



Community Foundations and the EITC

Brief 1: Getting Started
December 2009



About the EITC Funders Network

Founded in 2004, the EITC Funders Network brings together funders interested in the Earned Income Tax Credit, free and low-cost tax preparation, and asset building. The Network seeks to increase awareness of EITC-related projects, foster collaboration, share information about the current status of EITC-related work, and help shape the future of the field.

The work of the EITC Funders Network is guided by a Steering Committee comprised of Irene Skricki of the Annie E. Casey Foundation, Alice Warner of the W.K. Kellogg Foundation, Benita Melton of the C. S. Mott Foundation, Diane DiGiacomo of the Piton Foundation, and Steven Lee of the Robin Hood Foundation. The Community Foundation project has been guided by a Steering Committee comprised of Karen Bilowith of the Community Foundation for the Greater Capital Region, Alyssa Hauser of the Community Foundation of Greater Dubuque, Sandi Roehrig of the Fond du Lac Area Foundation, Karen Rolon of the Community Foundation of Greater Birmingham, Deborah Schachter of the New Hampshire Charitable Foundation, Heather Scott and Kensei Brittain of the Council on Foundations and Shiloh Turner of The Erie Community Foundation.

Community Foundation Briefs

Across the country, community foundations are critical funding and program partners for EITC outreach, free tax preparation, and asset-building fields. In 2009 the EITC Funders Network interviewed staff members of 15 community foundations in order to learn more about the strategies community foundations use in their EITC and free tax preparation work. These Briefs summarize our findings, share promising practices, and provide advice from community foundation staff on the most effective first steps in supporting an EITC effort in the community.

Brief 1: Getting Started

A look at the EITC and first steps in getting involved:

- ◆ Step 1—What is the EITC?
- ◆ Step 2—How does the EITC impact families and communities?
- ◆ Step 3—How is EITC-related work aligned with community foundation mission, goals, and structure?
- ◆ Step 4—What do your colleagues in the field say about best first steps?
- ◆ Tools and Resources

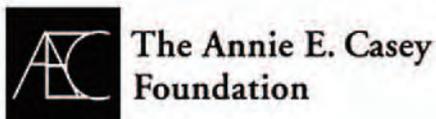
Brief 2: Building and Expanding

A look at how community foundations launch and sustain EITC-related efforts:

- ◆ Step 5—What is your role?
- ◆ Step 6—Who are your partners?
- ◆ Step 7—What do your colleagues say about initiating and supporting the work?
- ◆ Step 8—What are the challenges?
- ◆ Tools and Resources

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Brief #1: Getting Started

Step 1—What is the EITC?

A good first step is to understand what the EITC is and how it improves the lives of low-income families.

Started in 1975 under President Ford, and expanded by Presidents Reagan, Bush and Clinton, the Earned Income Tax Credit (EITC) is a federal tax credit for people who work and have earned income below about \$40,000 per year. The EITC reduces the amount of federal taxes owed and may also provide a refund.

The EITC helps reduce the tax burden of working poor families. The amount of EITC a taxpayer can earn varies by income level and number of people in the household. For example, in tax year 2009 the maximum credit for a family with three or more children is \$5,675, while the maximum EITC for a family with one child is \$3,043. There is even an EITC for very

low-income families with no children—a maximum credit of \$475.

The EITC helps families in communities across the nation. In 2007, 24 million Americans—or 17 percent of all tax filers—claimed the EITC for a total of \$48 billion. EITC recipients can be found in communities across the nation. The highest concentration of EITC recipients is in the southern United States.

