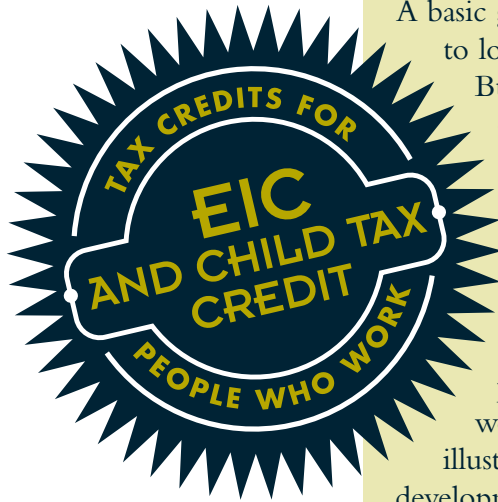


Free Tax Help and Asset Development: How to Help Families Keep All the Money They've Earned



A basic goal for any Tax Credit Outreach Campaign is to get the word out to low-wage workers that they may qualify for significant tax benefits.

But, the outreach job is not done until they file their tax returns and obtain the tax credits they've earned. That's why a critical element of a successful Outreach Campaign is the effort to link workers with free tax filing assistance. Without such activities, millions of dollars in tax benefits that could be going to working families and individuals are at risk of going unclaimed.

This booklet brings together the facts about free tax filing assistance programs, asset development opportunities and resources to assist workers with specific tax concerns. Brief examples are included illustrating how strategies to promote free tax filing assistance and asset development are being implemented across the country. *Additional examples can be found in the booklet, "Outreach Strategies," in this kit.*

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VITA: Free Tax Preparation for Low-Income Workers

Why is this important?

Many workers who are eligible for the EIC or the CTC don't feel comfortable filling out tax forms themselves. But a commercial tax preparer may charge them \$55 to \$130 to prepare their tax return. It can cost another \$100, or more, to get a "refund anticipation loan" that provides the taxpayer a "refund" in just a day or two. Since people who are eligible for the EIC and CTC refund earn lower incomes, it often doesn't make sense for them to pay for tax preparation when there is a cost-free choice — VITA.

VITA stands for Volunteer Income Tax Assistance. It is a free, IRS-sponsored program to help low-income workers file their tax forms.

The facts about VITA

VITA sites are located in community action agencies, churches, libraries, public assistance offices, shopping malls, community colleges, and other public places. Some communities may have several VITA sites. Others, such as rural communities, may lack the VITA sites they need.

VITA sites are generally open from late January or early February through April 15. VITA volunteers are trained, according to IRS guidelines, to fill out tax forms and answer questions. Volunteers usually prepare tax forms on a first-come, first-serve basis. Most sites are not open every day and may have limited evening or weekend hours.

Many VITA sites are equipped to file tax forms electronically, or can arrange for this to be done at a central location after the return is prepared. Filing electronically — having a return completed by computer — helps filers get a faster turn-around on a refund and makes it less likely that incomplete forms will be filed. This helps avoid refund delays and provide an alternative to expensive commercial fees.

The main problem with VITA is that not enough people use it!

The most recent IRS data available from tax year 2004 indicates 70 percent of EIC claims were filed through commercial tax preparers, while less than two percent of EIC recipients used VITA or other IRS-sponsored volunteer return preparation services.

Why don't more people use VITA?

- Most people don't know about it.
- Taxpayers may not know where to find VITA sites or when they are open. They may also have trouble getting through to the IRS toll-free line, 1-800-829-1040.
- Some communities don't have VITA sites. The IRS will generally welcome help in setting up VITA sites in these areas. Organizations are needed to sponsor sites and volunteers have to be recruited and trained to assist with returns.
- Sometimes VITA sites are not well-located for those who need them most. Also, they may not be open at times when many working people can take advantage of them.

What can you do to help more people use VITA?

- **Mail and distribute flyers.** Mail a list of VITA sites in your area to local churches, employers, unions, schools, and human services organizations and agencies and ask them to refer workers to the nearest sites. Your IRS Territory Manager/ VITA Coordinator can provide this list. *Territory Managers' telephone numbers are on p. 30 of this booklet.*
- **Talk to the media.** You and your local IRS office can jointly issue a news release or hold a press conference to alert the public to the VITA program, its importance to workers filing for the EIC and the CTC and VITA site locations.

What do workers need to bring to a VITA site?

- A copy of their 2005 tax return, if available.
- Social Security numbers for the worker, spouse and any children in the household born before December 31, 2006 are needed to claim the EIC. Bring the Social Security cards, if available, to ensure the necessary information is copied correctly onto the tax return.
- W-2 forms from all 2006 jobs. Workers who didn't get W-2s should still come to VITA with final pay stubs, if available. Volunteers can assist in verifying income.
- 1099-G form, if unemployment insurance benefits were received at any time in 2006.
- 1099-INT, if bank interest was received in 2006.
- Any statements received from a mortgage company during 2006.
- Any IRS notices sent to workers during 2006.
- Workers with Individual Taxpayer Identification Numbers (ITINs) should bring the ITIN letter sent to them by the IRS. Workers need either an ITIN or an SSN to claim the Child Tax Credit.

A VITA Checklist for workers is included in the Outreach Campaign Tools Envelope of this kit.

- **Set up a hotline.** A telephone hotline can refer callers to the nearest VITA site. Ask to use the information line at your local United Way. You may be able to operate an in-house hotline with the help of a voicemail system. If these options are unavailable, provide taxpayers the IRS hotline number, 1-800-829-1040.
- **Enlist volunteers.** Local accountants, retired professionals, accounting students, paralegals and legal secretaries may have a particular interest, but a tax background is not required. Find out if the IRS has a VITA volunteer training planned in your area; if not, contact your IRS Territory Manager to see how volunteers can be trained. Volunteers will need to be recruited at least several weeks before tax filing begins.
- **Help VITA sites get electronic filing systems.** Some people pay commercial tax preparers so they can have their returns filed by computer and get their refund faster. Talk with your IRS Territory Manager about arranging for electronic filing at VITA sites.
- **Make sure VITA sites can accommodate special needs of tax filers.** Provide interpreters for tax filers who speak languages other than English. Help make sites accessible for people with disabilities. Offer child care services on site.

Tax Counseling for the Elderly

In many communities, free tax filing assistance also is available through the Tax Counseling for the Elderly (TCE) program. TCE, like VITA, is sponsored by the IRS, often in conjunction with the AARP Tax-Aide Program. Although its main purpose is to assist seniors, TCE also can help low-income workers file tax returns. Appointments often are required. Your IRS Territory Manager can provide a list of VITA and TCE sites and help you contact the local TCE coordinator. During the filing season, you can find AARP's TCE sites listed by zip code at: www.aarp.org/money/taxaide.

Alternatives to Commercial Tax Preparation: Helping Workers Keep All of Their Refund

The most recent IRS data indicate that 70 percent of EIC recipients pay someone to prepare their tax returns. The National Consumer Law Center has estimated that EIC recipients spend about \$2 billion per year on commercial preparation and refund loan fees! Thus, low-wage workers are giving up a substantial portion of the tax benefits they have earned.

What are the choices when it's time to file a tax return?

- **Workers can fill out their own forms.** Instructions for completing forms 1040, 1040A and 1040EZ include worksheets and tables to help determine eligibility for the EIC and CTC and the credit amounts. In addition, IRS Publication 596, “Earned Income Credit,” contains helpful examples. *These items can be obtained for free wherever tax forms are available, at the IRS website www.irs.gov/formspubs, or by calling 1-800-TAX-FORM.* The tax form instructions for the EIC also give taxpayers the option to fill in all the necessary information and let the IRS calculate the amount of the EIC for them. (This is not an option for the Child Tax Credit refund, however.)

Taxpayers can also complete their own tax returns electronically through the Free File Alliance, which can be visited through the IRS website www.irs.gov. The Free File Alliance offers taxpayers a choice of on-line programs to use for tax filing. Taxpayers should read details about the programs carefully before selecting one. (**Note:** Filing a federal tax return is free through the Free File Alliance, but companies may charge to e-file

a state return. Fees for state returns vary from state to state.) *For more information about the Free File Alliance, see p. 14 of this booklet.*

- **Get free help filling out the forms.** Tax returns can be filed through VITA sites and other free tax filing programs. Electronic filing (having a return completed by computer to get a faster turnaround on a refund) is available at some VITA sites and at some local IRS offices. *To contact IRS Territory Managers, who can provide information about VITA locations and the availability of free electronic filing, see p. 30 of this booklet.*
- **Pay a commercial tax preparer to fill out the forms.** Generally, commercial tax preparers offer these services: completion of tax return forms (about \$55 to \$100 for federal and state tax returns and an extra amount for the Schedule EIC), electronic filing (usually another \$25 to \$35) and refund anticipation loan fees (usually an additional \$100, but can be much higher).

Here's one example that shows why paying for tax preparation may not be the best choice:

Ms. Stewart is expecting an EIC of \$750 and is counting on this money to help pay the security deposit she needs to move to her new apartment. If she goes to a commercial tax preparer she may pay a fee of \$80 for preparation and electronic filing. In about 10 days, Ms. Stewart will get a check from the IRS for \$750, but it is now worth only \$670 because of the fees she has paid.

