



### **Leveraging Earned Income Tax Credits to Reach New Bank Customers**

The Earned Income Tax Credit (EITC) is an important source of income for working families that every eligible taxpayer should claim. National banks have come to appreciate the ability of EITC benefits to help stimulate economic activity and attract new customers within their communities.

Created in 1975, the EITC is the federal government's largest program benefiting working families. It is a refundable tax credit for people who work but do not earn high incomes. When the EITC exceeds the amount of taxes owed, it creates a tax refund to those who claim and qualify for the credit.

Over 26 million taxpayers received nearly \$59 billion in EITC refunds on their 2010 federal income tax returns.<sup>1</sup> The Internal Revenue Service (IRS) estimates that one in five eligible taxpayers left their EITC refunds unclaimed. Therefore, local economies did not garner the indirect benefits from billions of dollars in unclaimed EITC proceeds that would otherwise flow to their local businesses and neighborhoods.

#### **EXAMPLES OF BANK ACTIVITIES INVOLVING EITC PROGRAMS**

For many low- and moderate- income families, federal tax refunds (especially EITC refunds) represent the largest infusion of cash they will receive all year. IRS rules allow taxpayers to split

their refunds between deposit accounts, giving them more options for saving and spending. Banks have reported that EITC programs can provide opportunities to offer products and services in new markets and neighborhoods, as the following examples demonstrate.

#### **EITC Refunds and Newly Created Bank Accounts**

The EITC provides a good avenue for introducing consumers to basic financial services. Banks use this opportunity to educate persons whose broader needs may be better served by depository institutions that provide:

- Access to savings instruments,
- Relatively inexpensive transaction services,
- Consumer protections, and
- Safeguards against theft.

In the context of those education efforts, banks offer products and services that allow EITC funds to be directly deposited into newly created bank accounts, thereby attaining new customers and building core deposits.

#### **Link EITC Refunds with Individual Development Accounts (IDAs)**

EITC refunds enable consumers to participate in a growing economy and to build a financial cushion in the event of an economic downturn. The development of assets, large or small, helps a household eventually leverage those dollars into a home, college education, small business, or

<sup>1</sup> See [www.ietc.irs.gov/central/abouteitc](http://www.ietc.irs.gov/central/abouteitc)

retirement fund.<sup>2</sup> Banks benefit from the EITC refunds from customers who want their savings to grow. These consumers become new bank customers who likely will use a broad range of deposit, credit, and mortgage loan products and services.

Many banks have developed or supported Individual Development Account (IDA) programs in connection with EITC refunds. An IDA is a matched savings account, similar to a 401(k) that can be used for a specifically defined purpose, such as purchasing a home, seeking post-secondary education, or capitalizing a small business.

Consumers make regular savings deposits in their IDAs that are then matched by funds from the sponsoring bank, a foundation, charitable organization, or local government agency that seeks to promote a specific wealth-building initiative. IDA income eligibility requirements vary, but generally limit participation to low- and moderate- income households.

### **EITC Partnerships with Employers**

Working with employers on bank-sponsored payroll and stored-value cards, retirement services, college savings funds, and other bank products and services is another way for banks to incorporate the EITC into their financial literacy programs.

Some employers host or adopt an IRS Volunteer Income Tax Assistance (VITA) site that is staffed with company and bank volunteers. They may launch an internal EITC public awareness campaign through seminars, notes included with paychecks, company newsletters, and other forms of communication.

### **EITC Partnerships with Nonprofit Organizations**

Another example of a bank EITC initiative involves resources to assist nonprofit organizations in working with the unbanked and

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<sup>2</sup> [Individual Development Accounts: An Asset Building Product for Lower Income Consumers](#)” OCC Insights Report, February 2005.

underbanked populations in underserved neighborhoods.

Banks provide grants and staff to nonprofit organizations to coordinate free tax preparation sites, expand outreach, and conduct financial education and literacy programs. These organizations provide to their constituencies information about the EITC and bank programs and services in newsletters, bulletins, Web sites, meetings and other distribution channels.

### **STARTING A SUCCESSFUL EITC PROGRAM**

Banks that view having a successful EITC program often bring together various community leaders, such as members of the local chamber of commerce, financial literacy and education representatives, community development corporations, and consumer credit counseling agencies.<sup>3</sup> Further, these banks report that they explore opportunities to become involved well before the start of the tax season.<sup>4</sup>

Some aspects of creating a successful bank EITC program include:

- Focusing on customer acquisition,
- Having a mix of complementary products (because not all customers will have the same needs),
- Using community partners strategically,
- Creating a smooth transition from tax preparation into opening a bank account, and
- Having dedicated staff to coordinate and administer the site infrastructure.<sup>5</sup>

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<sup>3</sup> “Acquiring New Customers with Free Tax-Preparation Services” RFSI Strategy Guide.

<sup>4</sup> “The Keys to Establishing a Successful VITA Site,” Marketwise, Spring 2007.

<sup>5</sup> “Acquiring New Customers with Free Tax-Preparation Services” RFSI Strategy Guide.