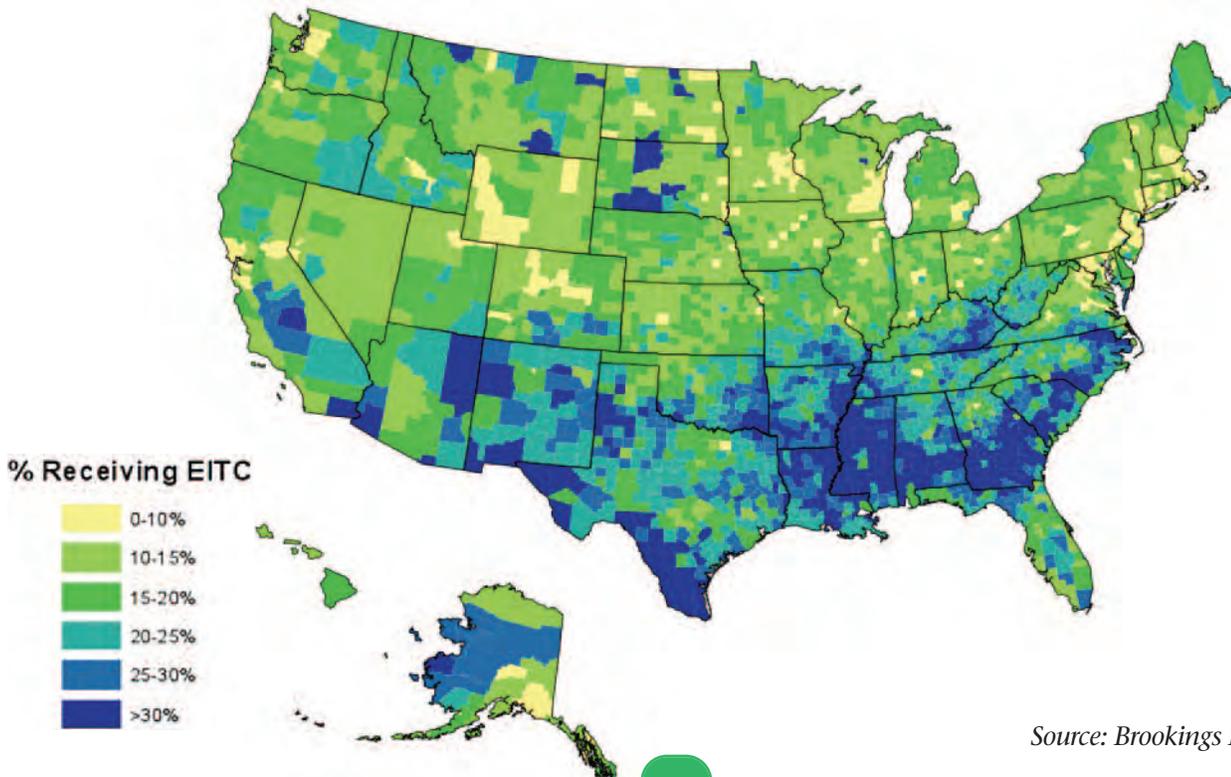
Impact

Each year, the EITC lifts 4.4 million people—half of whom are children—out of poverty by bringing their income above the poverty line.

State EITCs: Twenty three states and the District of Columbia now have a state EITC. State EITCs are most often set as a percentage of the federal EITC—ranging from 3.5 percent to 40 percent of the federal credit. This means that in many states, the amount of money earned back through EITC is even greater.

The EITC, Free Tax Preparation Services, and Asset Building: As a tax benefit, most low-income families access the EITC at tax time when they file their federal income tax return. As a

Percentage of Returns Receiving EITC by County (tax year 2006)



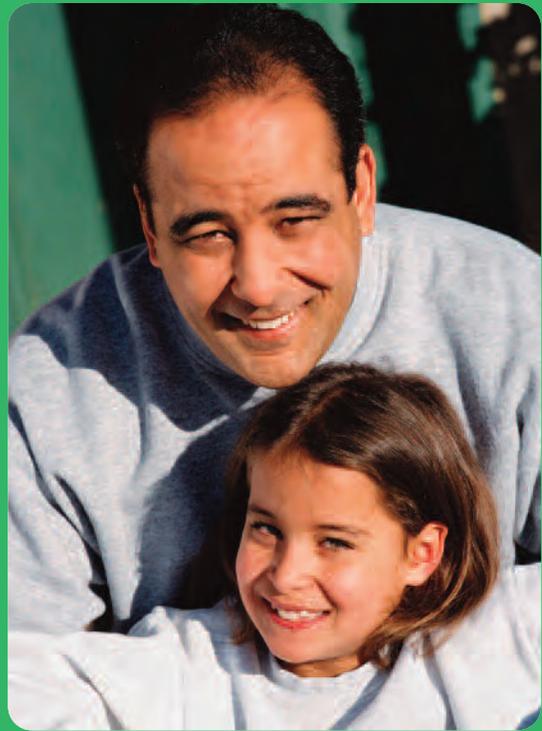
Source: Brookings Institution

EITC Funders Network Brief #1: Getting Started

way to help more families receive the EITC and not have to pay high tax preparation fees in order to get the credit, communities have developed free tax preparation sites and IRS-certified Volunteer Income Tax Assistance (VITA) programs. Each year thousands of volunteers are marshalled by these non-profit efforts to help low-income families get their taxes completed for free. Through VITA and other free tax preparation services, families can avoid going to paid tax preparers.