Paying for tax preparation takes money away from EIC and CTC benefits. It means workers have less money to help pay bills and care for themselves and their children. This runs counter to a primary goal

of these credits: improving people's financial stability. That's one reason the IRS offers free tax preparation services through the VITA program.

What are refund anticipation loans?

Many commercial tax preparers offer refund anticipation loans (RALs) to enable the taxpayer to get a check in the amount of his or her refund (less the charges for preparing the return and the RAL fee) within a day or two. Actually, the “refund” in this situation is not coming from the IRS — it is a loan from a bank arranged by the commercial preparer. The bank is repaid when the IRS sends it the actual refund check for the taxpayer. The fees charged for RALs are really up-front interest payments on the loan.

There are several things taxpayers should know about RALs:

- Even though the fee may not seem very high, RALs are expensive. Here's why:

Remember Ms. Stewart, who is expecting an EIC of \$750? If she wants a refund anticipation loan, the commercial preparer may charge her \$50 in addition to the \$80 in preparation fees. Actually, the preparer will loan her the \$750 and she will make an up-front interest payment of \$50. Had she taken a \$750 cash advance on a credit card (with a high interest rate of 21 percent), after two weeks — about the time it takes for the IRS to send a refund check — Ms. Stewart would have owed about \$6 in interest to the credit card company. For a two-week loan from a bank associated with the commercial tax preparer she is paying \$50. That's an interest rate of 173 percent! She winds up able to use just \$620 of her \$750 EIC.

- Low-income taxpayers may find they can't afford the fees at the time the return is prepared. It is easy for them to be persuaded to take a refund

anticipation loan, since all the costs of return preparation and the loan charges are taken out of the amount of the expected refund. However, this means paying even higher fees, as explained above.

- If the EIC does not come back from the IRS in the amount expected, the taxpayer will have to repay the difference to the bank that holds the loan arranged through the preparer. When using a RAL, taxpayers agree to all the obligations of a loan.

Efforts to regulate refund anticipation loan practices

IRS regulations require commercial tax preparers to:

- disclose the loan fees and interest rates for the RAL;
- make sure people know that they can file their return electronically without applying for the RAL, how much electronic filing costs, and about how long it will take to get the refund;
- charge the same fee for basic electronic filing regardless of whether a customer also pays for the RAL and without regard to the amount of the refund; and
- inform people that they will be financially responsible for the loan if the IRS delays the refund, reduces the refund amount, or denies it completely.

Commercial tax preparers have to obtain identification numbers from the IRS to enable them to file returns electronically. The IRS can revoke this number if RAL regulations, designed to give more protection to taxpayers, are violated. A few states have similar provisions in their consumer protection laws. *For more information about these consumer protection measures, call the Center on Budget and Policy Priorities at (202) 408-1080.*

How can workers get their tax refund quickly without a RAL?

Even after learning about the possible problems with a RAL, some workers may still choose to use one, especially if they have urgent financial needs. To address this, some Outreach Campaigns have partnered with financial institutions to offer low-cost RAL alternatives. Before issuing a RAL alternative, Outreach Campaigns educate taxpayers to make sure they understand that the product is a loan that will reduce the amount of their total refund. Taxpayers are informed that they do not need the loan to have their taxes filed electronically



The Lower East Side People's Federal Credit Union (LESPFCU) in New York offers a RAL alternative to its clients: the Fast and Fair Tax Refund Loan (FFTRL). LESPFCU makes brochures

available to clients who come to its office for free tax preparation. When a client asks about the product, the tax preparer reviews a list of frequently asked questions about the FFTRL to make sure he or she understands that the product is a loan, how much it will cost and the other options for receiving a tax refund. After learning about the FFTRL, most taxpayers find that having their federal tax refund directly deposited into their bank account will meet their needs. Individuals who decide to apply for the loan are charged an application fee of \$25 and an Annual Percentage Rate (APR) of 10 percent. In 2006, out of approximately 1,300 tax filers, only two people decided that they wanted the FFTRL. *Contact: Meagan Van Harte, Lower East Side People's Credit Union, (212) 529-8197 x30 or mvanharte@lespfcu.org*

or to receive their refund through direct-deposit. Taxpayers are also notified of the cost of the product, the interest rate and repayment schedule. *To learn more about offering alternative RALs read the National Consumer Law Center's guide to "Building a Better Refund Anticipation Loan: Options for VITA sites," found at: www.consumerlaw.org/initiatives/refund_anticipation/content/BuildingBetterRAL.pdf*

Stored Value Cards

A Stored Value Card (SVC) is a card that electronically tracks a user's spending. Commonly used SVCs include prepaid gift cards and phone cards, cards used to receive public benefits such as child support or unemployment payments, and payroll cards. Some SVCs are being offered as refund anticipation loan (RAL) alternatives. These cards function like a debit card and can be used to make purchases and cash withdrawals, but are not linked to a bank account. Some commercial tax preparers, as well as a few banks, offer SVCs as a way for people without bank accounts to receive their refund faster by having it directly deposited onto a card. Workers with payroll SVCs may be able to have their tax refund directly deposited into their account. The transaction fees and restrictions for SVCs vary greatly: some SVCs are a reasonable alternative to RALs and others cost the same as or more than RALs. Consumer protections are not guaranteed for these cards so careful research is required before Outreach Campaigns consider promoting them. *For details on how to evaluate SVCs, read: The National Consumer Law Center's "Building a Better Stored Value Card: Options for VITA sites," which can be downloaded at: www.nclc.org/initiatives/refund_anticipation/content/BuildingBetterStoredValueCard.pdf*

Precautions Consumers Can Take If They Seek Help From a Commercial Tax Preparer

While there are many honest commercial tax preparers, some workers who need tax filing help may be vulnerable to the practices of tax preparation businesses run by untrained or dishonest individuals. In some communities, such operations may attract more customers — and charge higher fees — if they are known to generate large tax refunds. They may prepare tax returns that make invalid claims for tax credit refunds in the belief the IRS is unlikely to catch them. Tax filers may then be held responsible for fraud or negligence associated with these claims. Workers who do not speak or read English well are particularly vulnerable to preparers who speak their native language, but who have no tax training or deliberately prepare false claims.

Remember, the Volunteer Income Tax Assistance (VITA) program, run by the IRS, provides free tax filing assistance to low-income taxpayers. Trained VITA volunteers can help workers avoid tax filing errors. In addition, tax returns completed at VITA sites are reviewed by qualified supervisors. VITA sites in several communities offer assistance in languages other than English. Local Outreach Campaigns can increase the availability of VITA sites in their community and can encourage workers to seek help at these locations. *For more information see p. 10 of this booklet.*

Some workers still may choose to use a commercial tax preparer. Outreach Campaign partners can help protect them by suggesting these steps to identifying a trustworthy preparer:

- Choose a tax preparer who can be contacted later in case the IRS has questions about the tax return. Check out the preparer's reputation with others in the community and obtain the preparer's address and telephone number.
- Insist that the commercial tax preparer sign the tax return. This is required by federal law. The preparer's address and Employer Identification Number (EIN) or Social Security number are also required on the tax return.
- Insist on a complete copy of the tax return and do not sign a blank return or sign in pencil. Check to make sure names, addresses, Social Security numbers and wage information are entered correctly.
- Review the return with the preparer to understand the reason for any refund or reduction in the amount of taxes owed. Even though a preparer does the return and signs it, the taxpayer is still held responsible for the accuracy of all items on the tax return.

A flyer, "Why Pay When You Can Get Your Taxes Done for Free?" is included in the Outreach Campaign Tools Envelope of this kit.

Low-Income Taxpayer Clinics

Low-Income Taxpayer Clinics (LITCs) are programs at law schools, accounting schools or legal services offices which can provide assistance and legal representation to low-income taxpayers who are in disputes with the IRS. Some LITCs are nonprofit organizations which provide community tax education programs in communities where the primary language is one other than English and may provide free tax preparation services as part of their program. For 2006, the IRS awarded 153 LITC grants in all 50 states and in D.C. and Puerto Rico. Outreach Campaigns can refer workers to LITCs if they need special help resolving tax problems.

LITCs can provide legal assistance. Many LITCs can provide legal representation to low-income taxpayers involved in disputes with the IRS. LITCs can often assist workers who:

- have been denied an EIC or CTC claim and wish to appeal the IRS decision;
- have received a notice from the IRS stating their EIC or CTC claim was in error and demanding repayment;
- owe back taxes and need assistance negotiating a payment plan with the IRS for paying the taxes owed; and
- have not received proper wage documentation from their employer.

LITCs can help taxpayers understand IRS notices and avoid severe penalties. The notices low-income taxpayers receive from the IRS are often complex and intimidating. LITCs can provide a valuable service to taxpayers by helping them understand the request and assemble information required by the IRS. Taxpayers must respond to notices within a prescribed period of time or the IRS may act to collect additional taxes, including repayment of previously issued refunds and penalties. In some cases, IRS denial of the EIC can restrict the family's ability to claim the credit in future years. IRS notices often do not deny a taxpayer's refund claim outright, but may ask for further documentation. IRS denials of claims are not always accurate and are often reversed after the taxpayer submits additional information.

