Income to Assets
Tax Preparation and Assets Formation in Vermont

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INTRODUCTION

The *Income to Assets* grant serves to increase the capacity of Volunteer Income Tax Assistance (VITA) sites and related services, which is a statewide program of the Vermont Community Action Agencies (CAA). This grant is managed by Central Vermont Community Action Council (CVCAC) with funding from the Office of Community Services, Department of Health and Human Services. *Income to Assets* serves the multifold purpose of promoting and expanding the use of the Earned Income Tax Credit (EITC), financial literacy programming, asset development and free tax preparation assistance for low-income Vermonters that is carried out by the CAA network in Vermont. Through this project, CVCAC worked with its sister CAAs and other partners to conduct the following three activities:

1. Replication and establishment of additional VITA sites, combined with drop-off filing services, to other regions of the state that are underserved by this program by collaborating with sister CAAs, the Internal Revenue Service, and the Vermont Department of Taxes.
2. Exploration of strategies to encourage families to deposit a portion of their refunds and/or credits in an asset building account, such as their Individual Development Account (IDA).
3. Evaluation of the Income to Assets grant to determine the impact of VITA services on clients' use of their refunds and credits; how Vermonters overall prepare their taxes and use their refunds and credits; and best practices for improving VITA services and increasing low-income Vermonters' utilization of these services as well as savings strategies through programs like the IDA.

Data collected by CVCAC during the 2008/2009 tax season demonstrates the impact of VITA services in the central Vermont area. CVCAC assisted 725 households in recovering a total of $1,124,363 which included $405,364 in Earned Income Credits and $191,069 in other credits. They also saved these families an additional $126,825 in tax preparation fees.

The Center for Rural Studies (CRS) at the University of Vermont is the third party evaluator for the Income to Assets grant. This project funding period is from October 2007 through 2010 and consistent data has been collected by CRS in the first and second fiscal years of this grant. This evaluation report informs the goals of the grant through data collected during the 2006/07 (from a previous Income to Assets grant), 2007/08, and 2008/09 tax seasons: 1) Vermonter Poll 2009 statewide data collected on tax preparation practices and asset formation, 2) a survey of VITA clients on their tax practices and use of refunds from 2007-2009, and 3) a focus group with staff to discuss strengths and challenges of the 2008 tax year.

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METHODOLOGY

Vermonter Poll 2009

The Vermonter Poll is an annual public opinion survey of Vermont residents who are 18 years of age and older, conducted by the Center for Rural Studies (CRS) at the University of Vermont, to gauge Vermonters' opinions on current issues of interest to non-profit agencies, government officials, and researchers. Questions on Vermonters' tax preparation and filing practices, awareness, and use of refunds and credits, and employment status that were asked in 2008 were repeated during the 2009 Vermonter Poll. More specifically, the Vermont CAA's were interested in learning if respondents used free tax preparation services, which their offices offer statewide, and if not, why not. Questions were also asked to gather data on other sources of tax preparation services, approximate cost of these services, receipt of the Earned Income Tax Credit (EITC), amount and use of refund, including spending and saving patterns and types of income earned.

The Vermonter Poll is a statistically representative, statewide telephone poll conducted annually by CRS. Responses are limited to Vermont households with telephones and do not include cell phones[1]. Households were selected randomly using a list of telephone numbers generated from Vermont telephone directories. The 2009 Vermonter Poll was conducted between the hours of 4:00 p.m. and 9:00 p.m. from February 18, 2009 through February 27, 2009. The survey was conducted from the University of Vermont using computer-aided telephone interviewing (CATI). There were 615 respondents to the 2009 Vermonter Poll. The results based on a group of this size have a margin of error of plus or minus 4 percent at a confidence interval of 95 percent. For the purposes of this report, 26% (154) of Vermonters reported being self-employed, either by having filed a Schedule C for self-employment income, a 1099 for subcontractor income, or both for their 2008 tax return[2]. This sub-group is the focus of this analysis. Data analyses were carried out using the Statistical Package for the Social Sciences (SPSS) 15.0. Bi-variate analyses, including T, F, and Chi Square (x^2) tests, were also conducted to further understand relationships between two variables. P values less than or equal to .10 were deemed significant.

Volunteer Income Tax Initiative Client Survey

Clients who utilized the Volunteer Income Tax Preparation Program (VITA) at the statewide Community Action Agencies (CAA) through the months of January –April 2007, 2008, and 2009 were asked to complete a survey on former tax preparation practices, receipt of tax credits, use of refunds, savings practices, debt, and asset formation. Over time, a total of 1,139 clients completed this survey from the five CAAs. Figure 1 shows the breakdown of respondents by CAA office over time. For various administrative reasons and agency involvement in the grant, data collection was less consistent over time than desired. However, analysis of cumulative data collected over time and cross tabulation of

[1] According to the most recent estimates, 5.1 percent of Vermont households have at least one wireless cellular phone, but no landline telephone. As a state, Vermont has the lowest level of "wireless-only" households in the country. Blumberg et al. (2009). Wireless Substitution: State-level Estimates from the National Health Interview Survey, January – December 2007. National Health Statistics Report, 14.

[2] 22% of Vermonters being self-employed corresponds with national statistics on Vermont's self-employment rate determined by Kelly, K., & Kawakami, R. (2007). *Microenterprise employment state level analysis: 2000-2005*. [Data file]. Arlington, Virginia: Association for Enterprise Opportunity.

variables by year is the focus of this evaluation and not comparing data by each CAA. Over the three years, the majority of surveys (36%, 406) were completed by clients at Central Vermont Community Action Council (CVCAC); 22% (245) came from Bennington, Rutland Opportunity Council (BROC); 21% (235) came from Southeastern Vermont Community Action (SEVCA); 16% (181) came from Northeast Kingdom Community Action (NEKCA); and 6% (69) came from Champlain Valley Office of Economic Opportunity (CVOEO).

