

Community Investments Vol 15, Issue 3 Reclaiming Native American Tax Dollars

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The Annie E. Casey Foundation is dedicated to building better futures for disadvantaged children and their families. Much of the Foundation's work in recent years has been driven by the idea that *kids do well when their families do well, and families do better when they live in supportive communities*. While this principle was derived from work in urban areas, the Foundation recognizes that large numbers of residents in Indian Country also struggle to meet their families' needs.

One strategy that the Foundation has found to be a valuable tool to increase the incomes of low- and moderate-income families is the Earned Income Tax Credit (EITC). The EITC is a refundable credit offered through the federal tax system (and 17 states) and is the single largest federal aid program

supporting working families. It provides more dollars to working families than any other federal program.

- At \$32 billion dollars, the EITC is larger than food stamps and Temporary Aid for Needy Families (TANF) combined
- Eight times the size of the Workforce Investment Act (WIA)¹
- Ten times the size of Community Development Block Grants (CDBG)

The maximum federal EITC refund for tax year 2004 will be \$4,204 per year a substantial sum of money for any family.² As such, the EITC provides a powerful work incentive and anti-poverty tool that has benefited millions of low-income families since its inception in 1975. Unfortunately, millions of EITC dollars go unclaimed each year. National figures estimate that between 15 and 20 percent of eligible families do not claim the EITC; for Indian Country, the numbers are much higher since a disproportionate number of non-filers are found in areas of concentrated poverty. And although the EITC is perceived as a greater opportunity for large cities, in fact EITC receipt is higher in rural areas than in cities (\$7.8 billion vs. \$7.7 billion). EITC receipt tends to be particularly high in much of Indian Country. According to Alan Berube of the Brookings Institution, there are 17 zip codes where over 70 percent of tax filers claimed the EITC in 2000; of these, nine are located in Indian Country.³ What is not known however, is how many Native Americans that qualify for the EITC do not claim this tax credit. The assumption is that this could be a much larger number.

There are many reasons working families do not claim the EITC. They may think they are not eligible, or they may simply not know about it. In addition, some families may fear that filing for taxes will "tip off" the IRS or other agencies looking for those who are pursued by creditors or behind in their child support payments. A person might not have a legal liability-that is, he/she earns below the tax liability threshold and is not legally required to file-but by not filing forfeits the credit. Other issues such as language,

culture, lack of local tax preparers and cost of tax preparation may also impede eligible families from filing tax returns altogether.

Nationally, 68 percent of EITC filers get their refunds through commercial tax preparers. These companies can charge up to \$200 to file a simple return. Complicated returns cost much more and there are extra fees for doing the EITC form and electronic filing. Many families are offered "rapid refund" services or refund anticipation loans that further erode the money they should be receiving through their tax refunds. Low-cost or free preparation methods can offer a much-needed service to families while conserving income in rural communities.

Noel Brown, manager of the Tribal Business Information Center (TBIC), located on the Cheyenne River Sioux reservation in Eagle Butte, SD, recognized the need for reasonably priced access to tax preparation service. The area has one of the highest unemployment rates in the U.S. (over 70% in Ziebach County). Most of his clients are self-employed, many in home-based, retail, service, construction, and agriculture industries. Four years ago, individuals had no option but to drive 90 miles to reach a paid preparer. Lower income individuals often did not have access to a car, and would have to hire someone to get them there. They would then be charged very high fees by a paid preparer, and if they wanted their refund right away, they would be charged an additional fee. Several days later, they would have to hire someone else to take them to pick up their check.

Today, Noel runs a successful Volunteer Income Tax Assistance (VITA) site and community members can receive 100 percent of their returns by using the services of TBIC. In 2003, his staff assisted over 600 individuals with free income tax preparation assistance. TBIC prepared taxes for more individuals than any other VITA site in the state (second only to the Ellsworth Air Force Base) and helped families secure over \$1,200,000 in refunds. Noel is interested in expanding his services by linking the EITC to

financial literacy, savings, and Individual Development Accounts because many of his clients want to acquire a home or start a home-based business. He explains, "the EITC is an important resource for working families, providing the extra money that many need in these tough economic times. The EITC is also beneficial to tribal economies, financially strengthening families throughout the community."

Last year, the Ysleta del Sur Pueblo tribe near El Paso, Texas joined the "Strong Families, Strong Future" EITC campaign coalition in El Paso and provided a facility on the reservation that served as an e-file tax preparation site-one of only three in the county. Volunteers from the tribal community and El Paso County prepared 187 tax returns (including 50 with EITC), and collected over \$149,000 in refunds. This year, the coalition plans to include financial literacy, IDA opportunities, and representatives from financial institutions who can connect individuals with savings accounts and other financial resources.

Dine College, located on the Navajo Nation in Arizona, is an example of a VITA program that operates out of a tribal college. Student volunteers are recruited and trained to provide free tax filing assistance. In the case of Dine College, students undergo a rigorous training developed by the Albuquerque Technical Vocational Institute (TVI) to be certified as VITA volunteers. Students receive college credit for their participation, and more importantly, experience in their field.

