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## Leveraging Tax Time

A Two-Generation Approach  
to Poverty Reduction



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Studies have shown that a temporary boost in family income through the Earned Income Tax Credit can improve academic outcomes for children. Since SparkPoint Community Schools are already working with parents to test the link between increased financial stability and their children's academic success, we wanted to explore the value free on-site tax preparation services could offer for families at SparkPoint Community Schools.

## THE RESEARCH

A significant body of literature shows that the “Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), which go to millions of low- and moderate-income working families each year, provide work, income, educational, and health benefits to its recipients and their children.”<sup>1</sup>

The compelling findings of this research include:

- For every \$1000 increase in household income children's academic performance increases.<sup>2</sup>
- EITC is crucial to early childhood development, and a \$3000 tax credit in 2005 was comparable to roughly two additional months of schooling for young children.<sup>3</sup>
- Expanding EITC has been linked to higher middle school reading and math test scores.<sup>4</sup>
- EITC and CTC have been connected to higher rates of high school completion and college entry.<sup>5</sup>

## PROJECT DESCRIPTION



Taking this research to heart, during the 2016 tax season, United Way Bay Area (UWBA) explored the impact that EITC has on families in the San Francisco Bay Area.

UWBA coordinates a regional coalition of Volunteer Income Tax Assistance (VITA) sites to ensure low-income families can claim EITC and maximize their refund. In addition, UWBA also works with local schools to implement SparkPoint Community Schools, a two-generation model that builds the financial assets of families while supporting the academic success of their children. These two approaches help vulnerable parents and children together in communities throughout our Bay Area counties.

<sup>1</sup> Center on Budget and Policy Priorities, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds”; Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon DeBot, October 2015.

<sup>2</sup> Ibid

<sup>3</sup> Ibid

<sup>4</sup> Center on Budget and Policy Priorities, “Brain Studies Highlight Importance of Anti-Poverty Policies for Children,” Arloc Sherman, August 2015

<sup>5</sup> Ibid

Aware of the impact EITC and CTC can have for low-income families, our SparkPoint Community Schools offered various models of free tax services for the 2016 tax season to ensure families had access to these beneficial tax credits. At each school site, parents filed their taxes for free and claimed tax credits that allowed them to reduce family stress and spend extra money on their child's activities and future investments.

We conducted interviews with 10 families who accessed tax preparation services at one of the four participating sites to solicit information about how the families used their refund last year, how they plan to use it this year, and how the refund supports their children. In addition, we surveyed a select group of families to learn more about their refund and EITC amounts.

The following section outlines our key findings. We have also included vignettes that illustrate the impact that tax refunds (including the EITC) can have on the entire family.

### Participating Sites

**SparkPoint Contra Costa** at Dover Elementary School – VITA services provided by Lao Family Community Development

**SparkPoint Napa** at Phillips Elementary School – VITA site hosted by On The Move

**SparkPoint Oakland** at Westlake Middle School – VITA event hosted by East Bay Asian Local Development Corporation and Eagle Village Community Center Youth and Family Services

**SparkPoint Redwood City** at Taft Elementary School – A Do It Yourself Tax workshop provided by UWBA, working with the Redwood City School District

## RESULTS & KEY FINDINGS

- 23 families filed their taxes at participating sites<sup>1</sup>
- An estimated \$73,498 were returned to these families
- Of the 23 families surveyed, all but one received a refund
- The average refund amount was \$3,500, with amounts ranging from \$503 to \$9,248

When we interviewed participating families, we heard three major themes:

- Tax time and the receipt of a tax refund provides stress relief for a struggling family
- Parents overwhelmingly prioritize their children and family when deciding how to spend their tax refund
- Parents often maximize their refund by saving a portion of it for various reasons like their child's education or a rainy day fund

<sup>1</sup> The VITA site at Phillips Elementary School helped a total of 154 individuals receive a total of \$218,589, including \$83,159 from the Earned Income Credit. Only a select sample from this group were surveyed or interviewed for this project.\*

**Below are stories of four families that represent our key findings.**

#### ***Tanya***

Tanya is a proud mother of seven-year-old Jacob, and even though college is over a decade away, she is committed to sending him to college. Tanya dedicated more than half of her EITC to a college savings account. Like every parent, Tanya wants the best for her son and is making every effort to set him up for success. One way Tanya is doing this is by using her tax refund to pay for extracurricular activities.



“He’s getting bigger, and he’s asking... and especially in school they have to go to field trips and they go to those museums and historic stuff... ah. It’s hard to keep up.” Tanya mentioned, “[and] then the...extra classes, like the activities that they have. Yeah \$5 bucks every week. If you add it, yeah. It’s a lot.”

Tanya knows she “[doesn’t] give him a lot of stuff” outside of the day to day necessities “because [she’s] short on bills.” So, she sees her tax refund as a way to give her son more without having to worry about falling behind on bills and other necessities.