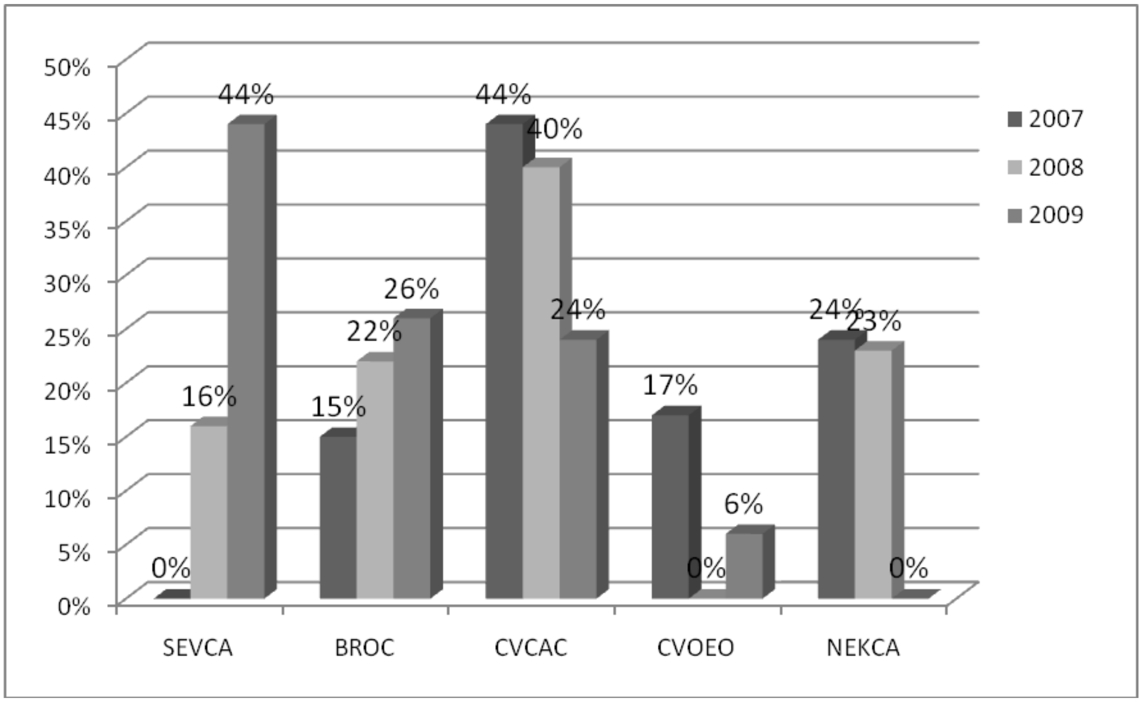


Figure 1 Location of survey respondents

Staff Focus Group

In June 2008, the evaluators held a focus group with staff and project partners who played various roles for the VITA project. A total of ten people attended this meeting, representing the Childcare Food Program, the Directors of Community Economic Development and Family and Community Support Services programs at Central Vermont Community Action Council (CVCAC), the grant coordinator, CVCAC Business Counselors, the Individual Development Account (IDA) coordinator, VITA site director, staff and volunteers. Due to availability of funds, this focus group was not repeated in 2008 and may possibly be repeated in 2009. However the findings are included in this report to inform the overall project.

FINDINGS

Vermonter Poll 2008-09

Respondent demographic profile, 2009 only

The following summarizes the demographic profile of 2009 Vermonter Poll respondents only (N=615), however this profile is consistent with respondents from 2008. Gender of respondents was fairly evenly split, with 51% (312) of respondents being female and 49% (303) male. The age of respondents ranged from 20 to 93 years with an average and median age of 56 years. Respondents have between one and nine members in their household, with a median of two members. Twenty-nine percent (175) of respondents have between one and seven children (<18 years) living in their household with a median of two children and mode of one child. Respondents have lived in Vermont for an average of 35 years, median of 33 and mode of 30 years, with responses ranging from less than one year to 93 years residing in Vermont. The majority surveyed (78%, 467) had completed some college education or a higher degree and 22% (135) completed up to a high school diploma. Sixty percent (306) of those surveyed reported earning a household income that is at or above the median income in Vermont ($50,000 or more), while 40% (207) earned less than the median income. Based on service areas of the five CAAs, Figure 2 shows that 35% (197) of respondents live in the Champlain Valley area served by CVOEO, 20% (117) live in Central Vermont served by CVCAC, 19% (109) live in southwest Vermont served by BROC, 16% (92) live in the Southeastern part of Vermont served by SEVCA, and 12% (73) live in the northeast served by NEKCA.

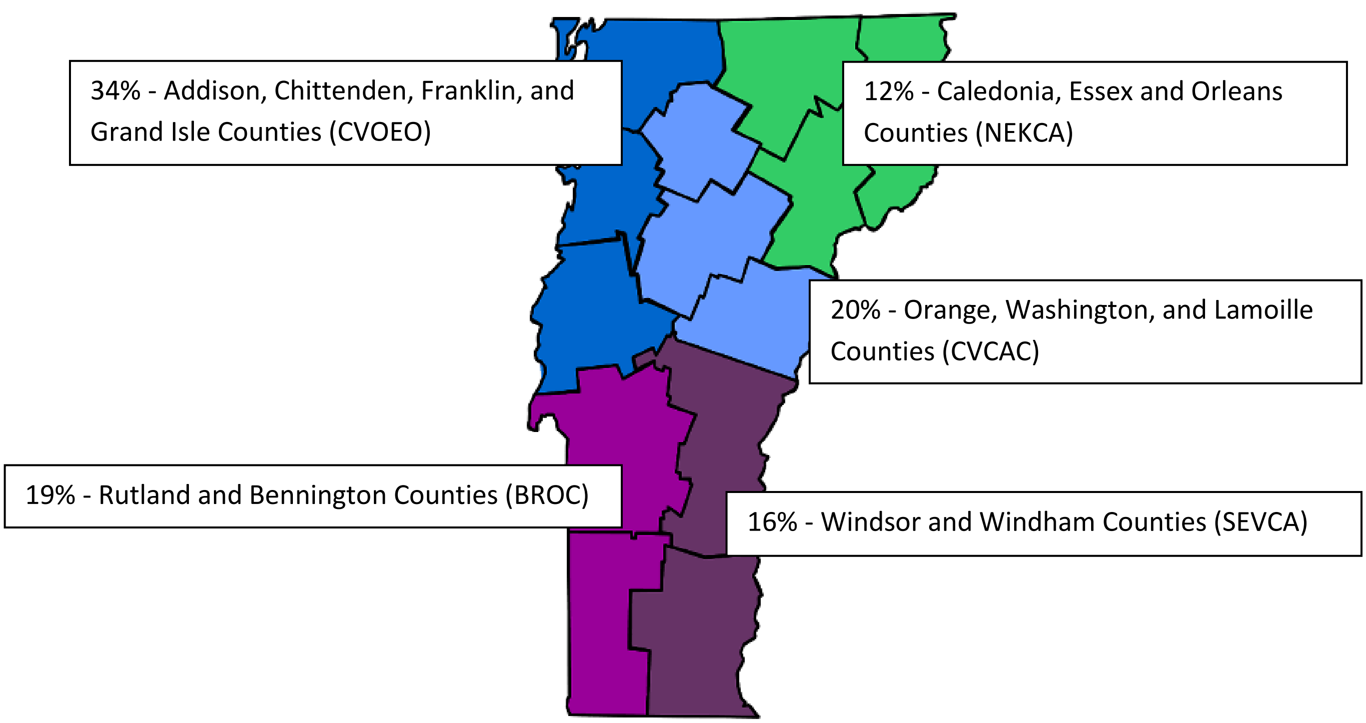


Figure 2 Geographic location of respondents by Community Action Agency service area

Types of earned income

Table 1 shows the different types of income that respondents self-reported having earned in 2007 and 2008 based on forms they filed for their tax returns, selecting all that applied to them. The proportion of income earned over the past two years is fairly consistent, with the majority of Vermonters, 60% in 2008, earning wages or a salary from an employer. Including those who filed forms Schedule C, 1099, and 1040, 26% (154) of Vermonters in 2008 were self-employed, either in addition to earning other forms of income or not.

Table 1 Types of income earned in 2007 and 2008

Income	2007 Taxes	2008 Taxes
Wages, W-2	66%	60%
Self-employed, Schedule C	20%	19%
Dividend/Interest income, unearned income	16%	14%
Subcontracted work, 1099	5%	9%
Farm income, 1040	2%	3%
Total N	591	600

Use of free tax preparation services

A total of 9% (52) (8% in 2007 and 10% in 2006) of Vermonters surveyed reported that they used a free tax preparation service to file their 2008 taxes. Several respondents from both years specified using a free service provided by AARP, a senior center, or a military service. Data collected from the past three years shows fairly consistent results that a low proportion of Vermonters utilize free tax preparation services. The majority of respondents (77%) who used a free tax preparation service did not use an additional service to prepare their taxes. Of these respondents, 14% (7) allowed the free service to completely prepare their taxes, 48% (25) used their own skills or a software program, and 15% (8) had a family member or friend assist them. However, 23% of people who used a free service also used a paid service, including an accountant (17%) or a national tax preparation service (6%).