Call the Center on Budget and Policy Priorities at (202) 408-1080 for assistance in contacting an LITC in your area.

To become an LITC: The IRS will issue a notice in the spring of 2007 soliciting applications for 2008. Applications typically are due on July 1. If your organization is interested in becoming an LITC, more information is available from the LITC program Office at (202) 283-9802. *You may obtain a free copy of IRS Publication 3319, "Low Income Taxpayer Clinic 2007 Grant Application Package and Guidelines," by calling 1-800-TAX-FORM or at the IRS website: www.irs.gov/formspubs.*

Strategies for Promoting Free Tax Filing Assistance

1. Set up a hotline to publicize free tax assistance sites.

Why is this important?

Campaign organizers report that one of the most frustrating aspects of conducting tax credit outreach is that during tax filing season, the IRS telephone lines are almost always busy. As a result, many workers see a flyer or poster and want to learn more, but can't. They may simply give up. A local tax credit information hotline is a great way to provide workers with basic information about eligibility rules, direct them to a nearby VITA site and help them get the necessary tax forms. Also, a local hotline can make special efforts to be responsive to the needs of workers within specific communities. For example, in areas where large numbers of residents speak languages other than English, a local hotline can make it a high priority to have bilingual operators ready to help callers.

How do you do it?

Link up with an existing information hotline. Look for information and referral (I&R) services — such as those commonly run by United Way agencies — that already receive calls from individuals likely to be eligible for the EIC and the CTC and propose that its operators answer tax credit questions during tax filing season. Provide the I&R service with the information it needs to respond to tax credit calls and help prepare for the extra volume of calls the hotline can expect to receive by contributing staff, volunteers or funds. Child Care Resource and Referral (CCRR) agencies operate hotline services in which

telephone counselors help families in search of affordable child care. Many CCRR phone counselors discuss tax credits with callers and point out that tax refunds can be used to cover the out-of-pocket costs of child care. Large employers may have company-wide hotline services to assist employees with concerns about transportation, child care, and other social services needs. Adding a tax credit information component makes sense.



LexLinc, a private nonprofit, coordinates the Central Kentucky Economic Empowerment Program (CKEEP), a partnership established to promote the EIC that includes the United Way, the IRS, the local Fayette County Lexington Urban County Government and other nonprofit community organizations. In 2006, CKEEP's 11 VITA sites filed over 1,500 returns helping residents claim EIC refunds worth about \$474,000. CKEEP used the United Way's 2-1-1 call center to make appointments for the VITA sites. The United Way call center personnel used the online tool Yahoo! Calendar to schedule appointments. This online calendar and meeting planner allowed VITA site managers to view the appointments the United Way arranged, schedule their own appointments and provide tax filers reminders of their appointments 24 hours in advance. As part of its marketing efforts, a CKEEP representative was interviewed on several local television stations about the tax credits and VITA sites. Right after the television segments were aired the 2-1-1 number would become very active with callers requesting to schedule tax filing appointments. *Contact: Harmony Little, LexLinc, (859) 381-1302 x227, hlittle@lexlinc.org*

Establish a new hotline. Hiring an answering service is another way to set up a tax credit hotline. While it may cost money, businesses or foundations in your community might be willing to help. If you decide not to hire an answering service, there are some other options. For example, if your target area is not too large, interns, volunteers or a voice-mail system can refer callers to VITA sites. Alternatively, you can cover a larger area and share costs by establishing a regional hotline with groups around your state or in nearby states.

Calling “2-1-1” for Tax Credit Help

The “2-1-1” community services information and referral system can help Tax Credit Outreach Campaigns inform the community about the EIC and CTC and free tax preparation services. The Federal Communications Commission has assigned the telephone dialing code “2-1-1” to be used exclusively for community information and referral purposes. The United Way of America and the Alliance of Information and Referral Systems have promoted development of a nationwide “2-1-1” system so that, eventually, callers anywhere will simply be able to dial 2-1-1 to find information on human services programs in their communities. Forty states now have “2-1-1” call centers and there are plans to expand to other states. The “Calling for 2-1-1 Act,” currently before Congress, authorizes \$600 million over five years to help develop and sustain “2-1-1” nationwide. Currently, “2-1-1” services operate with state and local funds. *For more information about 2-1-1 initiatives in your area go to www.211.org.*

Decide what your hotline will offer to callers. Top-notch tax credit hotlines have a number of key features. They operate seven days a week, 24 hours a day — or at least during some non-business hours — and have operators that

speak languages other than English, where needed. Your hotline can help callers determine if they are likely to be eligible for the EIC and the CTC or it can simply refer them to VITA sites.

For a sample EIC Hotline Script, or to connect with organizations that have experience operating a local or statewide hotline, call the Center on Budget and Policy Priorities at (202) 408-1080.

2. Partner with financial institutions.

Why is this important?

At least 10 million U.S. households do not have a bank account and are “unbanked.” According to the Federal Reserve Board, more than 80 percent of the “unbanked” earn less than \$25,000 per year, making them potentially eligible for the EIC. They often rely on fee-based services such as check-cashers or payday loans and may be unaware that alternative ways to access the same services exist.

Financial institutions can be encouraged to offer affordable services for low-income workers. Under the Community Reinvestment Act (CRA), financial institutions — including mainstream banks, community banks, credit unions and locally owned savings institutions — are evaluated on their efforts to help underserved neighborhoods gain access to credit and other financial services. Outreach Campaigns that partner with financial institutions can play a key role in connecting workers without bank accounts to services they need.

How do you do it?

Encourage financial institutions to offer affordable bank accounts at free tax preparation sites. Employees of financial institutions can open checking or savings accounts

at VITA sites so workers can have their refund directly deposited in to the account. Outreach Campaigns can negotiate the terms of bank accounts offered at tax preparation sites. For example, banks can waive or reduce monthly fees, minimum balances and penalties. The National Community Tax Coalition (NCTC) has a document that explains bank account features that can be negotiated with financial institutions to offer the most practical and beneficial bank accounts for taxpayers. “*Financial Institution Partnership Guidelines*” can be found in NCTC’s Resource Library under the financial services section at www.tax-coalition.org.



The Omaha Earned Income Tax Coalition (OEITC), which includes 10 financial institutions, has created a process that allows volunteers at VITA sites to open savings accounts for taxpayers when bank representatives cannot be present to set up the accounts. OEITC developed a manual that includes a universal off-site account application that is accepted by six banks. In 2006, the Coalition used the application to open bank accounts at two one-day tax filing events and two VITA sites. As a result of this effort, the number of tax filers using the coalition’s VITA services who arranged for their refunds to be deposited directly into their bank accounts increased by 38 percent from 2005 to 2006. OEITC VITA sites filed a total of 4,103 returns that provided \$1,008,594 in EIC refunds. Next year the Coalition plans to implement this model of volunteers opening bank accounts statewide. *Contact: Julie Kalkowski, United Way of the Midlands, (402) 342-8232 or juliek@uwmidlands.org*

Enlist banks to cash tax refund checks free of charge. Banks or credit unions can provide free check-cashing for people who do not have bank accounts or are not interested in opening one. One Outreach Campaign partnered with a bank and devised “signature cards” that were signed at the time of tax preparation by the taxpayer and the free tax site. When the taxpayer’s IRS check arrived, participating financial institutions would “redeem” the card and cash the taxpayer’s refund check free of charge.

Engage employees working at financial institutions. Financial institutions can partner with tax credit campaigns by allowing employees to volunteer at a free tax site on company time. The Federal Deposit Insurance Corporation (FDIC) works with banks to organize such efforts. Contact your regional FDIC office to find out if there are financial institutions in your community that may be interested in becoming involved in your Outreach Campaign. *Identify FDIC regional offices at www.fdic.gov/about/contact/ask/regionaloffices.html.*

3. Use technology and the Internet.

Why is this important?

Outreach Campaigns that link low-income workers with new time- and paperwork-saving technologies can help tax filers reduce errors on their returns and receive their refunds more quickly, as well as make outreach resources go further. The Internet can also be used to enhance campaign efforts to publicize the tax credits and free tax filing assistance services.

How do you do it?

Let workers know how to obtain EIC and CTC forms on-line. Your campaign can let workers know they can find tax forms at the IRS website, www.irs.gov/formspubs. You can also download key forms and post them to your own organization's website. EIC hotlines can provide fast access to these forms by providing the IRS link to callers. The IRS website also provides information about eligibility for the EIC and CTC, including an on-line tool in English and Spanish for individuals to figure their own eligibility — search for “EITC Assistant” at www.irs.gov. Providing this information helps ensure that workers — especially those who choose to file their own returns — do so properly.

Expand access to electronic filing at VITA sites. “E-filing” can improve VITA services by enabling filers to receive their refunds much faster than returns sent by mail. Many simple errors on e-filed returns are immediately caught before the return is accepted, enabling faster corrections to be made without further delaying the refund. E-filing services at VITA sites provide low-income workers a fast alternative to paying commercial tax preparation fees they cannot afford. Outreach Campaigns can help increase e-filing at VITA sites by helping them obtain computer equipment. Local businesses that are upgrading their computers may be willing to donate their older models. The IRS can provide free software needed for e-filing. Talk to your IRS Territory Manager about the computer system requirements for this software.