Tribes interested in ensuring that their members are keeping the money they are entitled to can easily include information about the EITC in existing outreach efforts such as public service announcements, flyers and paycheck stuffers (the IRS and the Annie E. Casey Foundation both provide free outreach and publicity materials that can be used to launch tax campaigns). Another idea is to build information about the EITC into existing financial

literacy curriculums or to leverage EITC by connecting it to IDAs and other savings programs.

While many families use their EITC refunds to meet immediate needs such as paying utilities or rent, or to make large purchases like a car or washing machine, some families may be able to use part of their refund for savings and asset building activities. A crucial element of a successful campaign is connecting taxpayers to opportunities to build assets, and ultimately wealth. There are many potential asset building opportunities to consider, including financial literacy training, debt counseling, savings strategies, investment clubs or IDA programs. These asset building strategies can be effective ways to help families improve their long-term financial futures.

Tribes should work with community development financial institutions (CDFIs), credit unions, and banks that have an interest in serving Native American populations to establish accounts for unbanked filers to receive direct deposit or to provide low cost check cashing services. A number of institutions around the country have already enjoyed the success and benefits of partnering with a tax prep site including: Legacy Bank in Milwaukee; Shorebank in Chicago; US Bank in Sacramento; Bank One in Dallas; Members First Credit Union in Louisville, KY and Bethex Credit Union in New York City.

To help communities interested in launching campaigns, the Annie E. Casey Foundation formally launched the National Tax Assistance for Working Families Campaign.⁴ The campaign stresses the importance of designing campaigns to meet the unique needs of individual neighborhoods and locales. The first year's campaign theme was "Earn It, Keep It, Save It" — a reminder that qualified working families not only need to claim the tax credit, but also should avoid losing a chunk of their tax return and credit by paying unnecessary fees or accepting refund anticipation loans (RALs).

According to a recent research study from the Brookings Institution, *Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 Cities and Rural Areas*,⁵ low-income families are losing much of their refunds to high-cost tax preparers and costly fast-cash loans that charge annual percentage rates ranging from 67 to 774 percent. In 2002, those loan products cost EITC recipients across the country an estimated \$750 million.

The first year of the National Tax Assistance for Working Families Campaign was resoundingly successful. Sites affiliated with the campaign returned more than \$55 million in EITC money to low-income families through the preparation of more than 96,000 federal tax returns. Plans are being finalized now for the 2004 tax year campaign, with several more urban and rural locations joining the national group including a few that are focused on working with American Indian families and in the US-Mexico border area. Part of this effort includes working with First Nations Development Institute to develop a module highlighting the benefits of EITC. This curriculum is being designed for use as stand-alone material or can be incorporated into the existing *Building Native Communities: Financial Skills for Families*⁶ training.

¹ Enacted in 1998, the Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JPTA) as the primary source of funding local employment and training efforts. Under WIA, all local workforce areas in the United States (currently there are over 600 as determined by the U.S. Department of Labor) are required to develop a "one-stop" delivery system that is designed to make workforce development programs available at one location , i.e. one-stop centers. Workforce Investment Boards replaced "private industry councils (PICs) as the local decision-making body.

² The EITC is available to households earning between \$11,000 and \$34,692 (depending on family size). The tax credit not only offsets the taxes that are

owed, but can also result in a refund. For a family with two children earning \$19,000 last year, the federal income tax liability would be approximately \$400. The family is eligible for an EITC of \$2,763, which means that the federal government pays them back the \$400 they paid in income taxes and gives them an additional cash refund of approximately \$2,363.

³ These include areas in Rosebud, SD; Cheyenne River, SD; Omaha, NE; Standing Rock, ND; Standing Rock, SD; Cheyenne-Arapaho, OK; Red Lake, MN; and San Carlos, AZ.

⁴ For more information on the Annie E. Casey Foundation's *National Tax Assistance Campaign for Working Families*, visit www.eitc.info

⁵ Alan Berube, "Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit," Brookings Institution Center on Urban and Metropolitan Policy: Washington, D.C., 2001 (<http://www.brookings.edu/es/urban/eitc/abstract.htm>)

⁶ For more information, please call First Nations Oweesta Corporation at 605/455-1700. To receive free copies of *Building Native Communities*, call 800/659-7557 or download from: <http://www.oweesta.org/>

Biography



Ana Marie Argilagos works in the Planning, Research and Development Unit at the Annie E. Casey Foundation in Baltimore, Maryland. She provides strategic direction for the foundation's initiatives in the southwest border region and in American Indian communities. Before coming to the foundation, she served as special assistant to the Department of Housing and Urban Development deputy secretary. While there, Ms. Argilagos advised on a wide array of policy issues and played a central role in shaping the President's Interagency Task Force for the Economic Development of the Border. Ms. Argilagos holds a master's in public administration from the Kennedy School at Harvard University.