Reasons why respondents do not use free tax services

In 2008, 44% of Vermonters surveyed cited preferring to work with a professional tax preparer as a reason for not using a free tax service (Table 2). However, in 2009 only 14% indicated this reason while 23% of respondents said they preferred to self-prepare their taxes. Aside from these two main reasons, Table 2 shows that other reasons for not using a free tax service revolve around misconceptions of a free tax service, including competency, loyalty and trust issues, and not being aware of where free services are offered and if they are eligible or not. A few open response comments indicated that some people felt free services were not legitimate because the services “are not by the IRS” or “are not liable for mistakes.”

Table 2 Reasons why Vermonters polled do not use a free tax preparation service

Reason	2008 Poll	2009 Poll
Self-prepare my taxes	17%	23%
Prefer to work with a professional tax preparer	44%	14%
Loyalty to current tax preparer	5%	13%
Feel taxes are too complicated	6%	11%
Not aware of free tax preparation services available	19%	10%
Prefer to pay for tax preparation	9%	10%
Family member or friend prepares my taxes	10%	8%
Not eligible	3%	7%
Do not trust a free tax service	2%	7%
Feel taxes are too simple	2%	3%
Free services do not offer a rapid refund loan	1%	0
N	542	527

Tax preparation services used and cost of service

Table 3 displays the tax preparation services/resources that respondents from 2008 and 2009 used. A consistent finding is that almost half of respondents who did not use a free tax preparation service used a paid accountant. However, in 2009 a greater percentage reported self-preparing their taxes or utilizing the help of family and friends while the percentage using a national chain service markedly decreased.

Table 3 Source of tax preparation service of Vermonters polled

Reason	2008 Poll	2009 Poll
A paid accountant	46%	45%
Self (including use of software)	25%	32%
Friend or family member	12%	15%
National tax preparation service	17%	7%
N	537	525

Also consistent over time was that self-employed respondents were significantly more likely to use a paid accountant (55%, 84) compared to 39% (159) of those who earned other income (x^2=14.20, p=.00). Possibly related to this finding is that self-employed persons are significantly more likely to feel their taxes are too complicated for a free service (23%, 33) compared to the larger respondent pool (8%, 29) (x^2=23.62, p=.00). Interestingly, the use of a family member or friend to help prepare one's taxes is a more popular choice in 2008 compared to using a national chain service. Of respondents who did use a free service in 2008 (n=9), four also worked with a paid accountant, three self-prepared their taxes, and two used the assistance of a family member or friend.

All respondents were asked to report the approximate amount that they paid for their tax preparation. Including those who spent $0 on their taxes, in 2007 respondents paid between $0 and $2,000 on their taxes with an average of $152, median of $100, and mode of $0 spent. In 2008, the range of dollars spent on tax preparation was greater as respondents paid between $0 and 6,000 on their taxes, which reflects a higher average cost of $202. However, the median amount spent in 2008 ($53) was lower than the previous year, which suggests that even though there is a wider variance the majority of people paid less money overall for their 2008 tax filing. The most commonly given answer was that respondents did not spend any money or $0 on their 2008 taxes, which is consistent with 2007. Of those who spent any dollar amount, in 2007 the range reported was from $12 to $2,000 with an average of $222, median of $150 and mode of $200. In 2008, the range was from $9 to $6,000 with an average of $302, median of $150 and mode of $200.

Figure 3 displays a plot of the average dollar amount spent on tax preparation in 2008 compared by the four major preparation type groups (not including those who used only a free tax service). For analytical purposes, those who self-prepared or worked with a family member/friend were combined into one group and compared against the two other groups of using a paid accountant or a national chain service. A significant difference found between the average amount paid by the self/family/friend group (average of $77 when combined) and the average amounts paid by those who used an accountant ($p \leq .01$) or a national chain service ($p \leq .10$). These results are consistent with significance observed from 2007 data.

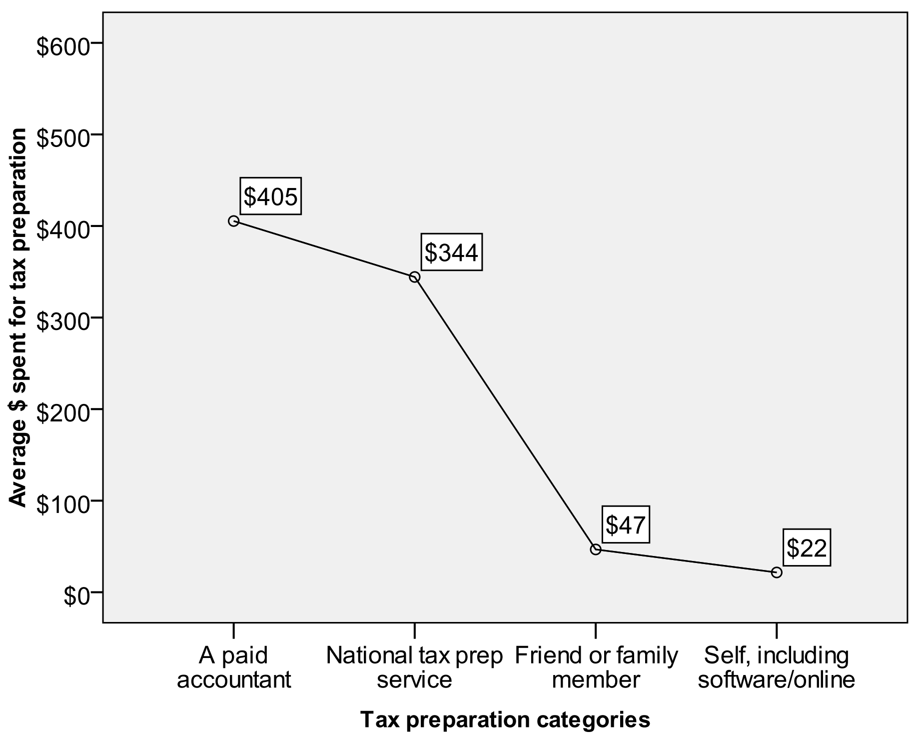


Figure 3 Plot of average dollars ($) spent on tax preparation by four categories

Tax filing and use of credits and refunds

As of the time of the survey in February 2009, 29% (153) of respondents had already filed their taxes while 72% (383) had not yet filed their taxes, which is somewhat expected as taxes are due to be filed by mid April for most Americans. Table 4 breaks down that 61% of survey participants either had already received or expected to receive a refund on their 2008 taxes due to overpayment on taxes throughout the year or eligible credits. On the other hand, 40% did not or were not expecting to receive a refund. More than half (55%, 285) of Vermonters filed their taxes electronically and 45% (232) filed paper documents by mail. Additionally, 62% (65) received their refund in the form of a direct deposit into their bank account and 38% (40) received a check in the mail.

Table 4 Status of tax filing and refunds

Status	% (n)
Filed, refund	21% (112)
Not filed, expect refund	40% (212)
Filed, no refund received	8% (41)
Not filed, do not expect refund	32% (171)

Awareness and receipt of the Earned Income Tax Credit

A majority of respondents (85%, 501) reported being aware of the Earned Income Tax Credit (EITC) while 15% were not aware of this credit. Sixty one percent (357) said they were not eligible to receive this credit, 13% (76) were eligible and 26% (151) were not sure if they were eligible or not. Of the 76 Vermonters polled who said they were eligible to receive the EITC, 65% (49) had already or would be receiving this credit for the 2008 tax year, 11% (8) said they did or would not be receiving this credit, 9% (7) did not know, and 16% (12) had not yet filed their taxes. Reasons given for why eligible respondents did not receive the EITC were: one person did not apply, a family's child had moved out of the house, two were not sure why they didn't receive it and one person noted that they could no longer receive credit for energy saving household items in 2008.