Post information about VITA sites on your website. The IRS has difficulty providing lists of local VITA sites in time to use in materials that

need to be printed in advance. Consider contacting past VITA sites directly to see if they plan on operating again this year and posting their updated schedule information on your website. Also, inform your network about free tax preparation services and claiming the EIC and CTC by sending email announcements to your contacts or listserv.

Reach out to “digital divide” programs.

According to a recent study by the Pew Internet & American Life Project, 49 percent of adults living in households with annual incomes of \$30,000 or less have access to the Internet. While this number is increasing, low-income families are much less likely than higher-income families to have regular Internet access. Programs to address this gap, known as the “digital divide,” provide such families education and access to computers, the Internet and other technologies. These programs may serve families likely to be eligible for the EIC and CTC and they may assist families to learn how to e-file their taxes.



The One Economy Corporation has created the “Beehive,” an on-line resource for people to find child care, social services, money management, employment and education resources in their communities. The Beehive (www.thebeehive.org) provides information on the EIC and VITA sites, and some “local Beehives” provide information on free tax assistance offered by Outreach Campaigns. The Beehives present information at the 6th grade literacy level and also provide on-line translation in Spanish.

I-CAN! E-File

The Legal Aid Society of Orange County, CA has developed I-CAN! E-File, a web-based program that enables community partners to assist taxpayers with incomes under \$50,000 in preparing and e-filing their own tax returns. I-CAN! E-File provides a video “guide” to completing a tax return that comes with accompanying text written at a 5th grade literacy level. These materials are available at no charge in English and Spanish. In 2006, 2,553 tax returns were filed through I-CAN! E-File, resulting in EIC claims worth more than \$4.1 million. I-CAN! E-File is seeking to expand its capacity to file state tax returns. *For more information, contact Jeanette Valencia at (714) 571-5269 or jvalencia@Legal-Aid.com. Visit the I-CAN! E-File website at www.icanefile.org/programs.*

Low-income workers can e-file through the Free File Alliance.

In 2003, the IRS began a partnership with the Free File Alliance, a consortium of companies that provide free on-line tax preparation and electronic filing. Under an agreement with the IRS, workers earning less than \$50,000 in 2006 may use its on-line tax filing system at no charge to file federal returns. (Companies may charge to file state tax returns.) In January 2007, workers may access the Free File Alliance at the IRS website to explore what these companies offer and link to tax filing programs they may wish to use. Last year, about four million taxpayers filed returns through the Alliance service. Outreach organizations can make their computers and Internet access available to low-income workers who want to use this service.

Note: The Free File Alliance can make it cost-free and easier for low-income tax filers to take advantage of electronic filing, but Tax Credit Outreach Campaigns should use caution in promoting this service. The services available may not be the best option for all low-income filers. Filers must complete their own tax forms at these sites. While companies attempt to make their sites “user-friendly,” they may charge extra fees to answer a worker’s tax questions.

Organizations that make their computers available to community residents so they can use this service may wish to have trained staff or volunteers available to answer questions and to review returns for errors before they are submitted to the IRS. In addition, some companies in the Free File Alliance offer refund anticipation loans at the same website. Outreach Campaigns should emphasize to workers that they are under no obligation to purchase these or other services offered by these companies. Outreach Campaigns should also let workers know that they can have their tax refunds deposited directly into their own bank accounts when using these services. *For more information on the Free File Alliance, see www.irs.gov/app/freeFile/welcome.jsp.*

New IRS Split Refund Policy Encourages Workers to Save Their Refunds

What are Split Refunds?

In the 2007 tax filing season, the IRS will launch a new option for tax filers — called “split refund” — that will enable filers receiving a refund through direct-deposit to arrange for a part of it to go directly into a savings account. This is designed to make it easier for tax filers receiving substantial refunds, such as from the EIC and CTC, to take advantage of savings and asset development opportunities at the same time they file their return.

The split refund option is used only to directly deposit refunds into a savings or other account. Tax filers will not be able to split their refund to deposit a part of their refund into an account and receive the rest of the refund as a paper check mailed by the IRS.

What are the benefits? Previously, filers either had to deposit all of their refund into one account or receive a paper check. This delays a worker’s decision to save and requires a separate trip to a bank or credit union to divide the refund between savings and immediate use. The split refund option provides lower-income workers a convenient automatic savings mechanism that can facilitate their decision to save some of their income. Such workers usually do not have access to the savings opportunities offered by mechanisms such as payroll deductions for deposits into 401(k) retirement plans. In addition, designating a portion of a substantial tax refund for savings may enable such workers to save more than they could by diverting only small amounts of their paychecks to savings.

By facilitating saving, the split refund option also enables low- and moderate-income workers to take greater advantage of tax benefits that reward savings, such as the Saver’s Tax Credit for deposits into retirement accounts (*see p. 17 of this booklet*). Split refunds also make it easier to participate in asset-building programs such as Individual Development Accounts (IDAs) that require individual savings.

How will they work?

The new option will allow tax filers in 2007 to split their refund for direct deposit into as many as three different accounts. For example, a married couple could split a joint tax refund to make deposits to each spouse’s Individual Retirement Account (IRA), with the balance going into the couple’s checking account. (Their IRA deposits may allow the couple to claim the Saver’s Tax Credit on the same tax return.)

To direct the IRS on how tax filers want a tax refund to be split among different accounts, filers will submit a new Form 8888 with their return, which provides the name of the financial institution, the filer’s account number and the institution’s routing transit number for direct deposits. The split refund option can be chosen whether the return is filed electronically or mailed, and it can be used with any of the IRS 1040 series of tax return forms, including the 1040-EZ. (Tax filers who want to deposit the entire amount of their refund directly into one account won’t need to use this new form and will continue to designate the account on the tax return.)

Expanding services to help lower-income workers save

It can be hard for lower-income workers to save. They have many demands on their modest incomes and often lack a bank account in which to deposit savings. Receiving a large lump-sum EIC and CTC refund that averages over \$2,000, and for some is over \$4,000, provides an incentive for savings. However, most workers are reluctant to commit their entire tax refunds to savings. Also, a substantial segment of lower-income workers have no bank account in which to save. The split refund procedure can help address these barriers and provide new opportunities in 2007 for VITA sites to engage financial institutions to open accounts for tax clients.

The flexibility of split refunds may enable organizations seeking to build stronger linkages between free tax preparation services and asset-building to develop new services attractive to lower-income taxpayers. For example, many VITA sites now partner with a bank or credit union to help tax filers without a bank account to open a new savings account at the site. In doing so, filers can obtain a refund more quickly by filing electronically and having the IRS send the tax refund directly into their account. With the split refund option, VITA programs could work with partners to also allow IRAs to be opened on the spot.

Similarly, free tax preparation services may be able to partner more effectively with organizations administering IDAs. The split refund option provides lower-income workers the opportunity to open an IDA account with part of their refund and still deposit the balance in a savings or checking account.

Outreach resources to promote split refunds

Several organizations, including the Brookings Institution, the D2D Fund, Inc. (“Doorway to Dreams”), and the New America Foundation, involved in expanding asset development opportunities for lower-income workers have urged the IRS for a number of years to offer the split refund opportunity to tax filers.

The D2D Fund, a non-profit organization formed to develop new ways to offer financial services to traditionally under-served low and moderate-income households, carried out pilot projects with community agencies providing free tax preparation assistance that showed that low-income taxpayers often would respond to the opportunity to save when offered the flexibility of split refunds. For example, one-fifth of VITA clients accepted the opportunity to use split refunds in a pilot conducted by the Community Action Project of Tulsa County in Tulsa, OK, and deposited nearly half the amount of their refunds into savings. Over three-fourths of these workers had no savings previously.

Proponents of the split refund option are now actively trying to increase taxpayer awareness of this opportunity. The D2D Fund, in conjunction with the United Way of America and the National Community Tax Coalition, is offering a free “Guide to Split Refunds” which can be ordered at its new website dedicated to split refund policies, www.splitrefunds.net. The Guide provides approaches on how Tax Credit Outreach Campaigns and VITA programs can market saving through split refunds at tax time, how to modify VITA site operations and training to build in the split refund process and how to build financial institution relationships and select savings products appropriate for lower-income workers. The website will provide updates on IRS forms and procedures, tax filing software issues and examples of innovative local programs offering split refund opportunities.

Saver's Tax Credit for 2006: Workers Can Save for Retirement And Reduce Income Taxes

The Saver's Tax Credit can reward workers who make contributions to a retirement plan or Individual Retirement Account (IRA). Workers can receive a tax credit worth up to 50 percent of a maximum \$2,000 contribution. Married workers may each make the maximum contribution. The Saver's Tax Credit, is referred to in IRS tax forms as the "Credit for Qualified Retirement Savings Contributions." This may be particularly valuable for workers in areas where matched-savings plans, such as Individual Development Accounts (IDAs), are not available or when saving for retirement is a higher priority for a family than the uses that may qualify for matched savings in an IDA.

