Romich & Weisner 2000.
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34 Holt 2005.
35 For tools and information, go to http://www.brookings.edu/es/urban/eitr/dataguide.htm.
36 Zinsmeyer & Flacke 2006.
37 Fletcher, Garasky, & Jensen 2003.
40 For more information on IDAs, see the IDA chapter of this report.
41 Department of the Treasury 2006.

Works Cited


Chapter 5: Putting the Earned Income Tax Credit (EITC) to work in Native Communities


Addendum 1

EITC Web Resources of Special Interest to Native Families and Communities

The websites listed below are good examples of informational resources that could be helpful in establishing EITC programs and VITA sites in Native communities. Some of the sites listed do not have information specific to receipt of the EITC in Native communities, but have general information that pertains to the topic and could be useful to Native people. Other than the NFEC website, the websites listed are not necessarily endorsed by the authors of this chapter, NFEC, FNDI or OWEESTA.

Native Financial Education Coalition: www.nfec.info

Additional Websites

First Nations Oweesta Corporation: www.ouveesta.org/eitc
The Annie E. Casey Foundation: www.aecf.org/initiatives/fes/eitc/
IRS ~ Free Tax Preparation: www.irs.gov/individuals/article/0,,id=96406,00.html
National Community Tax Coalition: www.tax-coalition.org
First Nations Development Institute: www.firstnations.org/EITCwb.asp
The Kathryn M. Buder Center for American Indian Studies: http://gwbweb.wustl.edu/buder/pubs.html
The Center for Social Development: http://gwbweb.wustl.edu/CSD/
The Brookings Institution: www.brookings.edu/metro/eitc.htm
Center for Budget and Policy Priorities: www.cbpp.org/eic2006/
The Finance Project: www.financeproject.org/src/win/eitc.asp
Splitrefunds.net — Build Savings at tax time: www.splitrefunds.net/background.php
World Institute on Disabilities: www.wid.org/publications/?page=equity&sub=200503&topic=tm
Rural Assistance Center: www.raconline.org/info_guides/tribal/tribal_human.php
California Indian Legal Services: www.calindian.org/nl_fall2002.2.htm

Addendum 2

Policy Recommendations from the NFEC Related to EITC Policy

NFEC takes a leading role in recommending and promoting new policy ideas, supporting effective policies and potentially effective proposed policies, and suggesting policy amendments at the federal, state, and tribal levels. The Coalition organized two annual policy briefings in Washington, D.C., in 2005 and 2006, during Financial Literacy Month (April). The following recommendations on EITC policy were made at the April 2006 policy briefing hosted by the NFEC on Capitol Hill:

• Give funding priority to support Native EITC awareness campaigns and free tax preparation programs such as Volunteer Income Tax Assistance (VITA), low-income tax clinics, and tax counseling for the elderly.
• Enact legislation to provide consumer protections against the practice of issuing high-cost refund anticipation loans.
• Further, and more specifically, Congress should:
  - Enact the Taxpayer Protection and Assistance Act (S. 832)
  - Urge the federal administration to allow for “split-refunds”
  - Support legislation that curbs predatory tax preparation practices
  - Increase support for the EITC and free tax preparation programs

Background Information

Efforts to better fund advocates with the best interests of taxpayers in mind must be supported as important steps for more equitable receipt of the EITC. Two examples are Senator Durbin’s “Dear Colleague” letter supporting the appropriation of $10 million to assist Low Income Tax Clinics in providing services to working families, and S. 832, sponsored by Senators Bingaman, Smith, Baucus, Grassley, Akaka, Schumer, and Pryor.

A proposal has been made to allow EITC recipients to split tax refund deposits into two accounts. This allows people to deposit their tax return into up to two financial transaction accounts, including IRAs, 529 college savings plans, and other products. This change would allow tax filers to put part of their tax return toward immediate needs and save some for longer-term goals. We urge the administration to support this change as one of many tools to promote saving among low-income working families.