Refund amounts

The dollar amount of refunds received ranged from $70 to $8,800 with an average refund of $2,375 ($1,180 in 2008), median of $1,700 ($750 in 2008), and mode of $2,000 ($500 and $600 in 2008). Refunds received in 2009 for the 2008 tax year appear to be higher than those received in 2008 for the 2007 tax year, possibly to additional tax credits offered in 2008 to help stimulate the U.S. economy. Figure 4 displays a histogram of refund amount data from the 2007 tax year, demonstrating that the majority received $1,000 or less, several received up to $4,500 and a few received up to $7,000. While Figure 5 shows that the majority of 2008 refunds were $3,000 or less, several received up to $7,000 and a few received between $8,000 and $8,800. When comparing refund amount received by source of tax preparation, no significant differences were observed (Table 5).

Table 5 Average and range of refund amounts received compared by source of preparation

Source of tax preparation	Average refund received	Range of refund
Self/family/friend	$2,386	$75-$8,800
Paid accountant	$2,097	$70-$5,100
National chain service	$3,222	$2000-$7,000

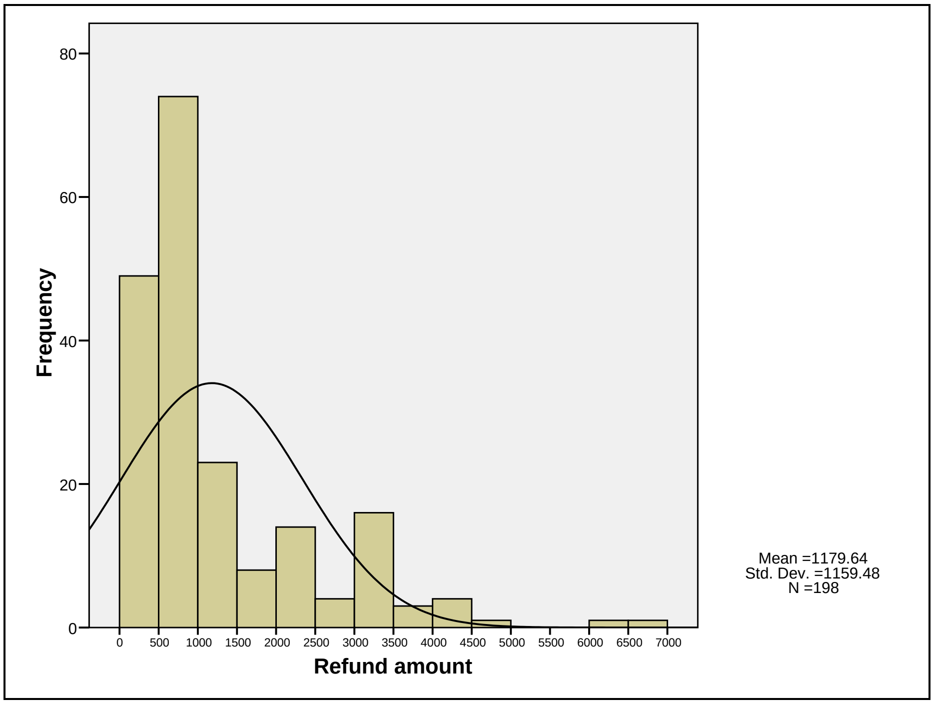


Figure 4 Dispersion of reported refund amounts for 2007 tax year

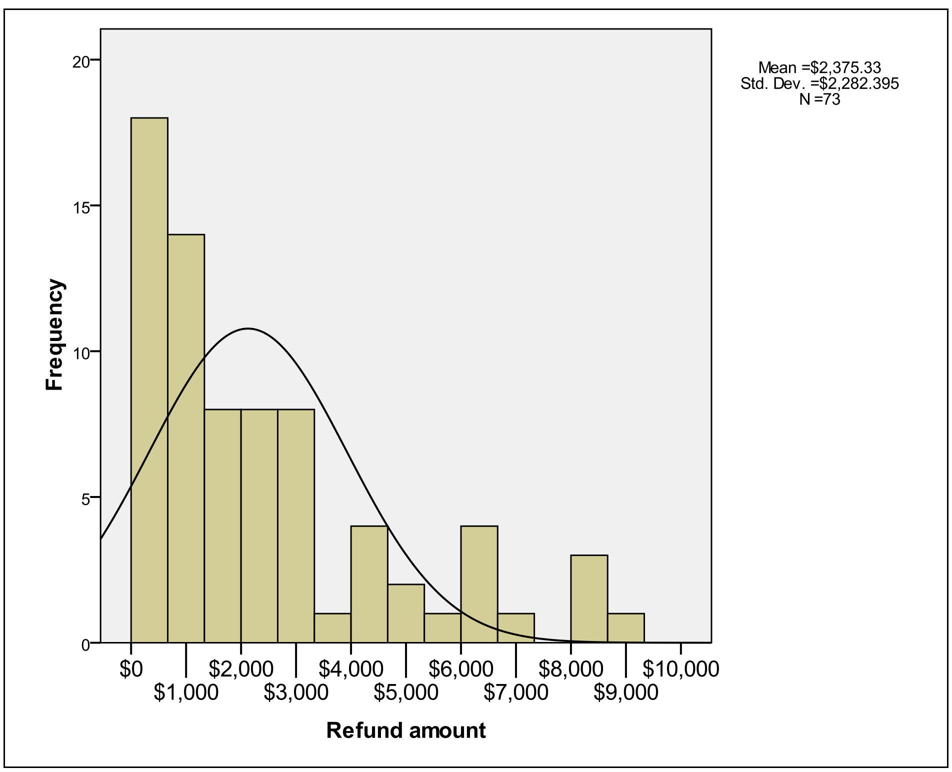


Figure 5 Dispersion of reported refund amounts for 2008 tax year

Spending and saving patterns with tax refund

Respondents who were going to receive or had received a refund were asked to indicate either the amount or percentage of their refund they planned to spend or had already spent in some fashion. Using these figures, the amount and percentage saved were also calculated. The average amount spent from respondents' tax refund was $1,312 ($429 in 2008), with a median of $550 ($0 in 2008) and mode of $0 ($0 in 2008), and a range of $0 to $8,000 ($0 to $7,000 in 2008). The amount saved from tax refunds ranged from $0 to $6,200 ($0 to $4,000 in 2008) with an average of $1,045 ($764 in 2008), median of $330 ($500 in 2008) and mode of $0 ($0 in 2008). Results suggest that Vermonters are spending and saving a higher dollar value of their refund this year compared to last year, reflecting the increase in overall amounts of refunds received.

Examining the percentage of the refund that was spent and saved, respondents *spent* between 0% and 100% of their refund (0% to 100% in 2008), with an average expenditure of 48% (43% in 2008), median of 50% (29% in 2008), and mode of 0% (0% in 2008) of the refund spent. Respondents also *saved* between 0% and 100% of their refund (0% to 100% in 2008). Respondents saved an average of 52% (57% in 2008) of their refund, median of 50% (71% in 2008), and mode of 100% (100% in 2008) of their tax refund. Comparing dollar values to proportions of refunds spent and saved, Vermonters are spending a higher average dollar value ($1,312) yet lower average proportion (48%) of their refund. Likewise, Vermonters are saving a higher average proportion of their refund (52%) yet a lower average dollar value ($1,045). Overall, more respondents saved part of all of their refund, 33% (45% in 2008), than those who spent part or all of their refund, 29% (31% in 2008). More than half, 58% of Vermonters polled in 2009 had planned to or already saved half or more of their tax refund or credits, which is a slight increase from 54% of respondents surveyed in 2008. Additionally, 65% of respondents saved 21% to 100% of their refund in 2009 compared to 49% in 2008.