But the work, and benefit, usually does not stop there. Most programs conducting EITC outreach and offering free tax preparation services also want to help families use their EITC to become self-sufficient through financial literacy classes, assistance with banking and credit repair, and savings. In this way, the EITC payment becomes the gateway to greater financial stability.

EITC is a natural fit for community foundations. Community foundations are uniquely positioned in their communities—they cover broad areas, they know the non-profit partners who are implementing EITC strategies, and they have already established their credibility in the community.



Step 2—How does the EITC impact families and communities?

Before undertaking any EITC efforts in a community it may be necessary to craft a “compelling argument.” This is a way of presenting information to others that describes why the EITC is important and what the potential benefits of increasing EITC strategies in your community may be.

Some of the information in “Step 1” can be used for this purpose. In “Step 2” we outline additional reasons that make EITC a compelling strategy for community foundations across the nation. EITC:

- ◆ **Alleviates Poverty**—because the EITC puts money back into the pockets of low-income families, it has been called one of the largest and most effective poverty-reduction programs in the nation. Each year, the EITC lifts 4.4 million people—half of whom are children—out of poverty by bringing their income above the poverty line. In 2006, the average EITC recipient took home \$1,951.
- ◆ **Stimulates Local Economy**—in 2007, low-income families claimed \$48 billion in the EITC. Although some of this was used to help eliminate the taxes owed by low-income people, much of the EITC refunded to low-income families gets spent in the local economy—for groceries, clothing, car payments, rent, utilities, etc. The City of San Antonio, for instance, estimates that each additional \$1 in the EITC generates an additional \$1.58 in local economic activity, and each additional \$37,000 results in one additional permanent job. A similar study in Baltimore finds that EITC dollars generate nearly \$600,000 in local income and property tax revenues.
- ◆ **Avoids Predatory Lending**—nationally we know that low-income families are more likely than other families to take predatory loans—including loans at tax time. EITC recipients taking a Refund Anticipation Loan (RAL) paid nearly \$1.6 billion in RAL fees in 2006. This does not include any monies they paid in interest payments. On average a RAL costs a taxpayer \$140, with tax preparation fees

costing another \$163, totaling more than \$300 to complete their taxes. This amounts to nearly 12 percent of what average EITC participants receive. But EITC recipients can avoid such high costs if they use a free community tax preparation site.

- ◆ **Claims Federal Funding Left “On The Table”**—while about 80 percent of eligible families receive the EITC, not all families do. We know that a considerable amount of federal funding is left “on the table” and could be drawn into some of America’s most pressed communities. While nationwide estimates are not available, research completed in select locations indicates the funding left on the table is considerable. Take, for example, a study conducted by the University of Alabama which found that in 2009 approximately \$133 million was not being collected by Alabama families eligible for the EITC.

“Our compelling case has been helping low-income people access money that’s theirs—they didn’t know it was available to them.”

- ◆ **Creates Bridge to Self-Sufficiency**—while the EITC may seem like a one-time cash infusion, low-income families use it as a way to change their economic opportunities permanently. As a result, the asset-building field has joined EITC outreach and free tax preparation to provide financial education, banking services, and opportunities to save for education and home ownership through Individual Development Accounts (IDAs).

Step 3—How is EITC-related work aligned with your community foundation’s mission, goals, and structure?