## COMMUNITY REINVESTMENT ACT (CRA)

Through the Interagency Questions and Answers<sup>6</sup> (Q&As), the OCC and other financial institution regulatory agencies have interpreted the Community Reinvestment Act (CRA) and its implementing regulations as recognizing the importance of financial literacy programs in serving the credit needs of low- and moderate-income individuals. Generally, such programs must have a community development purpose, which is defined to include community services targeted to low- and moderate-income individuals. Under CRA, large banks are reviewed under the lending, investment and service test, as described more fully below. Small and intermediate banks also may receive consideration under the CRA for lending to financial literacy providers and are eligible to receive consideration for investments and services if their lending performance exceeds satisfactory standards.

### Lending Test

Loans to organizations to be used for financial literacy programs targeted to low- and moderate-income individuals will be considered under the lending test. The Interagency Q&As define community development loans to include loans to “not-for-profit organizations serving... community development needs;” and loans to “financial intermediaries including Community Development Financial Institutions (CDFIs), Community Development Corporations (CDCs), . . . [and] community loan funds or pools . . . that primarily lend or facilitate lending to promote community development.”<sup>7</sup> Community development activities are defined to include “educational, health, or social services targeted to low- and moderate-income persons.”<sup>8</sup>

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<sup>6</sup> “Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment Notice,” 74 Federal Register 3 (06 January 2009). Pp. 498-542

<sup>7</sup> See Q&A §§\_.12(i) & 563e.12(h)-1.

<sup>8</sup> See Q&A §§\_.12(i) & 563e.12(g)-1.

### Investment Test

Investments in or contributions to, a program, activity, or organization that provides financial service education programs targeted to low- and moderate-income individuals will be considered under the investment test. The Interagency Q&As note that qualified investments include, but are not limited to: investments, grants, deposits, or shares in or to “not-for-profit organizations serving . . . community development needs such as counseling for credit, home-ownership, home maintenance, and other financial services education.”<sup>9</sup>

### Service Test

Community development services, which include, but are not limited to, providing bank staff to serve as educators in financial literacy programs targeted to low- and moderate-income individuals, will be considered under the service test. The Interagency Q&As state that the examples of community development services include “providing technical assistance on financial matters to small businesses;” “providing credit counseling, home buyer and home maintenance counseling, financial planning or other financial services education to promote community development;” and “establishing school savings programs and developing or teaching financial education curricula for low- or moderate-income individuals.”<sup>10</sup>

## TAKING ADVANTAGE OF IRS VITA

Many banks participate at IRS VITA sites by providing staff or other resources. VITA sites employ volunteers who offer free tax help and prepare and electronically file tax returns for lower income taxpayers, persons with disabilities, non-English-speaking people, and others on a limited income who find it difficult to pay for commercial tax preparation assistance. VITA sites generally are located at community and neighborhood centers, libraries, school, shopping malls, and other convenient locations.

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<sup>9</sup> See Q&A §§\_.12(s) & 563e.12(r)-4.1

<sup>10</sup> See Q&A §§\_.12(s) & 563e.12(i)-3.

Historically, Congress has appropriated funds for VITA matching grant programs. This provides an opportunity for community VITA sites to receive federal funding for their programs. The federal funding leverages the matching support from nonfederal sources, such as state and local funds and private entities including corporations and foundations.

## **FOR MORE INFORMATION**

### **OCC**

#### **[Financial Literacy Resource Directory](#)**

To assist banks in developing EITC programs or obtaining information about other financial literacy and education opportunities, the OCC maintains an online financial literacy resource directory.

#### **[Reaching New Bank Customers Through the Earned Income Tax Credit](#)**

This publication highlights efforts of national banks and other financial institutions - along with their nonprofit and government partners - to help promote use of EITCs in their communities. It can be accessed at

#### **[Individual Development Accounts: An Asset Building Product for Lower-Income Consumers](#)**

This edition of *OCC Insights* examines IDAs as a tool for banks and other financial institutions to encourage lower-income person and families to save money and thus build assets for particular financial goals. It describes why banks offer IDAs, how they are involved with IDAs, and address barriers to the growth of IDA products.

#### **[Community Affairs Article Archive: Transaction Account Products Targeting the Unbanked](#)**

This resource page provides access to publications relating to products targeted toward unbanked consumers, such as IDAs, remittances, payroll cards, stored access cards, and more.

### **IRS**

The IRS's [EITC Central](#) provides information on promoting the EITC for partners and tax preparers. Information about volunteering can be found a "[Link & Learn Taxes](#)". The IRS also provides information by tax-related topic, available from the IRS Teletax Information line, toll free, at 1-800-829-4477. For [EITC information](#), select topic 601.

### **Other**

The National EITC Outreach Partnership involves work of a number of national organizations throughout the country that are promoting EITC outreach, free tax preparation alternatives, and asset development strategies. The organization's Web site offers the [Directory of EITC Community-Based Partnerships](#), which includes a list of coalition contacts, sorted alphabetically by state. The list includes the city, a summary of each coalition's activities, core partners, and contact information. The directory has a territory manager listing as well.