



Connecting Taxpayers to Financial Services at VITA Sites

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August 2013

This study was conducted in partnership with
Mission Economic Development Agency
and **United Way of the Bay Area**, funded by **Citi Foundation**



Citi Foundation



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Introduction

The Citi Foundation (Citi), Mission Economic Development Agency (MEDA), and United Way of the Bay Area (UWBA) have teamed up to answer one question: *What makes tax clients take up other financial and asset building services?*

During the 2013 tax season, this collaborative conducted a study at one Volunteer Income Tax Assistance (VITA)¹ site to determine what strategy would convert the highest number of tax clients into recipients of additional financial and asset building services at the agency. The site tested four strategies:

1. Automatic enrollment
2. Offering financial products such as a matched savings programs or savings products
3. \$50 gift cards
4. Filling out an interest survey (control group)

The study was conducted at MEDA's facility, Plaza Adelante, which lies at the heart of the Mission District in San Francisco. MEDA's tax clients at this site are low income; 50% of clients have an annual income of below \$30,000; 82% are Latino; and many clients file taxes using an Individual Taxpayer Identification Number (ITIN)². In 2012, this VITA site filed over 1,766 tax returns, but like many other tax sites it struggled to find ways to encourage these tax clients to take up other services beyond tax preparation. Results of this year's study show that offering gift cards, or cash incentives, is a powerful motivator. In addition, focusing efforts on clients who are ready for additional services as well as pitching additional services as a part of the tax filing process and reducing administrative barriers were also found to be effective.

Context and Review of the Literature

Tax season has long been thought of as the opportune time to offer additional services to low-income taxpayers. VITA sites offer unique access to a working, low-income population: a population that historically has had limited access to asset building and income support services. Many believe that tax season is the time when families

are open to discussing finances for the year—both income and expenses. Additionally, for most low-income working families, tax time usually means a substantial refund. This allows families the opportunity to pay bills, repay debt and plan for their financial future.

¹ VITA is a national IRS program that trains and certifies volunteers to prepare basic tax returns. There are over 12,000 VITA sites nationally.

² An ITIN is number assigned by the IRS for tax filing purposes primarily and is for those taxpayers that do not have a valid social security number, but have a tax filing requirement.



“However, taxtime usually gives families a windfall of cash, allowing them to take a ‘mental reprieve.’ It is during these moments that a tax site can draw an individual’s or family’s attention to the asset building opportunities that can have long-term benefits.”

Behavioral economics may explain some of the reasoning behind this historical push for asset building connection at tax time. Hernandez (2011) reveals that living in poverty and constantly struggling to keep life financially stable leaves little “mental energy” to access new education or economic opportunities. However, tax time usually gives families a windfall of cash, allowing them to take a “mental reprieve.” It is during these moments that a tax site can draw an individual’s or family’s attention to the asset building opportunities that can have long-term benefits.

Since the beginning of the free tax preparation movement, VITA sites have been testing various processes, incentives, products and services to connect taxpayers with additional financial and asset building services. Many factors play into how successful a VITA site can be in encouraging enrollment and take-up of other services by their clients.

One study conducted by the Financial Opportunities Project by Collins (2009) found that there are certain predictors that increase the likelihood of take up of other services at tax time. Over the course of the study, 26.6% of tax clients self-reported taking up an additional service, ranging from using a savings product to credit counseling. The study found that those who received a refund the prior year or received a refund larger than expected were more likely to take up any service or a savings product. The same study, which also helped to create the Asset Building Delivery System Manual produced in 2010 by NCTC, Policy Lab, Sage Financial

Solutions and Citi found that process was as important, or perhaps more important, than the products or services being offered. According to the manual, key pieces of the process include:

- 1. Intake, assessment and waiting are the clients’ first experience at the VITA site.**
- 2. The assessment form should signal to the Asset Specialist who should be targeted for which services or products.**
- 3. The site layout is extremely critical to success – there should be space for private conversations as well as group presentations as needed. These activities should take place near the tax preparation area so clients can still be available when their tax preparation will start.**
- 4. Signage promoting asset building products or services should be highly visible in the intake area of the tax site.**
- 5. Create a detailed product guide with written messages for each product or service .**

Connecting Taxpayers to Financial Services at VITA Sites

In another study, Collins (2010) echoed the opinion that an assessment form was critical to success in making the connection to other services at a free tax preparation site. A tool is needed to both diagnose need and gauge interest of clients in taking up additional services.

In addition to the process at the tax site, past studies such as SaveNYC Office of Financial Empowerment (OFE) study (2009) and Duflo Liebman, Orszag and Saez (2005) have consistently found that the attitude of the tax preparer and message delivery techniques affect the impact on uptake, even if a script is used. Many studies have found that incentives also matter. In the SaveNYC OFE Study (2009), New York City tax sites offered a savings account to Earned Income Tax Credit recipients with the incentive of a 50% match contributed by the city to the taxpayer's investment from their tax refund. Eighty-three percent of participants cited the match money as a primary motivator for participating in the savings account.