Although community foundations share many common goals and strategies in their EITC-related work, they come to it from different perspectives. Some have engaged in EITC work via anti-poverty initiatives, some through economic or social justice work, and others through community or leadership development. It is noteworthy that these inroads are closely related and really speak to how the work can fit within a community foundation’s vision, mission, goals, and structure. Some of the way community foundations frame their EITC and free tax preparation work includes:



◆ **The Poverty Reduction Frame**—for many community foundations the EITC provides a significant tool that can be used to bring dollars back into the hands of low-income families; thereby ameliorating the effect of poverty in the short term and helping families build toward economic security in the long term. For these foundations, the door to the EITC opens through their efforts to reduce poverty. For example:

- ◆ One community foundation in Alabama has a strong focus on improving economic stability of low-income families by increasing financial

resources, including the EITC. For its EITC-related work, the foundation focuses its efforts on coordinating organizations participating in EITC efforts and helping with the outreach. The foundation has provided outreach materials and a grant of \$2,500 to help spread the word, but its role has mainly been fulfilled through staff time and raising funds for matching IDAs. The foundation’s goal is to have information about the EITC and VITA sites in all the counties of its service area—thus, helping area grantees improve economic security for families.

◆ **The Community Economic Development Frame**—for community foundations interested in economic development, the money generated through the EITC is another economic stimulus tool. For example:

- ◆ One Midwestern community foundation began funding EITC work in 2002 with an annual grant of \$75,000; it has climbed slowly to \$160,000. The foundation provided funding to one community-based organization that is the lead agency in an asset-building coalition. The grant provides funding for outreach staff, free tax preparation sites, materials, etc., and the agency has seen great results. For instance, in 2008, the EITC brought approximately \$12 million back into the community through increased economic activity—purchases made by families receiving the EITC.
- ◆ One rural community foundation’s HomeTown Partnership, based on the HomeTown Competitiveness model of rural economic development in Nebraska, opened the door to the EITC as a way to work toward long-term economic security in rural areas. The model has four work areas: Entrepreneurship, Leadership, Youth, and Community Assets, which together define and support a healthy, rural community. Within the Community Assets area, the foundation has used the Annie E. Casey Foundation’s Rural Family Economic Success framework, which offers strategies to help families increase their income (“earn it”), stabilize their financial lives (“keep it”), and acquire assets and build wealth (“grow it”).

Within the model, the partners pool resources to meet shared goals. The hope is that these shared goals will eventually drive the community foundation's grantmaking. Initial grants awarded by the community foundation have been small (\$5,000), but the foundation also holds a community assets endowment with a \$1 million matching gift.

◆ **Civic Engagement Frame**—some community foundations have very robust civic engagement grantmaking strategies. Each year the EITC outreach and free tax preparation movement organizes thousands of volunteers across the nation to help prepare taxes for low-income families. It is an ideal volunteer opportunity because it is time-limited (between January and April), requires a variety of skill sets (from greeters to those preparing taxes), and is

Community foundations across the nation see the EITC as a way of:

- ◆ engaging donors and connecting their giving across areas of interest
- ◆ cultivating community leadership
- ◆ creating community impact through grantmaking

rewarding (putting money back into the hands of low-income families). For example, one community foundation recognized that, even though EITC work fit into their poverty reduction and workforce development grantmaking strategies, the element that made it especially compelling was the use of community members as VITA site volunteers. The “hook” was how a VITA model builds community through grassroots volunteerism and leverages the strengths of the community members themselves.

◆ **Responding to the Recession Frame**—some community foundations are especially interested in the EITC as a way of responding to the tough economic times—helping put money back into the hands of struggling families.

Some community foundations have used data from the Brookings Institution to help craft their compelling argument. Data posted on Brookings' website can be used to:

- ◆ Explore tax return data from 1997 to 2006—analysis of 2007 data will be available in early 2010.
- ◆ Explore data within a geographic area—based on zip code data from the IRS. The website presents data at different geographic levels—zip area, town or city, county, metro area, and state. A new feature is the addition of state legislative districts (both upper and lower chambers) and congressional districts.
- ◆ Once the geographic area has been selected, the data set is chosen. You can choose data on all tax filers or EITC filers and choose which variables to view. Options include EITC filers, new filers, returns with refund products, and other characteristics.

See our Tools and Resources section for further information on the Brookings Institution.

Getting Started

EITC and the Arizona Community Foundation

The Arizona Community Foundation began supporting the EITC in 2003. They have a field of interest fund earmarked for Catholic Charities, a national organization with local offices in Phoenix and Tucson. Catholic Charities aims to reduce poverty, support families, and empower communities. The staff at the Arizona Community Foundation saw a match between the goals of Catholic Charities and the foundation's interest in creating asset development opportunities for low-income people—the EITC was the low hanging fruit that provided much needed financial support for low-income families looking to build assets, including owning a home, starting a business, or saving to go to college through Individual Development Accounts (IDAs). The foundation initially made a five-year asset-development grant of \$300,000 (\$60,000 per year) to support the work conducted by Catholic Community Services of Southern Arizona. This contribution leveraged another \$300,000 from Assets for Financial Independence.