Saving patterns

Results suggest that more Vermonters are able or choosing to save a higher proportion of their tax refund this year compared to a year ago; however saving patterns appear to have shifted towards future oriented and asset building savings. Table 6 shows that in 2009, 12% of Vermonters polled had already or planned to put their tax refund towards their retirement account or an IRA, compared to 5% surveyed in 2008. Likewise, 8% planned on or had already invested their refund into various asset building measures such as bonds, certificate of deposits, mutual funds, real estate, and the stock market, compared to just 3% who reported using these saving options in 2008. Though a slight decrease was observed over the two years, the majority of respondents who save half or more of their refunds are still saving this money in a savings, checking or money market account, as reported by 87% of those polled in 2008 and 71% in 2009.

Table 6 How respondents saved their tax refund over time

	2008 Poll	2009 Poll
Savings/checking/money market	87%	71%
Retirement account	5%	12%
Stocks, bonds, CODs, real estate	3%	8%
Individual Development Account	1%	3%
N	278	241

What impacts a household's tendency to save the majority of their tax refund? According to the poll, urbanites are significantly more likely to save as 74% of urban households saved half or more of their tax refund compared to a just over half of their rural (56%) and suburban (53%) counterparts (p≤.10). In addition, people who have lived in Vermont for more years, an average of 34 years, are more likely to save half or more of their refund compared to those who have lived in Vermonter for less time or an average of 29 years (p≤.01). However, the presence of children at home or not, number of children, respondents' age, gender and education levels achieved were not found to influence savings of tax refunds.

Not surprisingly, income plays a roll with 46% of households living approximately at or below 250% of the federal poverty level (FPL) (approximated based on income and family size) – or low to moderate income Vermonters - saved half or more of their refund compared to 65% of households living above this threshold (p≤.01). Examining savings by households that earn at or more than Vermont's median income or not (approximately $52,000) shows a similar pattern. Two out of three respondents from households that earn at or more than the median income (64%) are significantly more likely to have saved half or more of their tax refund compared to 48% of households earning less than Vermont's median income (p≤.05). Income appears to impact whether or not households save half or more of their tax refund, regardless if families are in poverty, low or moderate income.

However, when looking at how income levels impact a household's ability to save 21% to 100% of their tax refund, there is a gap seen only among poverty and lower-income Vermonters. Households living at or below 250% of the FPL are significantly more likely to save 0% to 20% of their refund (42%) compared to households earning more income (30%) (p≤.05). However, regardless of earning at or above median income or not, almost two thirds of each group reported saving 21% to 100% of their tax refund. These results show that lower-income households in Vermont are saving less of their tax refunds, which suggests a limited economic mobility among this income group because they are less willing to postpone current consumption needs (discretionary or not) over improving their long-run economic well-being through savings. Tax refunds are often viewed as an injection of additional income to one's household and can be an important part of a household's savings and asset-building strategy. These findings suggest that lower-income Vermonters who received a tax refund are not utilizing this savings strategy.

Spending patterns

Respondents were also asked in what ways they spent their refund. Table 7 shows that in 2009 the top three responses included paying household bills such as rent, utilities and taxes (31%; 43% in 2008), paying off debt such as a credit card, loan mortgage or car payment (28%; 38% in 2008), and purchasing luxury, nonessential items (17%; 11% in 2008). The top two categories were consistent over the past two years; however the third category shifted to purchasing nonessential items in 2009 from purchasing necessary items such as food, clothing and medical bills (21%) in 2008. Whereas in 2009 only 14% of respondents reported spending their tax refund on these types of necessary items.

Table 7 How respondents spent their tax refund over time

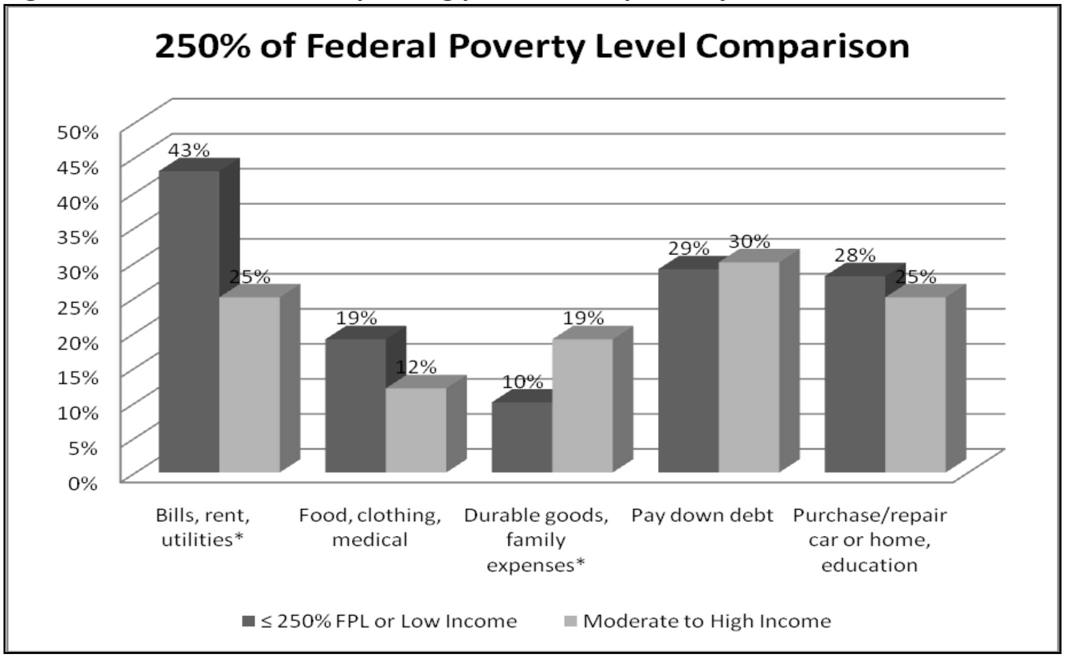
	2008 Poll	2009 Poll
Pay household bills	43%	31%
Pay off debt	38%	28%
Luxury, non-essential items	11%	17%
Home purchase/down payment/repair	10%	15%
Necessary items	21%	14%
Education	5%	6%
Purchase/repair an automobile	6%	4%
N	290	255

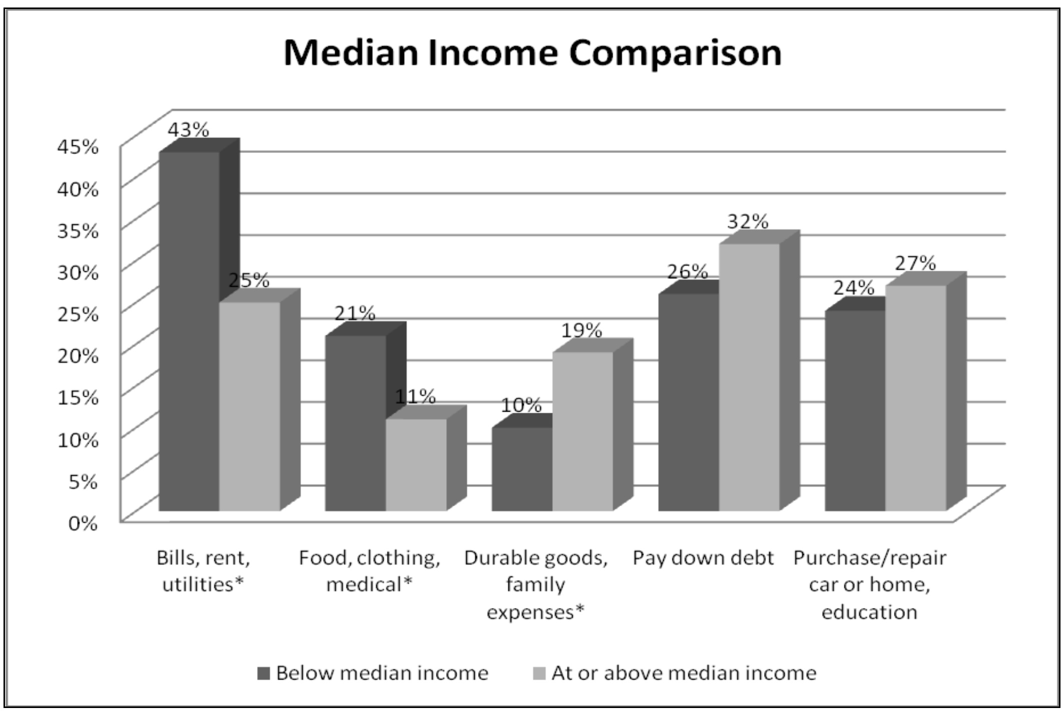
Looking at the other side of economic mobility, how do income levels impact household spending of tax refund dollars towards consumption based, which can lead to a lower economic mobility, and/or investment based spending, which build assets and human capital? Respondents were asked to indicate in what ways they spent or planned to spend their tax refund. Expenditures including paying bills, rent, utilities, food, clothing, medical needs, and durable goods or personal/family expenses were considered *"consumption based"* expenses that focus on current or urgent needs to make ends meet and not improving household economic mobility. Expenditures of paying down debt, purchasing or repairing a vehicle and/or home, and paying for education were considered *"investment based"* expenses that improve one's long term economic well-being by building assets. Using these definitions, when including spending patterns in the economic mobility equation, both lower-income Vermonters and those earning at or below the median income show similar spending patterns leaning towards consumption based rather than investment based spending.