The Saver's Tax Credit will reduce or eliminate a worker's income tax but, unlike the Earned Income Credit, workers who owe no income tax will not benefit from the Saver's Tax Credit. However, some moderate-income workers with children may see increased benefits from the EIC when they make contributions to a retirement account through pre-tax salary deductions and take advantage of the Saver's Tax Credit. Here's why:

- Generally, only taxable earned income is counted in figuring the EIC. Most EIC claimants who make contributions for retirement through pre-tax salary deductions are in the "phase-down" range of the EIC, where EIC amounts decrease as taxable income increases. Since the salary deductions made for retirement reduce the worker's taxable income, the worker will qualify for a larger EIC.

Example: Randy and Meg earned \$25,000 in 2006 and have two children attending college full-time. They ordinarily would owe income tax of \$150 and would qualify for an EIC of \$2,811. However, during 2006 they made contributions of \$1,000 to Meg's retirement plan at work through pre-tax salary deductions. This reduces their taxable income to \$24,000, and reduces their income tax to \$50 — a \$100 savings. Since only their \$24,000 in taxable earnings is considered in calculating the EIC, they will qualify for a higher EIC of \$3,022, an increase of \$211. And, they can take the Saver's Tax Credit (in their case worth up to 50 percent of their \$1,000 contribution — as much as \$500 in reduced income tax), which eliminates their \$50 income tax. *Overall, by making the \$1,000 contribution to Meg's retirement account and taking the Saver's Tax Credit, the couple gets a tax benefit of \$361. (Their original income tax amount was reduced by \$100 and then the remaining \$50 was eliminated, for a total tax reduction of \$150. In addition, by reducing their taxable income, they were able to claim an EIC that was \$211 higher than it would have been had they not made the retirement plan contribution: \$150 + \$211 = \$361.)*

- Also, since the Saver's Tax Credit reduces or eliminates the income tax a worker may owe, if the worker also qualifies for the Child Tax Credit, less of the CTC will need to go toward reducing income tax liability and more will be available for a CTC refund to the worker.

Who Is Eligible to Claim the Saver's Tax Credit?

The credit may be claimed by taxpayers who:

- are age 18 or older,
- are not full-time students,
- are not claimed as a dependent on someone else's return; and
- have adjusted gross income in 2006 no higher than these amounts:
 - \$50,000 if married filing jointly
 - \$37,500 if filing as head of household
 - \$25,000 if filing single or married filing separately

What Retirement Contributions Qualify for the Saver's Tax Credit?

Contributions workers elect to make through salary reduction to a variety of employer-administered retirement plans are eligible for the credit, as are contributions to both traditional and Roth Individual Retirement Accounts (IRAs). Salary reduction contributions made to the following types of plans are eligible:

- a 401(k) plan, including a SIMPLE 401(k)
- a section 403(b) annuity
- an eligible deferred compensation plan of a state or local government (a "governmental 457 plan")
- a SIMPLE IRA plan

- a salary reduction SEP (Simplified Employee Pension)

Individuals entitled to deduct IRA contributions may still do so and also claim the Saver's Tax Credit. Voluntary after-tax contributions to a qualified retirement plan or 403(b) annuity also qualify for the Saver's Tax Credit.

How Is the Amount of the Saver's Tax Credit Figured?

The credit can range from 10 percent to 50 percent of the worker's contribution to retirement, based upon the worker's adjusted gross income for the tax year. In the example of Randy and Meg above, their taxable income of \$25,000 as married joint filers qualifies them for a credit worth 50 percent of their \$1,000 contribution (see chart below).

How do Workers Claim the Saver's Tax Credit?

Workers must complete IRS Form 8880, "Credit for Qualified Retirement Savings Contributions," enter the amount of the credit on Form 1040 or 1040A, and attach Form 8880 to their tax return. Form 8880 may be downloaded from the IRS website at: www.irs.gov/formspubs. For additional information, see the chapter on this credit in IRS Publication 590, "Individual Retirement Arrangements."

2006 Adjusted Gross Income

Married filing jointly	Head of household	All other filers	Credit
\$0 - \$30,000	\$0 - \$22,500	\$0 - \$15,000	50% of contribution
\$30,001 - \$32,500	\$22,501 - \$24,370	\$15,001 - \$16,250	20% of contribution
\$32,501 - \$50,000	\$24,376 - \$37,500	\$16,251 - \$25,000	10% of contribution
Over \$50,000	Over \$37,500	Over \$25,000	Credit not available

Roth IRAs: A Flexible Approach to Building Assets

Many workers who wish to save for retirement, homeownership, or other purposes may find that the Roth Individual Retirement Account (IRA) is an attractive way to save that offers important advantages. It can be an effective alternative for workers unable to obtain an Individual Development Account.

In a regular savings account, the interest earned on the account counts as taxable income. The interest earned in a Roth IRA, in contrast, is normally *not* taxable. In fact, all funds in a Roth IRA may be withdrawn tax-free so long as the account is at least five years old and:

- the worker has reached age 59½; **or**
- the worker or the worker's spouse, child, or grandchild is using IRA funds for a first-time home purchase (up to \$10,000 toward each purchase); **or**
- the worker is using IRA funds for higher education expenses; **or**
- the worker is disabled.

Roth IRAs also have several advantages over traditional IRAs. Most notably, withdrawals from traditional IRAs are taxable, while withdrawals from Roth IRAs aren't.

In addition, traditional IRAs have substantial penalties for withdrawal before age 59½. (While there are exceptions, any early withdrawals still count as taxable income.) Traditional IRAs also require holders to begin withdrawals at age 70½, while Roth IRAs have no mandatory withdrawals at any age and also allow contributions after age 70½.

The main benefit of traditional IRAs is that workers can deduct the contributions to these accounts from their income, reducing their income tax liability. Roth IRAs do not provide this benefit. However, many low- and moderate-income workers — such as those who qualify for the EIC — don't need this tax advantage, either because they don't earn enough to owe income taxes or because they do owe income taxes but don't need an additional deduction.

While some workers may feel they don't earn enough to put any money aside for retirement, their EIC or CTC refund may provide enough funds to establish a Roth IRA. Minimum deposits to start a Roth IRA can be as low as \$100 to \$500. Roth IRAs can be established as bank certificates of deposit and other investment products. In 2006, workers can contribute up to \$4,000 to a Roth IRA; this limit is \$5,000 for workers over age 50.

Organizations Can Provide Counseling on Roth IRAs

The Community Action Program of Tulsa County (CAPTC) in Oklahoma offered clients the option to start an IRA that would also serve as an Individual Development Account (IDA). IRAs were the second most popular savings vehicle chosen by IDA participants. CAPTC provided clients with a two-hour seminar on IRAs, the advantages of Roth IRAs and how to invest the funds in an IRA. CAPTC is surveying those participants who chose IRAs to learn more about how the investment is meeting their needs. *For more information, contact Dick Jackson, CAPTC, (918) 747-0167.*

Education Tax Credits for College and Work Skills: The Hope Credit and the Lifetime Learning Credit

Two tax credits are available to families and students to help them meet the cost of post secondary education. The Hope Credit and the Lifetime Learning Credit can make education more affordable for people who might not otherwise be able to attend college. The credits encourage workers to return to school to improve their skills and increase their earning ability. These credits differ from the Earned Income Credit in that they are not refundable. But the credits can reduce the amount of taxes filers owe. Filers who claim an education tax credit may also claim the EIC and Child Tax Credit, if they qualify.

Who is Eligible to Claim Education Credits?

The credits may be claimed by tax filers who pay for “qualified educational expenses,” whether for themselves, their spouse or their dependents, at an “eligible educational institution.” For filers to be eligible:

- Adjusted gross income in 2006 must be less than \$55,000 (\$110,000 if married)
- Immigrants who are resident aliens for tax purposes may also claim these credits

Qualified Educational Expenses for the Education Credits Include:

- Tuition – The amount of tuition *after* tax-free contributions have been subtracted, such as:
 - Scholarships
 - Fellowships
 - Pell Grants
 - Employer Assistance
 - Veterans Assistance

- Other expenses *required* for enrollment at an educational institution, such as student activity fees and course-related materials, paid as a condition of enrollment

The following are not qualifying expenses, even if required by the institution:

- insurance, medical expenses, room and board, transportation, other living or family expenses and childcare

Eligible Educational Institutions:

- Colleges
- Universities
- Vocational Schools
- Accredited public, private, nonprofit, post-secondary schools eligible to participate in Student Aid programs of the U.S. Department of Education

How Much Is the Hope Credit Worth?

The Hope Credit is available for students who are in their first or second year of college and are pursuing an undergraduate degree. The credit is figured by taking 100 percent of the first \$1,100 paid towards the student’s qualified educational expenses, then adding 50 percent of the next \$1,100 in educational expenses. The maximum credit possible is \$1,650.

How Much is the Lifetime Learning Credit Worth?

The Lifetime Learning Credit is available for students at any point in their post-secondary

education. The credit is figured by calculating 20 percent of the first \$10,000 of educational expenses. The maximum credit is \$2,000 for one household, regardless of the number of eligible students in the family.