While its starting place was grantmaking, the Arizona Community Foundation has assumed other roles in support of the EITC in the community. It has leveraged funding for IDA accounts, brought the EITC and other asset-building strategies to non-profits across the state, leveraged funding from donor-advised funds, participated in EITC taskforces initiated by the Governor, participated in an Annie E. Casey Foundation border initiative, and brought the Casey Foundation's Rural Family Economic Success to 48 non-profit partners by connecting them to EITC efforts. In the words of Tony Banegas, Program Officer at the Arizona Community Foundation, "We have become the connector in the state. We bring people together through formal and informal means and help catalyze and build the EITC and asset development work."

Step 4—What do your community foundation colleagues say about best first steps?

After identifying how the EITC might advance your community foundation work, it is time to craft your approach. Community foundations from across the country were asked to provide advice for their colleagues interested in taking on EITC-related work. Their advice included:

- ◆ **Build Internal Support for the Work**—community foundation staff members acknowledge that it is hard to build support for the work without board and staff buy-in. Developing your compelling argument and building internal support through local data are best approaches. Steps two and three in this Brief provide some examples of data and compelling arguments. Also, see the Tools and Resources section for an overview of places to obtain local EITC-related data.
- ◆ **Start by Listening**—again and again, community foundation staff members suggested that it is best to first examine who works on the EITC in your area before you launch any efforts. This means beginning your planning period with a listening campaign. Key questions include:
 - ◆ Who else funds EITC-related work in the community?
 - ◆ Who are the players and what are their core approaches?
 - ◆ What capacity is lacking?
 - ◆ What value might the community foundation have beyond grantmaking?

◆ **Plan in Advance**—many community foundation staff stated the importance of upfront planning—this means that once you have listened and identified who is working on the EITC and how you can support current efforts, there needs to be careful planning. They advise you to ask yourself: where do I see this work today? Where do I see it in five years? Where do I see it in ten years? And, if your community foundation is thinking of playing an active role in the creation of an EITC campaign, you probably need someone in-house to move the work forward.

◆ **Be Community-driven**—from the beginning focus on maintaining the notion of a community-owned project—communities coming together to make solutions—instead of a community foundation-owned project. This will help focus attention on building the capacity of the partner organization and also assist in planning for sustainability. One community foundation took this one step further by funding a community leader to help start the program. She was mentored for a number of years and now is the Director of a robust EITC program.

“The EITC can be tied to many aspects of our work. Our foundation hopes to bring two disparate funds—women’s issues and disabilities—together around an EITC project.”

Tools and Resources

The EITC field has a robust information network that helps foundations and groups interested in the work to learn more and use model practices. A few key resources include:

Finding Collaborators and Learning About Models

National Community Tax Coalition

www.tax-coalition.org

The National Community Tax Coalition seeks to improve the economic well being of low- and moderate-income individuals, families, and communities by building a movement to dramatically increase access to tax credits and benefits and asset-building opportunities. The coalition's website offers many practical resources, as well as a program locator to help you figure out which organizations provide EITC and free tax preparation services in your area.

Volunteer Income Tax Assistance Program (VITA)

www.eitc.irs.gov

The VITA Program offers free tax help to low- to moderate-income people (generally earning \$49,000 a year and below) who cannot prepare their own tax returns. Certified volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country. VITA sites are generally in community and neighborhood centers, libraries, schools, shopping malls, and other locations. Most locations also offer free electronic filing. To locate the nearest VITA site, call 1-800-829-1040. The IRS also offers the Tax Counseling for the Elderly Program which provides free tax help to people age 60 and older. Similar to VITA, trained volunteers from non-profit organizations provide free tax counseling and basic income tax return preparation for senior citizens.

AARP Tax-Aide

www.aarp.org

The AARP's stated mission is to enhance the quality of life for all as we age, leading positive social change and delivering value to members through information, advocacy and service. The organization offers free tax preparation services in many communities nationwide. As part of the IRS-sponsored Tax Counseling for the Elderly Program, about 34,600 AARP Tax-Aide volunteers, trained in cooperation with the IRS, now help more than 2.6 million taxpayers file their federal, state, and local tax returns each year. AARP offers the program at about 6,500 locations nationwide in senior centers, libraries, community centers, and other locations.