Figures 6a and 6b show that both lower-income (a) and moderate-income (b) Vermonters are more likely than their wealthier counterparts to use their tax refund money on bills, rent, utilities, food, clothing, and medical needs (significance ranging from .01 to .10 is indicated by the asterisks (*) next to each category). However, when it comes to buying durable goods or family expenses, which some Vermonters specified as a vacation or ski passes (discretionary items), higher income Vermonters are significantly more likely to purchase these items compared to lower income Vermonters. When it comes to consumption based spending to make ends meet, low to moderate income Vermonters are more likely to fall towards this spending pattern when they receive their tax refund.

However, Figures 6a and 6b also show that the spending gap based on income status lessons when it comes to investment based spending. Regardless of income status, between a quarter and a third of all Vermonters report using their tax refund to pay down debt such as a credit card, mortgage or other loans. Further, income status does not impact making expenditures such as purchasing/repairing a vehicle and/or home or paying for education. Vermonter Poll 2009 findings on tax refund saving and spending patterns to improve household economic mobility show that a gap exists with economically disadvantaged households lagging behind households with higher incomes and potentially more assets built. Lower income households seem to have less economic mobility as they are more likely to have saved less or none of their tax refunds and spent this money to make ends meet. However, results surprisingly show that regardless of income status, a quarter of all Vermonters spent their tax refund in ways that build assets through debt reduction, credit building, home equity, transportation security, and advanced education. These findings suggest that higher income Vermonters are using their tax refund to build both long term savings and assets, while lower income Vermonters are using their refunds to make ends meet and make purchases that help build long term assets.

Figure 6a and 6b Tax return spending patterns compared by two lower-income thresholds





Types of income earned

The majority of VITA clients, 80% in 2007 and 84% in 2008, reported that they earned wages or a salary and received a W2 statement for the tax year, as shown in Table 8. Roughly a quarter each year received a 1099 or they provided subcontractor work. A small proportion of clients earned income from self-employment as they filed a Schedule C or C-EZ form for that tax year. Clients also received income from federal sources including social security, SSDI and Temporary Assistance for Needy Families or TANF. Note that data on types of income earned from the 2006 tax season is not presented because this data was not collected on that version of the survey. This survey instrument has since been corrected to collect this data.

Table 8 Types of income earned by VITA clients

Income types	2007 Taxes	2008 Taxes
Wages, W-2	80% (304)	84%(245)
1099	27% (101)	25% (73)
Self-employed, Schedule C	6% (23)	4% (12)
Social Security	3% (11)	2% (4)
SSDI	.5% (2)	1% (2)
TANF	.3% (1)	0
N	381	292

Previous tax preparation services used and referrals to VITA sites

Table 9 shows the percentage of respondents that used various resources for their tax preparation in the year prior to the survey year. In comparing data from 2007 to 2009, the results show consistency. Between 37% and 48% of respondents used VITA services in the previous tax year or were repeat clients. Other main resources used were having a family or friend prepare them, paying a service, or self-preparing their taxes.

Table 9 Resource for tax preparation in previous year

Source	2007 Survey	2008 Survey	2009 Survey
VITA site	46%	37%	48%
Family or friend prepared	10%	11%	10%
Paid service, no instant refund	8%	9%	9%
Self-prepared	7%	8%	9%
Paid service, received an instant refund	6%	5%	7%
Another free place	4%	7%	6%
Did not file taxes in previous year	8%	15%	5%
Never filed taxes previously	2%	2%	1%
Other, not specified	10%	6%	5%
N	274	495	352

Table 10 shows that referral sources for clients to use VITA sites have also been fairly consistent over the past three years. Between 36% and 47% of clients over time were repeat clients from a prior year. Word of mouth referrals from family members and friends shows a decrease over time, with an increase observed in referrals from a posted or printed advertisement or another referral source that was not specified. A small proportion of clients served over time were drop-in clients and the IRS referred a few clients.

Table 10 Referral source to VITA site

	2007 Survey	2008 Survey	2009 Survey
Repeat visit	41%	36%	47%
Family or friend referred	40%	31%	23%
Other referral, not specified	9%	15%	14%
Flyer, newspaper or other advertisement	8%	14%	15%
Drop-in	2%	3%	2%
The IRS	.4%	2%	.3%
N	264	476	334

Aggregating data from the three years, 46% (520) of VITA clients have been repeat clients to this free tax preparation service. Table 11 shows the proportion of repeat VITA clients over the course of the three years, based only on survey respondents. CVCAC had the highest proportion of repeat clients over time with 41% of respondents. It should be noted that some VITA locations have not consistently collected survey data from clients, which impacts these figures.

Table 11 Percentage of repeat clients compared by VITA location, all survey respondents over time

	NEKCA	CVCAC	BROC	SEVCA	CVOEO	N
Repeat clients	19% (100)	41% (213)	19% (101)	13% (66)	8% (40)	520

Receipt and use of tax credits and refunds

VITA clients who responded to the survey were asked about their eligibility for the Earned Income Tax Credit (EITC) and if they received this credit or not. Over the past three years, Table 12 shows that the percentage of eligible clients has somewhat varied, with 51% in 2007, 38% in 2008 and 48% in 2009. In total, over the past three years 44% (422) of all clients surveyed reported being eligible to receive this credit on their taxes. Table 12 also shows that receipt of this credit over time shows that a fair proportion of clients, with a range of 14% to 23%, did not receive this credit even though they self-reported eligibility. This finding points to a possible source income for eligible clients because of this unclaimed tax credit. In 2009, 39% (112) said they received the EITC in the previous tax year, which is similar to 38% (99) in 2007 and 30% (124) in 2008. In addition to the EITC, 21% (55) reported receiving the child tax credit in 2009, compared to 30% (71) in 2007 and 15% (55) in 2008.

Table 12 Eligibility for EITC and receipt or not

	2007 Survey	2008 Survey	2009 Survey
Eligible for EITC?	**51% (128)**	**38% (157)**	**48% (137)**
Yes, received	87% (109)	82% (127)	77% (102)
No, did not receive	14% (17)	18% (28)	23% (30)

Table 13 shows client's self-reported use of their tax refunds and credits received from the previous year broken down by consumption and investment based uses. Respondents were asked to select all the options that applied to them and the data are organized in descending order by the percentages observed in 2009. Results show consistent choices in spending and saving of tax refunds over time. Overall, VITA clients seem to be more apt to spend their tax refund on consumption based over investment based. Two shifts were noted in the data. An increase was observed over time in the percentage of respondents who used their tax refunds to pay bills or purchase necessary items and pay off debt/save money. Likewise, the percentage of respondents who spent their tax refunds on nonessential items decreased over time.