Additional client factors that lead to higher take up rates may include personal behaviors or preferences. Spader, Ratcliffe and Stegman (2005) found that a client's intent

to save increases likelihood of saving. Intent to participate in additional services may also increase likelihood of participation in other financial services at the tax site. Another contributing factor may be time preference, or how patient a person is in general. In a 2008 study by Meier and Sprenger, clients took a survey that asked non-tax related questions about their time preference. The study found more patient individuals were more likely to participate in the short financial counseling session before tax preparation.

In the studies reviewed for this paper, take up rates of additional services among tax clients ranged from single digits to up to 27%. Those studies with the highest take-up rates were linked with tax-related services or products such as direct deposit, splitting a refund between a savings and checking account, or purchasing a savings bond with their refund. While many approaches to convert tax filers to long-term clients have been tested and tweaked, there remains a gap in the field of evidence-based and well-tested, effective strategies. Our 2013 tax season study intends to contribute to the field, giving us more information about the outcome of various strategies.



The MEDA VITA Site

The VITA site located at MEDA's facility, Plaza Adelante, lies at the heart of the Mission District in San Francisco, where 50% of clients make below \$30,000 in annual income. Eighty-two percent of clients at this site identify as Latino and many of the clients file taxes using an ITIN.

The MEDA-Plaza Adelante tax site is also unique because it houses a SparkPoint Center, a one-stop financial services center that helps low-income families achieve financial stability by offering multiple services in three areas: workforce/education, finances, and benefits access.

SparkPoint focuses its efforts on providing “bundled” services, or multiple services across these three services areas. There are currently 10 SparkPoint Centers in the Bay Area, all operated by a collaborative of various nonprofit or government entities. MEDA is the lead agency for SparkPoint Plaza-Adelante in San Francisco. This center, with its focus on bundled services, is an ideal location for a pilot study aimed to incentivize tax clients to take up multiple services.

Like many VITA sites across the country, SparkPoint Centers in the Bay Area struggle to encourage tax filers to return to

SparkPoint to take up other services. In fact, of the 5592 returns accepted at all of the VITA sites located at SparkPoint Centers during the 2012 tax season, only 4%, or 240 clients returned to take up other services.

With this in mind and the desire to explore strategies to increase take up rates of additional services, the Citi Foundation awarded a grant to both MEDA and UWBA to explore four different behavioral economics strategies during the 2013 tax season. The details of our study are outlined below.

Study and Methodology

The partnership tested four different strategies that would entice tax filers to return to MEDA to take up additional services. Our main research question was: Which of the following four strategies will convert the highest number of one-time tax participants into year-round clients?

1 Automatic enrollment

Tax clients are automatically enrolled in one or more of the following year-round services:

- Financial coaching
- Benefits screening
- Credit counseling
- Computer classes
- Immigration services

2 Gift card/cash incentives

The first 100 tax participants who return to MEDA/SparkPoint to attend both a workshop and one on one financial coaching will receive a \$50 gift card. Tax filers will receive a coupon that allows them to redeem their \$50 gift card upon completion of both the workshop and financial coaching sessions.

3 Financial tools and products

Tax participants will enroll in the following financial tools/products:

- Prepaid debit card
- Savings bonds
- Children’s education matched savings account
- Local lending circle
- Classic savings account

All of these tool products are coupled with workshop and coaching.

4 Interest survey (control group)

Tax clients indicate their interest in year-round services on a client interest sheet. All tax participants (including those who are part of the other three strategies) receive the same interest sheet.

Connecting Taxpayers to Financial Services at VITA Sites

Each strategy was tested with a pool of 100 participants, with a total of 400 participants taking part in this study. A different MEDA staff member was assigned to each strategy, with four staff members each executing one strategy during tax season. The first 100 participants who came to file taxes at the MEDA-Plaza Adelante VITA site (who were not already MEDA or SparkPoint clients) with one of these four tax preparers were automatically considered a part of each strategy. To ensure consistency, all 400 participants received the same, scripted follow-up call from their tax preparer after the tax appointment.

To be counted as a bundled, or returning, year-round client for this project, a tax filer must have returned to MEDA for a financial education workshop and a one-on-one financial coaching session prior to April 16th, 2013. This deadline was set based on the assumption that clients are less likely to return for another service if too much time passes after their tax appointment. We wanted clients to return for not only a workshop, but also a financial coaching session because clients fill out a full baseline assessment of their finances during this session and it is one indicator of the clients' commitment to engaging with MEDA on a long-term basis.