Example: Carrie earned \$27,500 as an administrative assistant at DieCorp in 2006. DieCorp agreed to pay a third of Carrie's expenses if she went back to school to get credentials as a bookkeeper. Carrie enrolled in the local community college for an accounting class. Tuition for the class was \$865; DieCorp's share is \$288. Carrie is eligible to claim the Lifetime Learning Credit. She can't claim the Hope Credit because she is not in her first or second year of college. To figure her credit, Carrie determines she can claim a tuition expense of \$577 by subtracting her employer's contribution from her total tuition ($\$865 - \$288 = \$577$). Since the Lifetime Learning Credit is 20 percent of the first \$10,000 of eligible expenses, Carrie's Lifetime Learning Credit would be \$115 ($\$577 \times 20 \text{ percent} = \115).

Differences in Rules for the Hope Credit and Lifetime Learning Credit

Hope Credit	Lifetime Learning Credit
1st & 2nd year post-secondary students	Students in any year of college or courses to acquire job skills
Student must be pursuing undergraduate degree or other educational credentials	No degree or course study requirements
Must be enrolled at least half time	Enrolled in a minimum of one course
May not have felony convictions for possession of drugs or intent to distribute	Felony drug rule does not apply
Student is not claiming Lifetime Learning Credit	Student is not claiming Hope Credit

Claiming the Hope and Lifetime Learning Credits

IRS Form 8863 is required to claim either credit. Form 8863 must be attached to the tax return (Form 1040 or 1040 A). *For more information see IRS Publication 970 "Tax Benefits for Education."*

Education Credits Increased for Survivors of the 2005 Hurricanes

For both 2005 and 2006, Congress doubled the amounts that can be claimed under the Hope Credit and the Lifetime Learning Credit for students attending educational institutions in areas hit by hurricanes Katrina, Rita and Wilma. The definition of qualified educational expenses was also expanded for these students. *For more information on hurricane-related rules, see IRS Publication 4492.*

Hope Credit:

- 100% of the first \$2,000 in qualified education expenses
- 50% of the next \$2,000 in qualified education expenses
- Maximum credit: \$3,000

Lifetime Learning Credit:

- 40% of the first \$10,000 in qualified education expenses
- Maximum credit: \$4,000

Qualified Educational Expenses:

- Books, supplies and equipment for enrollment
- Expenses necessary for special needs students to enroll
- Room and Board, up to the maximum allowed as charged by the institution

Promote Tax Credits with Asset Development Opportunities

One out of four Americans is asset-poor, which means he or she has insufficient assets to live for three months at the federal poverty line. (In 2006, the poverty line for a family of three is \$16,600.) Research shows low-wage workers recognize the importance of saving, yet many families struggle to set money aside when they have to meet day-to-day needs. Tax Credit Outreach Campaigns can help workers understand how EIC and CTC refunds can contribute to an asset development program, which can help workers achieve long-term goals such as establishing a savings account or purchasing a home.

Asset development programs can be promoted with the EIC and CTC

IDAs

Individual Development Accounts (IDAs) are special “matched savings accounts” designed to encourage low-income working families to save by providing funds to match their own monthly deposits. Many state and local IDA programs have been funded through a federal demonstration program under the Assets for Independence Act. These programs build partnerships with financial institutions that open the savings accounts for workers and provide the matching funds which enable workers to multiply their savings and use the money for one of three designated goals: purchasing a home, paying for higher education or job training, or building a small business. IDA programs exist in over 500 communities, with more programs in the planning stages. Federal welfare rules permit states to use TANF funds to support IDAs for welfare recipients moving into the labor

force. Federal legislation has been proposed to provide a tax credit to encourage financial institutions to participate more widely in IDA programs.

Many IDA programs require account holders to participate in “financial education” training and counseling programs to familiarize them with strategies for managing household expenses and building assets for a long-range purpose. This is an opportunity for program participants to learn about how the tax credits can augment their savings. For example, an IDA participant could use her tax refund to pay off debts, enabling her to qualify for a home loan. She could then use the money in her IDA account as a down payment on a home. EIC and CTC refunds — and Advance EIC payments — provide additional income to low-income workers, making it more feasible for them to make the modest monthly deposits typically required in an IDA program.

Harnessing the EIC, the CTC and an IDA to work together promotes the development of assets by low- and moderate-income families. IDA programs typically involve nonprofit groups, banks or credit unions, and government agencies. IDA programs are interested in reaching the same families that may be eligible for tax credits for low-wage workers and should be included in campaign planning meetings.

Outreach Campaigns can encourage organizations that run IDA programs to take the following steps:

- Tell workers about the EIC and the CTC during IDA participant recruitment.

- Discuss the tax credits in money management education sessions, home ownership classes, or business seminars. Explain who qualifies, how to claim the credits, and how to use VITA services.
- Insert tax credit information into educational packets and display flyers and posters at resource centers and in training rooms.
- Schedule a day when IDA participants can have their tax returns prepared on-site, at no charge.
- Promote Advance EIC payments, which can help enable low-wage workers to make consistent monthly IDA deposits.
- Involve financial institutions in tax credit outreach. For example, banks can mail EIC and CTC information with IDA account statements.

To learn more about IDAs and to identify IDA programs in your community, visit www.cfed.org.

Car ownership programs

Lack of transportation severely limits work opportunities. Approximately 36 percent of low-income single parents own a car. Only about 30 percent of entry-level jobs in large cities and developing communities are accessible by public transportation. Car ownership programs help link low-income families to transportation which gives them the opportunity to gain and maintain employment. Car ownership programs issue affordable no- or low-interest loans. Some programs require participants to complete activities, such as job training or money management classes, before they can receive the loan.

One of the largest programs issuing loans for transportation-related needs is Ways to Work, Inc, a Community Development Financial Institution, and affiliate of the Alliance for Children and Families. Ways to Work provides small loans that can help purchase a used car, repair a car, or pay for other expenses that could interfere with

maintaining employment. More than 94 percent of all loans issued are used for car purchases or repairs. Currently, 52 Alliance member organizations administer the Ways to Work program in 25 states.

Outreach Campaigns in communities with Ways to Work programs can promote Ways to Work with the EIC and CTC. *To learn about the program visit www.waystowork.org. To learn how organizations can administer a Ways to Work program contact: Kevin Stewart, 1-800-221-3726 x 3656 or wtwinfo@waystowork.org.*

In addition to Ways to Work, other car ownership programs operate regionally and locally. To find car ownership programs in your state, visit the National Economic Development and Law Center's "Low Income Car Ownership Program Clearinghouse" at www.nedlc.org/center/copc.

Homeownership programs and investment clubs

Outreach Campaigns can arrange for local groups offering homeownership and investment programs to share information at free tax assistance sites about different ways to save and invest money. Alternatively, volunteers can be trained to share such information with taxpayers. For example, the United Way of Greater Rochester's CASH (Creating Assets, Savings and Hope) Campaign trained volunteers to serve as "CASH advisors" at their VITA sites. Tax filers completed a financial "wish list" which volunteers used to direct them to appropriate savings programs.

America Saves

America Saves is a nationwide campaign supported by a coalition of 1,000 nonprofit groups, employers, financial institutions, and government agencies to help individuals and families save and build wealth. It assists families as they pay down debt, build an

emergency fund and save for a home, education or retirement. Currently the campaign has enrolled 40,000 savers and 1,000 organizations at the local, state and national levels. Cooperative Extension offices, nonprofit credit counseling agencies, banks and credit unions, and city and county government agencies are often involved in local campaigns.

The campaign offers printed and on-line information resources, workshops, support through financial planners and clubs, access to affordable bank accounts and assistance to organizations in incorporating America Saves messages and services into their own programs. *For more information visit www.americasaves.org or contact: Nancy Register, Consumer Federation of America, (202) 387-6121, information@americasaves.org*

Other asset development tools

Financial education classes

Community organizations can offer financial education classes or can work with a bank or credit union that has already established a financial education program. Some Outreach Campaigns may find it difficult to generate interest in participating in financial education classes and may have greater success when providing incentives that can be promoted with the classes such as child care, transportation reimbursement, or a monetary stipend for participation. For example, the Imperial Valley EITC/VITA Project in California could not offer a full financial education class, so staff created a financial education textbook written in English and Spanish for clients to read while they waited to have their taxes prepared at VITA sites. Tax filers who read the book and passed a test on the material were entered into a drawing for a savings bond. *For a list of financial education curricula, see p. 25 of this booklet.*

Credit reports and credit repair

Outreach Campaigns interested in offering asset development programs to lower-wage workers often find that a worker's poor credit rating is an initial barrier to establishing a bank account or participating in affordable homeownership programs. Some programs have begun to focus on connecting such workers to credit repair programs as a first step to enabling them to improve their financial circumstances. Credit counselors can train tax preparers to share basic information with workers, before or after taxes are completed, such as how to understand a credit report, how credit scores are used, and how tax refunds can be used to help improve credit history.