EITC Funders Network

www.eitcfunders.org

More than 200 national, regional, local, corporate, and family foundations participate in the EITC Funders Network. While many of its participants are traditional charitable foundations, some are United Way chapters or government entities. The Network's members explore and support a variety of aspects of the EITC field, including national and state policy, free tax preparation, and links between the EITC and other supports for low-wage workers. The Network helps charitable foundations learn about the field, make connections to funder colleagues, and shape new strategies.

Visit the EITC Funders Network website at **www.eitcfunders.org** to become a member of the EITC Funders Network (participation is free), visit our community foundation web resources page and learn about the work of other community foundations who can be a resource to you as you build and develop EITC strategies in your community.

Building the Compelling EITC Case for Your Community

The Brookings Institution

www.brookings.edu/metro/EITC/EITC-Data.aspx

The Brookings Institution's mission is to conduct high-quality, independent research and, based on that research, to provide innovative, practical recommendations that advance three broad goals: strengthen American democracy; foster the economic and social welfare, security, and opportunity of all Americans; and secure a more open, safe, prosperous, and cooperative international system. Its website offers substantial data resources to help communities customize and maximize their EITC and free tax preparation strategies. Knowing the data on tax filers in your community can help with targeting, goal-setting, and outreach. Data posted on Brookings' website can be used to:

- ◆ Explore tax return data from 1997 to 2006—the 2007 data will be available in early 2010.
- ◆ Explore data within a geographic area—based on zip code data from the IRS. The website presents data at different geographic levels—zip area, town or city, county, metro area, and state. A new feature is the addition of state legislative districts (both upper and lower chambers) and congressional districts.
- ◆ Once the geographic area has been selected, the data set is chosen. You can choose data on all tax filers or EITC filers and choose which variables to view. Options include EITC filers, new filers, returns with refund products, and other characteristics.

Outreach Tools

The Center on Budget and Policy Priorities

<http://eitcoutreach.org/category/outreach-tools>

For nearly 20 years, the Center on Budget and Policy Priorities (CBPP) EITC Outreach Campaign, which includes community organizations, employers, social service programs, and government agencies, has promoted the Earned Income Tax Credit, the Child Tax Credit, and free tax-filing assistance for low- and moderate-income workers. Each year, CBPP makes available a substantial EITC Outreach Toolkit. This Toolkit contains sample fliers, brochures (in many languages), and a step-by-step guide on conducting effective EITC outreach.

The Hatcher Group

www.thehatchergroup.com/EITCoutreach.html

The National Community Tax Coalition (NCTC) and The Hatcher Group have come together to raise awareness of the EITC, the importance of VITA sites, and the need to build support for EITC benefit expansions, and program funding increases. They have produced two companion toolkits—one for advocates and one for elected officials. Included in the guides are EITC outreach ideas and template materials, such as site visit invitations, press releases, and opinion-editorials. The toolkits are also full of EITC data and resource materials to help make a compelling argument.

Lessons Learned

The Annie E. Casey Foundation

www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid={8E322899-C9F2-4CB0-8C4E-7F1CCB98917C}

Since 2003, the Annie E. Casey Foundation has worked with foundations, nonprofit groups and others on efforts to increase EITC participation. The Casey Foundation has supported EITC outreach and tax preparation campaigns in urban, rural, and Native American communities. In 2006, Casey-affiliated sites around the country prepared more than 223,000 tax returns, nearly all of them at no cost to the family. Casey has prepared a "lesson learned" report based on their considerable experience in the field.

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Arizona Community Foundation

Barry Community Foundation

Blue Mountain Community Foundation

Central Indiana Community Foundation

Community Foundation of Greater South Wood County

Connecticut Community Foundation

Erie Community Foundation

Fairfield County Community Foundation

Greater Milwaukee Foundation

Stark Community Foundation

The Community Foundation for the Greater Capital Region

The Community Foundation of South Alabama

Triangle Community Foundation

West Central Initiative

Wyoming Community Foundation

This Brief was co-authored by Ami Nagle and Sarah Griffiths of the EITC Funders Network.

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