We tracked the number of clients who returned to become year-round clients for each strategy and the number of clients who returned for a workshop, a one-on-one-financial coaching session, or for other services but did not return for the one-on-one financial coaching session. Focus groups were held in May 2013 with two groups: (1) tax filers who returned to receive other services and (2) tax filers who did not return to take up additional services. We also conducted interviews with the MEDA staff who implemented the four strategies, and conducted phone interviews with clients who were a part of the strategy that resulted in the largest number of returning clients.

Findings

Of the 400 tax clients who were a part of this study, 43 returned to MEDA to access additional financial services. Tax filers who were incentivized with the \$50 gift card resulted in the highest number and percent of clients returning to MEDA for additional services. Twenty-five percent of those who were incentivized with a gift card returned for some kind of service, compared to 6% for auto-enrollment, 5% for financial products, and 7% for the interest survey.

Table 1 – Clients who returned for either a workshop and/or one-on-one financial coaching

Incentive Offered	Did Not Come back	Came Back For A Workshop and/or One-On-One Financial Coaching
Automatic enrollment	94	6
Financial products	95	5
Gift card	75	25
Control group	93	7
Total:	357	43

Our study was initially designed to determine how many clients would become year-round clients, as indicated by returning to both a workshop and financial coaching services. However, because too few people returned for both of these services (see table 2), our analysis focused on all 43 clients who returned for either a workshop or one-one one financial coaching.

Table 2 – Clients who returned for BOTH a workshop AND one-on-one financial coaching

Incentive Offered	Did Not Come back	Came Back For A Workshop and One-On-One Financial Coaching
Automatic enrollment	99	1
Financial products	97	3
Gift card	84	16
Control group	97	3
Total:	377	23

During the writing of this paper, additional data was received about the initial study participants and if they returned for a workshop or one-on-one coaching session after the April 16th study deadline. After the initial deadline, 41 additional tax clients returned for a workshop or one-on-one coaching session. Including the total from before the deadline, 84 tax clients returned for additional services.

While this is important to note, the study collected data about the strategies used during the tax preparation appointment. It is not clear how these additional MEDA tax clients were encouraged or invited to participate in these additional services in May or June. We do not have enough data to officially include them in the study.

We found the following challenges and factors may contribute to a tax filer returning for additional services.

Challenges include scheduling, childcare, and administrative barriers.

Tax filers in all groups indicated multiple barriers to returning for additional services. Most commonly

Connecting Taxpayers to Financial Services at VITA Sites

noted were scheduling issues such as the lack of variety in days and times of the workshop offerings, lack of onsite childcare that prevented parents from attending workshops, and administrative barriers including the paperwork for signing up for the financial products. Most scheduling conflicts with the workshops occurred when clients had to work in the evening or when their children were out of school and did not have childcare available.

Factors that seem to contribute to clients coming back include a seamless process, customization of the pitch, a short wait time, refund, cash incentives, and client readiness.

1. A seamless process: The tax preparer who offered the gift card pitched additional services as if it were a part of the tax process. In addition, once a tax filer demonstrated interest in returning for a workshop, the tax preparer walked the tax filer to the front desk and signed the client up for the workshop, reducing additional administrative barriers of figuring out workshop times or how to sign up for the workshops.

2. Customization of the pitch: Clients who received a customized pitch relevant to their financial situation were more likely to agree to participate in additional services.

3. Wait time: Both the tax preparer and tax filer felt the need to finish the tax preparation session quickly if the client had been waiting for a longer period of time prior to their tax appointment; therefore, the extra service that was pitched became less of a priority. The shorter the wait time prior to the tax appointment, the more likely the client was to be interested in signing up for additional services.

4. Refund amount: The average federal refund for clients who returned for any service was \$672.30 higher than the average federal refund for those who only took up tax services.

5. Cash incentives: Based on prior research, it was expected that the clients who were offered the \$50 gift card would have the highest number of returning clients, and our study findings confirmed that cash incentives are a powerful motivator.

“I would take the client to the reception desk and sign them up for the workshop on the spot.”

-MEDA Tax Preparer

“If clients are waiting for a long time or if they are impatient, it is not a good time to approach them about other services.”

-MEDA Tax Preparer

Table 3 – Refund amounts

	Average federal refund
Did not come back	\$ 1371.72
Came back	\$ 2044.02

6. Client readiness and motivation: Returning clients in our focus group expressed a readiness to take up additional services and demonstrated a slightly higher awareness of resources available in their community over the focus group of clients who did not return for services. These clients also indicated a higher comfort level with computers and technology. A look at bundling efforts at SparkPoint Centers in the Bay Area also revealed similar findings: clients who first “opted in” to SparkPoint and expressed interest in coming back for additional services were more likely to listen to pitches for additional services and return for these services. Of the clients who expressed interest in coming back by signing an “opt-in” form, a higher percentage actually returned for additional services. The table below shows bundling results from all Bay Area SparkPoint Centers.⁴