Table 13 Use of tax refunds and credits received from previous year

	2007 Survey	2008 Survey	2009 Survey
Consumption based uses			
Paying bills or necessary items	45% (128)	50% (246)	63% (223)
Prepaid items, rent or taxes	4% (10)	7% (35)	6% (20)
Paid property taxes	4% (12)	7% (36)	6% (22)
Spent on nonessential item/durable goods	12% (34)	6% (31)	3% (9)
Donated to charity	1% (2)	2% (9)	.3% (1)
Investment based uses			
Paid off debt	16% (46)	20% (99)	28% (98)
IDA/savings	7% (20)	7% (32)	10% (34)
Invested in business	1% (2)	.4% (2)	1% (2)
Did not receive refund	*15% (43)*	*18% (88)*	*9% (31)*

Similar to self-reported use of tax refunds and credits, Table 14 shows fairly consistent anticipated use of tax refunds and credits over the past three years, with a focus on making consumption based expenses. It is notable that the percentage of respondents who spent this money on nonessential items decreased from 19% in 2007 to 3% in 2009, indicating that people were less likely to plan on spending this money for discretionary purchases.

Table 14 Anticipated uses of tax refunds and credits

	2007 Survey	2008 Survey	2009 Survey
Consumption based uses			
Paying bills or necessary items	62% (177)	60% (296)	64% (227)
Prepaid items, rent or taxes	7% (19)	10% (49)	10% (34)
Paid property taxes	6% (16)	9% (44)	7% (24)
Spent on nonessential items/durable goods	19% (55)	8% (41)	3% (11)
Donated to charity	1% (3)	2% (11)	0
Investment based uses			
Paid off debt	29% (82)	28% (136)	36% (129)
IDA/savings	16% (45)	13% (62)	16% (57)
Invested in business	2% (5)	1% (3)	2% (6)
Did not receive refund	*7% (20)*	*6% (31)*	*3% (9)*

Savings and IDA

Of all clients surveyed over time, an aggregate 80% (823) of respondents reported having a savings account, checking account, or both. Figure 6 depicts the specific responses provided by respondents when queried about their banking habits, over time. In 2009, 40% (138) reported having both a checking and savings account, 33% (113) have a checking and 9% (31) have a savings account. Ten percent (33) do not have nor want an account, while 6% (20) do not have but would like one. A few people 3% (11) felt they do not qualify for a bank account.

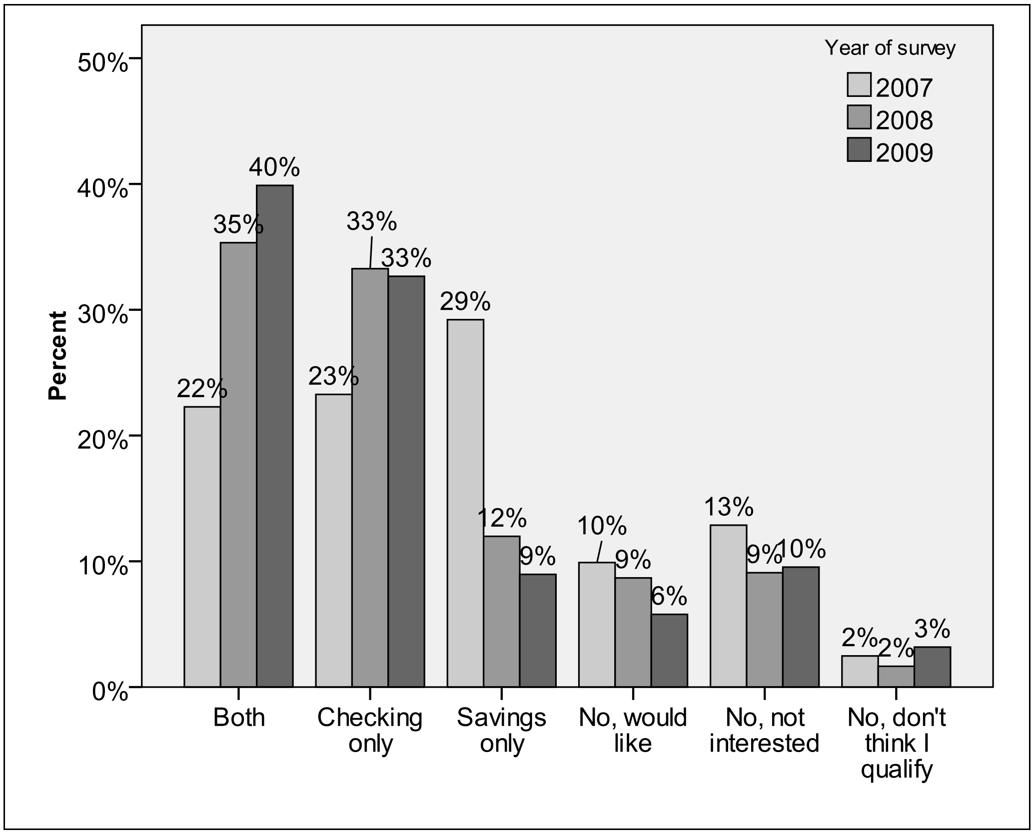


Figure 7 Status of banking accounts

Of those who save money, the main reasons cited by clients for saving were to purchase a house or vehicle, pay bills or property taxes, for education, a vacation, or for an emergency. Of those clients who are not saving money, the main reasons for not saving were that people are not making enough money, are living paycheck to paycheck, bills are too expensive, or they are in debt and cannot save money.

A small portion of all respondents over time (4%, 30) utilize an IDA account to earn matched savings to purchase a home or save money for a college education. However, 29% (169) of respondents were interested in learning more about an IDA account. Regarding retirement, 23% (185) of all respondents over time said they are saving money for retirement.

Debt
Regarding indebtedness, 46% (451) of respondents over time felt debt was a problem for their household, 41% (397) said this was not a problem, and 13% (130) were not sure if it was a problem. Table 11 shows the varying levels of self-reported indebtedness over time. In 2009, 30% of respondents reported being in debt for $1 to $3,000 and 37% are in debt for $6,001 or more.

Table 15 Level of Indebtedness over time

Level	2007 Survey	2008 Survey	2009 Survey
No debt	22%	26%	25%
$1-$1,000	29%	17%	15%
$1,001-$3,000	13%	16%	15%
$3,001-$6,000	13%	14%	9%
$6,001-$10,000	7%	9%	13%
$10,000+	15%	20%	24%
N	150	446	320

Assets
Clients were asked whether or not they achieved several different areas in the past six months, including purchased a home, completed education, and started, operated, or expanded a business by adding employees or investing more money into the business. Few clients reported achieving these areas in the past six months. As shown in Table 12, 6% of clients completed higher education, 2% purchased a home, and 4% in total started, operated, or expanded a business.