Under federal law, anyone can request one free credit report from each of the three nationwide consumer credit reporting companies every 12 months. Outreach Campaigns can order credit reports on-line for taxpayers through www.annualcreditreport.com and print them immediately, or they can provide request forms for people to submit by mail. Requests made by mail or phone take 15 days to process. Alternatively, Outreach Campaigns can invite credit counselors from an organization working with credit reports and credit repair to volunteer to talk with taxpayers one-to-one. The National Foundation for Credit Counseling has affiliates across the country that provide financial education classes and counseling and debt management assistance. *Contact: (301) 589-5600 or www.debtadvice.org.*

Financial Education Curricula

Following are some of the financial education curricula that Tax Credit Outreach Campaigns can use to support their efforts to promote the EIC and CTC and free tax filing assistance programs.

Fannie Mae's *Growing Your Money* is a short curriculum, with four sessions that cover spending, banking accounts, understanding credit, and getting loans. *To view and download the curriculum's contents visit www.fanniemaefoundation.org/programs/finance_tools.shtml. To order a free training toolkit and up to 20 participants' guidebooks, call 1-800-943-5775.*

The Federal Deposit Insurance Corporation (FDIC) has created *Money Smart*, a financial education program for adults which can be used by banks, community-based organizations and government agencies. This curriculum includes information about free tax preparation, the EIC, CTC and other tax credits for low- and moderate-income families. *Money Smart* is available in English, Spanish, Chinese, Korean, Vietnamese and Braille. *To obtain a copy of the curriculum, visit www.fdic.gov/consumers/consumer/moneysmart.*

First Nations Development Institute and the Fannie Mae Foundation created *Building Native Communities: Financial Skills for Families*, a financial education curriculum developed specifically for Native American families. The curriculum is designed to help Native people build on their own knowledge and develop personal financial skills while embracing Native traditions and values. It includes an instructor's manual and participant workbooks to provide 18 hours of training. *To download individual sessions of the instructor's manual, visit www.fanniemaefoundation.org/programs/native_american.shtml. To request multiple copies of the curriculum call: 1-800-665-0012.*

Freddie Mac partnered with five Historically Black Colleges, the National Urban League and the Rainbow PUSH Coalition to create *CreditSmart*, a money management and credit improvement curriculum. It focuses on money management and credit improvement and is currently offered by the five colleges and churches affiliated with the Coalition. *To view the curriculum's modules, examples, case studies and worksheets, visit www.freddiemac.com/creditsmart.*

The Nonprofit Investor Protection Trust (IPT) developed *The Basics of Saving and Investing: Investor Education 2020*. This teaching guide includes a segment on avoiding investment fraud. *To download the curriculum, visit www.investorprotection.org/basics.*

Guide to Key IRS Forms and Instructions on the Earned Income Credit and Child Tax Credit

Below is information about the IRS forms and instructions taxpayers may need in order to claim the EIC or CTC, as well as publications to obtain more information about eligibility requirements. They may be ordered at no charge by calling the IRS toll-free at 1-800-TAX-FORM (1-800-829-3676). They may also be downloaded from the IRS website at: www.irs.gov/formspubs.

- **IRS instruction booklets** for completing an individual tax return include step-by-step directions for taxpayers to determine if they qualify for the EIC or the CTC. Worksheets to calculate the amount of each credit are found in the 2006 Instructions for Forms 1040A and 1040. The instructions for Form 1040EZ include an EIC worksheet for workers not claiming children.
- **The Schedule EIC**, which workers raising children must attach to their tax return, is also usually included in the tax form instruction booklets mailed to taxpayers by the IRS.
- **Form 8812, “Additional Child Tax Credit,”** which workers must attach to their tax return to claim the CTC refund, is also usually included in the tax form instruction booklets mailed to taxpayers by the IRS.
- **IRS Publication 596, “Earned Income Credit,”** also available in Spanish as Publication 596-SP, presents the EIC eligibility rules in great detail and provides many examples of how the rules apply in different family circumstances. Most workers do not need to obtain Publication 596 to figure out if they are eligible. The IRS tax form instructions, noted above, will specifically identify those situations that require a worker to refer to Publication 596.
- **IRS Publication 972, “Child Tax Credit,”** is needed only if the taxpayer is referred to it by the 1040 or 1040A instructions. This will be the case mainly for self-employed workers, church employees or “statutory employees.”
- **Form W-5**, contains eligibility rules for the Advance EIC payment option. Workers give the Form W-5 to employers to begin receiving Advance EIC payments.
- **Form 8862, “Information to Claim Earned Income Credit After Disallowance,”** must be filed with a tax return for workers who claimed the EIC erroneously in a previous year and were denied the credit by the IRS, but are now eligible for the credit. Form 8862 is not required if the EIC was denied due to a worker’s math or clerical error. Instructions for Form 8862 are also available at the IRS website.
- **Form 8867, “Paid Preparer’s Earned Income Credit Checklist,”** is a questionnaire commercial tax preparers must complete for each tax filer, and keep on record, to indicate they have shown “due diligence” to determine a worker’s eligibility to claim the EIC.

How To Help A Worker Who Filed A Tax Return But Didn't Claim The EIC or CTC

Tax returns can be amended to claim the EIC and CTC for up to three previous years

- Obtain IRS Form 1040X, “Amended U.S. Individual Income Tax Return,” and the 1040X Instructions. If the taxpayer is raising a qualifying child, also obtain the Schedule EIC for the tax year in which the EIC was not claimed (2002 was the first year the CTC refund was available; obtain Form 8812 for the year in which the CTC is to be claimed). *Prior-year tax forms and instructions are available free from the IRS by calling 1-800-TAX-FORM. Forms for a current year remain on the IRS website, www.irs.gov/formspubs, until the fall of the year.*
- Form 1040X is used to show any change the taxpayer wants to make to a previous tax return. Completing this form is not difficult, but some taxpayers may need assistance understanding the instructions. *Call the IRS at 1-800-829-1040 for assistance or to find the location of a nearby IRS office with a walk-in service center.*
- Calculate the EIC amount using the taxpayer’s tax return and IRS instructions for the year in question. Put this EIC amount on the Earned Income Credit line of Form 1040X. Complete the Schedule EIC if a qualifying child is claimed. Follow the instructions for Form 1040X to complete the form.
- To figure the CTC refund, use the taxpayer’s tax return and the IRS instructions and worksheets for the CTC and Additional Child Tax Credit. Complete Form 8812 and put the amount from line 13 on the Additional Child Tax Credit line of Form 1040X. Follow the instructions for Form 1040X to complete the form.

- To file the amended return, make a *copy* of the tax return for the year in question. Attach Form 1040X to the *copy* of the tax return; attach the completed Schedule EIC and/or Form 8812 if claiming a child. Mail the amended return to the IRS Service Center listed in the 1040X Instructions.
- Generally, Form 1040X can be filed within three years of the date the tax return was previously filed. There is no charge or penalty for filing an amended return.
- A recently-filed tax return should not be amended with Form 1040X until after it has been processed by the IRS — about six weeks for a return that was originally sent by mail and two weeks for a return sent electronically.

What if the taxpayer no longer has a copy of the previous tax return?

- Obtain IRS Form 4506-T, “Request for Transcript of Tax Return.” There is no charge for a transcript. (A photocopy of the actual tax return will cost \$39, and is requested with form 4506, “Request for Copy of Tax Return,” but a photocopy is not required to amend a return.)
- The request for a transcript should not be made until six weeks after the initial tax return was filed. It should take 10 work days to receive the transcript from the IRS.
- The tax return transcript contains the information necessary to complete Form 1040X. It can be requested for returns filed in the current calendar year and two preceding calendar years. Attach a copy of the tax return transcript to the Form 1040X to file the amended return.

Individual Taxpayer Identification Numbers

Some Immigrant Workers Need An ITIN to File a Tax Return and to Claim the Child Tax Credit (CTC)

What is an Individual Taxpayer Identification Number?

An Individual Taxpayer Identification Number (ITIN) is issued by the IRS to individuals who are required to have a U.S. taxpayer identification number but who do not have, and are not eligible to obtain, a Social Security number (SSN) issued by the Social Security Administration (SSA). Such individuals include immigrants in the U.S. who are not yet able to obtain a valid SSN, as well as nonresident aliens who are listed on a U.S. tax return. For example, immigrants in the U.S. who have applied to the U.S. government to obtain legal status to work or reside in the U.S. would need an ITIN to file a tax return while waiting for a decision. The U.S. considers filing tax returns an indication that an immigrant applying for legal status is seeking to comply with his or her tax responsibilities.

What is the purpose of an ITIN? Can it be used to help some workers claim the CTC?

The ITIN is used in place of an SSN on a tax return to identify a taxpayer who has no SSN, or to identify a spouse or dependent without an SSN who is listed on the tax return. ITINs may be obtained by immigrant workers to file tax returns and to claim a person as a dependent who has no SSN, such as dependents living in Mexico or Canada. Eligibility rules for the CTC require that

the taxpayer and the qualifying child claimed for the CTC have either an SSN or an ITIN. However, the qualifying child claimed for the CTC must be either a U.S. citizen or a resident alien living in the U.S. (children living in Mexico or Canada may not be claimed for the CTC even if they have an ITIN). To file a tax return, taxpayers enter their ITIN in the space for the SSN on the tax return and on Form 8812 “Additional Child Tax Credit.” *For more information on the Child Tax Credit, see the booklet, “Facts,” in this kit.* An increasing number of banks accept ITINs as identification to open bank accounts, which can speed the receipt of a worker’s tax refund by having it deposited directly in the account.