Table 4 – Bundling results at Bay Area SparkPoint VITA sites

Site Name	Tax Returns 2013	Tax Filers Who Expressed Interest In Coming Back To SparkPoint	Tax Client Bundlers
SparkPoint American Canyon	193	56	42
SparkPoint East Contra Costa – Bay Point	531	31	15
SparkPoint Fremont	2216	68	57
SparkPoint Marin	180	61	22
SparkPoint Oakland	360	164	33
SparkPoint Plaza Adelante - San Francisco	2211	847	349
SparkPoint Skyline	266	208	71
SparkPoint West Contra Costa – Richmond	175	149	67
Total	6132	1584	656

7. Other factors: There was no difference in age or adjusted gross income between clients who returned for additional services and clients who did not return for additional services. We looked at other factors including state refund, filing status, the presence of dependents, and the number of times the client had come to MEDA previously for tax services; however, our study did not reveal any differences in these indicators between those who came back and those who did not. Variables that we considered but did not have available for all clients include gender, ethnicity, and marital status.

“People will come back if they need the services we are providing.”

-MEDA Tax Preparer

⁴ The numbers in table 5 include tax clients who bundled any kind of service at Bay Area SparkPoint Centers and count services accessed until June 30th, 2013. “Tax client bundlers” is the count of clients who came to the SparkPoint Center for tax preparation services during the 2013 season and also accessed an additional service (either prior to receiving tax preparation services or afterwards). Bundling data from the two SparkPoint VITA sites in Fairfield and Vallejo was unavailable at the time this report was written.

Recommendations

This study has produced less than definitive results due to study limitations and the small sample size and has clearly given us cause for more research. However, we have learned a few lessons and have three recommendations for individual tax sites that are attempting to encourage their tax clients to participate in other services.

1 The tax site should focus its efforts.

Instead of casting a wide net on all taxpayers that receive the tax services at the site, put a system in place that identifies those who are most “ready to bundle.” According to Collins (2009), clients who have a history of savings or received a larger than expected refund were most likely to take up other services at the tax site. At MEDA, those with higher refunds were more likely to participate in the workshop and 1:1 coaching session. While focusing efforts may decrease the overall number of those accessing multiple services, it will strengthen and deepen the site’s relationship with its most ready and willing tax clients. It is this type of relationship building that seems to yield the best results in getting clients to meet their asset building and financial goals.

2 Make it easy for tax clients to access other services.

Remove any administrative barriers such as scheduling conflicts or process hurdles. In fact, the more participation or enrollment in other services can feel like it is part of the tax preparation process, the easier it will be for clients to take part. For example, when a MEDA client was asked to attend a workshop, the tax preparer walked the client to the receptionist to sign up for the workshop of their choice. This prevented the clients from getting confused about the process or simply distracted from the task at hand. Other examples of reducing barriers to accessing the services include providing childcare, holding workshops on weekends or at various days and times, and ensuring a seamless enrollment process and clear instructions. Hernandez (2011) looks for these pitfalls in several tax programs in her 2011 studies and suggests program designers try to imagine being the client and walking through the process at the VITA site.

3 Offer an incentive to tax clients for participating in other services.

This incentive can be cash or other prizes such as iPads or grocery store gift cards. Consider what the community will value when deciding the incentive. While only 25% of MEDA clients that were offered the gift card participated in the workshop or 1:1 session, the other strategies were much less effective (averaging 6%). This has been true for several national savings account studies and even in mainstream financial services for other populations. “Money talks” and this study was no exception.

Limitations to the Study

While each study on the efforts to connect low income taxpayers to greater asset building and income support services at tax time contributes more promising practices and learnings to the field, there are significant limitations to the design and implementation of this study.

- 1.** This study was conducted at only one VITA site in the San Francisco Bay Area.
- 2.** This VITA site primarily serves a Latino immigrant population.
- 3.** The sample size is small, only 100 taxpayers per strategy, and the number of people who did come back was too small to conduct a deeper analysis.
- 4.** The strategies were limited to the one tax preparer. We cannot truly know, even after dissecting the process and messaging used, if the strategy or the tax preparer were the determining factor for tax clients' participation in the workshop or 1:1 offered at MEDA.

Future Research

The field is in desperate need of additional tested strategies that use all of the best practices we have learned throughout this decade. We know many tax coalitions across the country are putting large amounts of resources into making tax time “the right time” to connect low income, working households with much needed services. We also believe this is a worthwhile cause if we can focus our efforts on those that are truly ready for the next level or service. We would like to see a study that cuts across varying demographics such as income, race, gender, language and household size. Future studies should also look at using multiple tax preparers throughout the tax season with other types of services and incentives at multiple locations. Ideally, a large-scale, statewide or national 2014 tax season study across multiple VITA sites testing the aforementioned recommendations would allow for widespread research across these many variables.



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