



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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VOLUNTEER INCOME TAX ASSISTANCE (VITA)

Potential CRA and Business Opportunities May Be Available Before the Start of Tax Season

Summary: Volunteer Income Tax Assistance (VITA) sites offer an opportunity for financial institutions to provide a financial service to underserved low- and moderate-income consumers. Recent amendments to Internal Revenue Service (IRS) rules have created more opportunities for financial institutions to help consumers save a portion of their refund. Financial institutions that are involved with VITA programs may be eligible for favorable consideration under Community Reinvestment Act (CRA) rules, as well as develop opportunities to facilitate education, open accounts, and provide other financial-related services to underserved individuals. An institution may maximize these potential benefits by exploring opportunities to be involved before the start of tax season.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
CRA Officer
Head of Deposit and Branch Operations

Attachment:
List of FDIC regional contacts

Contact:
Luke W. Reynolds, Community Affairs Specialist,
lureynolds@fdic.gov or (202) 898-6724

Note:
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Highlights:

- The FDIC continues to partner with the IRS to encourage financial institutions to consider developing relationships with IRS-coordinated VITA sites or coalitions.
- A financial institution may maximize its opportunities to be involved in the VITA program by initiating contact with the IRS or VITA program coordinators before the start of the tax preparation season.
- Institutions partnering with the VITA program may be eligible for favorable consideration under CRA rules as well as develop new business by promoting financial education, banking products, and other financial services to underserved low- and moderate-income taxpayers.

**VOLUNTEER INCOME TAX ASSISTANCE (VITA)
Potential CRA and Business Opportunities May Start Before Tax Season**

The Federal Deposit Insurance Corporation (FDIC) partners with the Internal Revenue Service (IRS) in promoting the IRS-coordinated Volunteer Income Tax Assistance (VITA) program, which offers free preparation of income tax returns for low- and moderate-income individuals. The FDIC would like to remind financial institutions that if they are involved with VITA programs, they may be eligible for favorable consideration under Community Reinvestment Act (CRA) rules, as well as develop opportunities to facilitate education, open accounts, and provide other banking-related services to underserved individuals. An institution may maximize these potential benefits by exploring opportunities to be involved before the start of tax season.

VITA sites are generally located at community centers, libraries, nonprofit organizations, local governmental offices and other locations convenient to clients. The sites are staffed by volunteers who receive free training to prepare basic tax returns. Most locations offer free electronic filing to expedite the receipt of tax refunds.

VITA sites also help consumers obtain the tax credits to which they are entitled, including the Earned Income Tax Credit (EITC). The EITC is a tax benefit available to qualifying low- and moderate-income working people. IRS studies indicate that millions of eligible workers fail to claim this credit. The maximum EITC is approximately \$4,700 for a family with two or more children (for calendar year 2007 returns).

Taxpayers who file an IRS Form 1040 and choose to receive their refund via direct deposit can now elect to split their tax refunds into up to three different checking and savings accounts, with up to three different U.S. financial institutions. This is a change from prior years when consumers could direct-deposit their refund into only one account. The IRS added this flexibility, which took effect in 2007, to encourage more taxpayers to put part of their refunds into savings accounts as well as checking accounts and to increase their use of financial institutions. This change also creates new opportunities for financial institutions at VITA sites to reach underserved and low- and moderate-income consumers.

The FDIC encourages institutions to help facilitate increased use of the split refund availability to explore avenues to promote savings. For example, banks can offer appropriate savings accounts and other longer-term deposit products to help clients save a portion of their

refund. These savings can be for a specific purpose, or help clients confronted with a financial emergency avoid high-cost short-term loan products. FDIC Community Affairs staff can provide technical assistance to institutions seeking to enhance their efforts to encourage low- and moderate-income individuals to save.

VITA sites are generally open between late January and early April. The planning for these sites often begins well in advance of the date the site opens. An institution that is in communication with the IRS and other VITA program coordinators before the tax season may be able to better facilitate the integration of banking and financial-related enhancements into the VITA program than would otherwise be possible. By being involved early, the institution can also assist organizers understand what resources, such as staff volunteers, the bank expects to contribute, which can lead to a more effective campaign. Finally, certain activities in support of the VITA campaign, such as training for volunteers, may take place before the tax season.

Financial institutions can participate in the IRS VITA program in various ways, including by:

- Notifying staff of opportunities to be VITA volunteers;
- Co-sponsoring a VITA site or coalition;
- Donating old computer equipment for use in preparing returns;
- Hosting a VITA site at a bank branch;
- Promoting the EITC and/or VITA program to bank customers, such as by displaying a poster in the lobby or adding a message to bank statements;
- Offering taxpayers the opportunity to start the process of opening a bank account at the VITA site, whether by phone or with staff on-site;
- Offering banking products responsive to the needs of VITA clients;
- Working with a VITA coalition to address other financial needs of VITA clients, such as by helping clients obtain and interpret their credit report; and
- Partnering with the local VITA program to make financial education available to consumers at VITA sites.

Under CRA regulations, financial institutions can receive favorable consideration in the investment test (12 CFR 345.12(t) & 345.23) or service test (12 CFR 345.12(i) & 345.24) for qualifying VITA-related activities.

The FDIC continues its partnership with the IRS through a formal memorandum of understanding that is intended to help form a strong coalition of FDIC-supervised institutions and community groups in support of the VITA program. In addition, the FDIC-IRS partnership is designed to enhance financial management skills and create positive banking relationships for underserved individuals.

For assistance in finding opportunities to be involved in the VITA program, contact the Community Affairs Officer in your local FDIC regional office (see attached list) or Luke W. Reynolds, Community Affairs Specialist in the Division of Supervision and Consumer

Protection, at 202-898-6724. The regional Community Affairs Officers can help interested financial institutions identify local VITA program contacts, and can provide additional technical assistance to financial institutions considering initiating or expanding their involvement in the VITA program.

Sandra Thompson
Director
Division of Supervision and Consumer Protection