An ITIN does not:

- entitle an individual to Social Security benefits;
- enable a taxpayer to claim the EIC or permit a child with an ITIN to be claimed for the EIC — a valid SSN and authorization to legally work in the U.S. are required for the EIC;
- cause any adjustment to the individual’s immigration status;
- mean that the individual is an undocumented worker;
- give the individual the right to work in the U.S. Any individual who is eligible to be legally employed in the U.S. must have an SSN. A worker with an ITIN should not provide it to an employer in place of an SSN, since this would indicate to the employer and to the Social Security Administration that the worker is not authorized to work.

How do taxpayers get an ITIN?

Individuals who wish to file a tax return but who cannot obtain a valid SSN must complete IRS Form W-7, "Application for IRS Individual Taxpayer Identification Number." *The Form W-7 must be attached to the completed tax return for which the ITIN is needed.* The tax return, Form W-7 and supporting documents verifying identity and foreign status must be submitted together to the IRS. Form W-7 describes which documents are acceptable. Parents or guardians may complete and sign a Form W-7 for a dependent under age 14, and must check the parent or guardian's box in the signature area of the application. Other dependents and spouses must complete and sign their own Forms W-7.

The Form W-7 and the required supporting documentation must be *mailed with the tax return* to the IRS Service Center in Philadelphia (the address is on the Form W-7). This office can be reached at (215) 516-4846. While original documents may be sent, there is considerable risk they could be lost. To avoid such problems, applicants have several alternatives: (1) They can send certified or notarized copies of their documents to the IRS, or (2) they can bring their application to an IRS walk-in office where staff can help individuals prepare W-7 forms and determine which documents are required, (*call 1-800-829-1040 to find the nearest office*) or (3) they can get help from an Acceptance Agent authorized by the IRS. Upon approving the application for the ITIN, the IRS will process the tax return and send a letter to the taxpayer containing the ITIN number(s) for use on subsequent tax returns. *The Form W-7 may be obtained free by calling the IRS at 1-800-TAX-FORM or at the IRS website: www.irs.gov/formspubs.*

What are Acceptance Agents?

Acceptance Agents are authorized by the IRS to assist applicants in completing applications for ITINs. Some Acceptance Agents are authorized by the IRS to certify that they have reviewed and verified the documents applicants submit. Once the documents are certified, the applicant is not required to send originals or notarized copies of documents to the IRS. However, some Acceptance Agents do not prepare tax returns. The completed and signed Form W-7 may be taken to a VITA site or commercial tax preparer and submitted with the tax return. Acceptance Agents may be found at colleges, financial institutions, accounting firms, nonprofit agencies and some Low-Income Taxpayer Clinics. Commercial tax preparers who are Acceptance Agents often charge a fee, typically about \$35, but sometimes more, for completing the Form W-7. (If an individual applies for an ITIN directly with the IRS, there is no fee.)

The IRS website, www.irs.gov, updates lists of Acceptance Agents by state. Search the website for "Acceptance Agents" to find the correct link. The IRS is developing new procedures for organizations that wish to apply to become Acceptance Agents for the 2007 tax filing season. Organizations may find out the status of these procedures by contacting:

Sharon Bradley
Internal Revenue Service
Wage and Investment Division
ITIN Program Office
Telephone: (404) 338-7085
E-mail: Sharon.Bradley@irs.gov

For more information on ITINs, you may also obtain IRS Publication 1915, "Understanding Your IRS Individual Taxpayer Identification Number" at www.irs.gov/formspubs.

Getting in Touch With Your IRS Territory Manager

For a list of Volunteer Income Tax Assistance (VITA) sites in your area, contact your IRS Territory Manager, listed below. The Territory Managers, or their staff, can help you set up new VITA sites and train VITA volunteers. Some offices cover more than one state. The Territory Manager for your state may be headquartered elsewhere, but he or she does supervise the program in your area. The Territory Manager's office can connect you to IRS staff, EIC outreach materials, VITA trainings or VITA site supervisors in your state, and help plan future efforts. *Please let us know if you are unable to make contact.*

Note: These numbers should not be given to individual taxpayers to call for personal tax help. These offices can't do that — they organize the VITA program. *Call 1-800-829-1040 for tax help.*

STATE	TERRITORY MANAGER	PHONE NUMBER/EMAIL
Alabama	Jan Pretus	205-912-5491/Jan.Pretus@irs.gov
Alaska	Barbara Sowder	503-326-2084/Barbara.R.Sowder@irs.gov
Arizona	Patrick Reidy	602-207-8684/Patrick.G.Reidy@irs.gov
Arkansas	Jan Pretus	504-558-3204/Jan.Pretus@irs.gov
California		
Los Angeles	Stella Lee	408-817-6554/Stella.Lee@irs.gov
Oakland	Ronda Hon	559-454-6600/Ronda.L.Hon@irs.gov
Sacramento	Bob Meyer	916-974-5471/Bob.Meyer@irs.gov
San Diego	Barbara Kuhns	949-389-4594/Barbara.M.Kuhns @irs.gov
San Jose	Stella Lee	408-817-6554/Stella.Lee@irs.gov
Colorado	Terence Donohoue	303-446-1356/Terence.Donohoue@irs.gov
Connecticut	Jodonna Powell	860-756-4660/Jodonna.G.Powell@irs.gov
Delaware	Jim Daugherty	412-395-4534/James.K.Daugherty@irs.gov
District of Columbia	Debbie Harris	202-927-9298/Deborah.B.Harris@irs.gov
Florida		
Jacksonville/Tamps	Barbara Travis	813-315-2395/Barbara.Travis@irs.gov
Miami	Ron Albert	954-423-7770/Ronald.W.Albert@irs.gov
Georgia	John Stubbs	404-338-8867/John.M.Stubbs@irs.gov
Hawaii	Barbara Sowder	503-326-2084/Barbara.R.Sowder@irs.gov
Idaho	Barbara Sowder	503-326-2084/Barbara.R.Sowder@irs.gov
Illinois	Otis Damron	312-566-2201/Otis.Damron@irs.gov
Indiana	Ken Williams	317-685-7782/Kenneth.L.Williams@irs.gov
Iowa	Douglas Bauman	402-221-3619/Douglas.A.Bauman@irs.gov
Kansas	Kathryn Lett-Deathe	816-966-2303/Kathryn.Lett-Deathe@irs.gov
Kentucky	Vickie Fairley	513-263-5658/Vickie.D.Fairley@irs.gov
Louisiana	Jan Pretus	205-912-5491/Jan.Pretus@irs.gov
Maine	Bill Smits	617-316-2145/William.C.Smits@irs.gov
Maryland	Debbie Harris	202-927-9298/Deborah.B.Harris@irs.gov

STATE	TERRITORY MANAGER	PHONE NUMBER/EMAIL
Massachusetts	Joel Zarella	617-316-2502/Joel.S.Zarella@irs.gov
Michigan	Ramondo Gee	313-628-3700/Ramondo.Gee@irs.gov
Minnesota	Gary Stadskev	651-312-7631/Gary.A.Stadskev@irs.gov
Mississippi	Jan Pretus	205-912-5491/Jan.Pretus@irs.gov
Missouri	Karen O'Neill	405-297-4026/Karen.L.Oneill@irs.gov
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Nevada	Bob Meyer	916-974-5471/Bob.Meyer@irs.gov
New Hampshire	Bill Smits	617-316-2145/Williams.C.Smits@irs.gov
New Jersey	Tracey Quamie	704-566-5223/Tracey.Quamie@irs.gov
New Mexico	Patrick Reidy	602-207-8684/Patrick.G.Reidy@irs.gov
New York		
Albany/Buffalo	Deitra Grant	716-686-4882/Deitra.Grant@irs.gov
New York City	James Duffy	212-436-1031/James.Duffy@irs.gov
North Carolina		
Charlotte	Richard Schoeller	704-566-5223/Richard.Schoeller@irs.gov
Greensboro	Roger Burton	336-378-2132/Roger.Burton@irs.gov
North Dakota	Gary Stadskev	651-312-7631/Gary.A.Stadskev@irs.gov
Ohio		
Cincinnati	Vickie Fairley	513-263-5658/Vickie.D.Fairley@irs.org
Columbus	Sandra Trigg	614-280-8659/Sandra.Trigg@irs.gov
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Austin	David Hirschman	512-499-5421/David.Hirschman@irs.gov
Dallas	John Agee	214-413-6029/John.E.Agee@irs.gov
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Washington	Barbara Sowder	503-326-2084/Barbara.R.Sowder@irs.gov
West Virginia	Sandra Trigg	614-280-8659/Sandra.Trigg@irs.gov
Wisconsin	Julie Nunlist	414-297-1676/Julie.F.Nunlist@irs.gov
Wyoming	Terence Donohoue	303-446-1356/Terence.Donohoue@irs.gov
Puerto Rico	Ron Albert	954-423-7770/Ronald.W.Albert@irs.gov