#### ***Frances***

Frances lives in a multigenerational household with her three children including a newborn son. Frances wants the best for her children and strives to support her family in every way she can. To do this, she plans to divide her refund in 3 to 4 ways. First, she plans to save some to create a cushion for emergencies. She will also use part of her refund to pay off debt and manage immediate expenses.

“We don’t necessarily have an annual budget. It changes from year to year. Tax time definitely helps us do some of the things we wouldn’t be able to do. I pay bills down to a zero balance. Usually, I pay bills from month to month, just enough to keep afloat. But with tax time, I am able to pay them all the way down and start fresh,” Frances said.

#### ***Jaclyn***

After graduating from SparkPoint Parent University, Jaclyn is a self-professed believer in SparkPoint at her daughter’s middle-school. “I always talk about SparkPoint. They have so much to offer in that program. It’s like the only reason you fail is because you don’t take advantage of the opportunity they have in that program,” she said. *(cont.)*

## LEVERAGING TAX TIME

### A Two-Generation Approach to Poverty Reduction

The tax day at her daughter's middle school was no exception, and her participation paid off. After a disappointing \$20 dollar refund last year, Jaclyn's EITC this year was enough to invoke anxious excitement.

For Jaclyn, tax season arrived at the perfect time because recent car repairs did significant damage to her savings account. "I get in a panic when my savings are lower now, because I know there was a time when we didn't have money. It's like, what are we going to do. I don't feel comfortable when we don't have the money in the savings," she said.

For Jaclyn, like most parents, saving equals freedom and this year's refund replenished her sense of independence and security. "When you have money, it's like okay, we can go get whatever we want. We don't have to, but we can go do the things that we want to do. Right now I don't feel as confident from when I did when I had the money that I spent on my car."

With her refund, Jaclyn plans to replenish her savings, jumpstart her plans to move later this year, and worry a bit less about money.

### **Julia**

Julia and her husband see tax time as a chance to model positive behaviors for their children. This year, Julia's oldest son filed taxes for the first time and is elated that he has extra money to cover his school expenses. This past year, Julia's husband was injured at work, and in the wake of his accident, Julia has proudly stepped into the role of provider for her family.

"Our family works hard and we do our part for the economy. My husband isn't able to work, currently, due to an accident at work but thank God I am strong and healthy because I can work. I am so proud to be able help take care of everyone as he always has."



Julia's refund (an amount similar to previous years) is helping her manage the family's expenses. For Julia's family, the extra money is something they plan for. "Tax time helps our family and helps us manage our money and expenses. We don't count on it, but know it is coming and plan accordingly. We are careful and save it for our family needs throughout the year," she said. "We don't use it all at once; we keep it, save it and use it little by little." (cont.)

Julia and her husband’s careful saving of their refund helps supplement their income so they can meet expected and unexpected needs throughout the year. “Well, that’s why we continue to save, including our tax refund. We don’t just count on refunds, we work with it.”

Being able to include the EITC into her family’s yearly budget is a huge stress relief. “I feel like the weight of the world is off my shoulders. We can breathe and rest easy,” she said. The impact trickles down to her children. “It’s so incredibly helpful to us, less stress, means more time for us to be together, more care. I can plan our family’s needs and not worry.”

## CONCLUSION & RECOMMENDATIONS

We hope that we have demonstrated the value of free tax preparation and the EITC to a two-generation approach to poverty reduction. It is our belief that tax time, more specifically tax refunds, can be leveraged by the two-generation field with the following recommendations:

- **Free tax preparation** is available in most communities through the IRS’ Volunteer Income Tax Assistance (VITA) program. Organizations or schools can operate their own VITA program or partner with a local VITA site to offer special tax preparation events. Increasing access to this free service and the EITC will ensure families can benefit from the lifelong impact of these tax credits.
- **Target families with children** when promoting VITA sites or free tax preparation services. Children benefit greatly from EITC and CTC, so think about the best ways to reach young families in your community. Schools, afterschool programs, and family resource centers with strong family ties are a few places to consider when doing outreach for tax services.
- **Don’t be afraid to talk about taxes** with your families. Tax time can lead to stress reduction. Whether or not you decide to offer free tax preparation services to your families, be sure to schedule a workshop or individual coaching moments to encourage your parents to file their taxes and maximize the use of their refund to take some financial burden off their shoulders.
- **“Family-focused” messaging matters** when you are encouraging your parents to act. It is clear from our findings that children and family is a priority. Remember this when you promote any services to parents – they will do it for their children.
- **Promote savings opportunities**, such as a college savings, emergency savings, or retirement accounts. A tax refund is often the largest lump sum of money a family will receive all year. This is an opportunity to help families to think about the future and make life-changing plans.