Table 16 Assets realized in six months prior to survey

	2007 Survey	2008 Survey	2009 Survey
Completed higher education	3% (8)	6% (27)	4% (13)
Purchased a home	2% (5)	2% (12)	1% (2)
Started a business	0	1% (5)	1% (5)
Operated a business	2% (5)	2% (9)	2% (5)
Expanded a business	0	1% (3)	0

Common tax issues faced by the self-employed

Staff discussed various issues and barriers that clients face when in tax filing and in preparation for using VITA services. A main obstacle that most self-employed persons served face is not properly keeping track of their records and need financial management education. One person in the focus group said that sometimes people are marketing their services even thought they are not yet registered with the Vermont Secretary of State. They also have a lot of energy and enthusiasm for their business but are not well-informed when it comes to filing taxes for their business. Self-employed taxes can be complicated; especially if a business is paying employees or a person has multiple forms of income or businesses. In addition, clients often come to VITA services without being prepared with completed forms and proper records/documentation. A staff member explained “they come to VITA trying to deduct items that are not deductable, which could pose legal problems in the future.” Another issue client’s face is that they try to file their taxes too quickly, in efforts to get their refund quicker, without going through all the necessary steps; this often leads to the need for filing an amended return. VITA services work to overcome all of these issues, in addition to support from partner staff such as CVCAC business counselors.

Marketing and recruiting strategies

In discussing marketing strategies to recruit clients to take advantage of VITA services, staff explained that their efforts were informed by several market research studies that were conducted internally and externally to understand where business owners are currently getting their taxes prepared and how much they are paying for this service. This information helped staff to better understand their target market and why self-employed persons can be more likely to use a paid service, possibly because they perceive their taxes are too complicated for a free service[3].

In addition to this research, VITA staff and related personnel at CVCAC used several strategies this year to recruit persons to utilize their free tax preparation services. One main strategy was to have in-person discussions and direct recruitment with current CVCAC clients who own their own business, such as the Micro Business Development Program and the Childcare Food Program. In discussing tax preparation practices with clients, business counselors and direct service staff would ask clients how much they paid for their taxes to be filed last year and let them know that VITA services are free. They also offer to help micro business owners compile their records that they will need to file a Schedule C, which consequently encouraged several clients to enroll in the IDA program or other financial literacy/management or bookkeeping training offered by CVCAC. While discussing VITA services, counselors also informed clients about the importance of filing their taxes for their business, such as taking advantage of the tax deduction from their income if they had a net loss from their business and the receipt of a payment from the federal government’s economic stimulus plan. Business and VITA counselors both noted that the stimulus payment offered a great incentive for many people to file their taxes and find out more information on VITA and services offered.

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[3] Schmidt, MC. (2008). *Tax preparation practices and spending and saving patterns*. Vermonter Poll 2008. Center for Rural Studies, University of Vermont. Burlington, VT.

Another internal recruitment strategy was to provide other CVCAC outreach staff and direct service providers, not affiliated with VITA, with fliers and information packets on VITA services to reach their clients. Some of the internal services included the financial literacy course "Build Your Money Muscles" and the Head Start program. CVCAC counselors also held workshops specifically on taxes, which provided clients with assistance on establishing and maintaining a system to improve their tax record collection. By educating clients in this manner, and simultaneously informing them about VITA services, clients are prepared to work with a VITA tax preparer if they choose to do so. Another recruiting strategy was to mail information to all clients who completed their taxes with VITA in previous years. One staff person also noted that they sent out tax information and fliers earlier in the year, coordinated with when people receive their tax materials, so that business owners could complete their taxes with VITA as early as December. Several staff said that business owners like to complete their taxes earlier than March, thus this strategy of marketing earlier than the time frame from last year helped to increase the number of business owners who used VITA. Staff also commented that word of mouth is an important marketing strategy as micro business owners share information and resources with other business owners.

In addition to speaking directly with clients and recruiting clients internally, staff also mailed fliers to external agencies serving their target audience, including offices of the Department for Children and Families' Economic Services Division in three counties, for them to advertise VITA services to their clients. Information was also sent to staff at the state Community Economic Development office and the Vermont Women's Business Center. Multiple media sources were also used as outreach materials were printed in various agency newsletters and press releases were printed in local newspapers.

Client response to VITA sites

In the second year of this grant, staff who worked at VITA sites noted anecdotally that the number of people who came in for services had increased significantly since last year. One person said that they "had a steady flow of clients." Self-employed persons specifically utilized the drop off option where they could drop off their Schedule C and related documentation at their convenience and have the materials filed for them. However, some of the business counselors noted that when they informed clients about VITA services they inquired if they were eligible for such a program based on their income or if they had multiple businesses.

Strengths of VITA in 2008

This past grant cycle, VITA services operated similar to last year with in person and drop off tax assistance services provided to clients. Staff agreed that the drop off method to file a Schedule C is the option most self-employed persons take advantage of so they do not take time away from their business operations. In general, focus group attendees felt that this current year went smoother than last year, noting that the "team work was excellent." One person described the main strength of the second year as being the mix of "capacity, skills and expertise of all business counselors and tax preparers working in collaboration to serve clients." Another person commented that "everyone did what they were supposed to do" in explaining why coordination worked well this year. Staff also remarked that the focus group held last year for this grant helped foster communication and collaboration among staff and to talk about what worked and what could have been done better. In addition to the focus group, staff met regularly prior and during the tax season, with meetings facilitated by the grant coordinator, to collaborate and understand each person's defined roles and responsibilities.

Encouraging asset development
To encourage clients to save part or all of their refund, almost all who filed their taxes through the drop off method met with CVCAC's IDA counselor when they picked up their completed returns. The IDA specialist noted that often clients are not aware of the IDA program and do not think of it as something they should consider. Yet working with clients to maximize their tax refund and receive a stimulus check provided the perfect opportunity to educate them about the IDA program and how they could benefit through this program by saving some or all of their refund. The IDA specialist commented that they enrolled about five new clients into the IDA program through the VITA service.

Impact of services on clients
Staff discussed the various impacts they felt this grant and the free tax preparation services had on clients served. By offering a free tax preparation service, Vermonters can save an average of $326 that they might spend if they worked with a paid service[4]. Tax counselors also noted that if a self-employed person has their Schedule C filed with a national chain, it would cost a minimum of $250. In addition to diverting money spent on tax filing, tax preparation counselors estimated that their services helped to return almost a quarter of a million dollars to lower income people and business owners. In addition, tax filers received a portion of the federal economic stimulus package. Anecdotally, tax counselors said that VITA services took the "fear factor out of tax preparation for a lot of people as otherwise a client would not know what to do or feel overwhelmed." VITA services place the focus on serving self-employed persons to reduce their costs and maximize their refunds, in addition to promoting asset development through savings. A question arose among discussants as to whether or not services should focus on assisting clients in addition to educating them to be able to file their taxes with less or no assistance in the future. Business counselors noted that regardless of education, self-employed persons usually return to their counselor with questions and need for assistance surrounding their taxes. VITA services also work to curtail tax issues and fraud before they arise. One person noted that "being self-employed opens up a large room for error and issues if a person files taxes without support that looks after their interests." Without this grant support, CVCAC did not have the tax planning and assistance capacity that they have now, even though they have always worked with clients on record keeping. The tax and IDA service providers can now walk clients through this process.

Recommendations to improve services
Several recommendations were made for improving the VITA program.

- A standard should be set to clarify income qualification guidelines, such as whether or not net or gross income should be used to determine eligibility.
- Information should be sent to self-employed and other low-income individuals on a quarterly basis so they may estimate their tax payments at that time and remind them of record keeping practices. This packet should include information about VITA services and the IDA program so clients are aware of offerings and come prepared to maximize their benefits from the services.
- Self-employed clients should be given the name of a counselor/advocate that will work with them throughout the year; classes should be held so clients can work on their financial management and tax issues together, as group learning can facilitate greater understanding.
- Continue to offer drop off return options as well as mail-in options for those who face transportation issues or during bad weather conditions. Increase the number of staff who can work with clients who drop of their returns to file their Schedule C.
- Have VITA clients give testimonials about the program to recruit other business owners.

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[4] Schmidt, MC. (2008).