



# Asset Building at Tax Time



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D2D Fund

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# Agenda

- Tax Time Saving – the Potential
- The Hurdles:
  1. Access Barriers
  2. Achieving Long term savings
- Savings Bonds ?
  - Description
  - Pilot Test
  - Results
  - Pluses & Minuses
- Policy Options

# D2D Fund and Tax Time

- D2D Fund --- Mission

*expand access to financial services, especially asset building opportunities, for LMI families by creating, testing & deploying innovative financial products & services*

- **Mission** led to Tax Time

- savable funds (tax refunds)
- finances “on the table”
- intermediation (tax preparer)

## Tax Time Questions:

- How Important is providing a:

1. savings opportunity?
2. *long term* savings product?
3. What is **scalable**?



# Tax time--- A Savable Moment

**Tax (refund)**

**Time...**

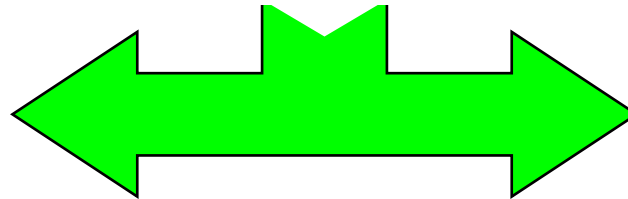
**\$100,000,000,000**

(Annual federal refunds to HH AGI<\$40k)

**Spend Some**



**Save Some**



**+ Refund  
Splitting...**

# Refund Splitting Affords Savings Opportunity

|  |   |   |
|--|---|---|
| Form <b>8888</b>   | <b>Direct Deposit of Refund to More Than One Account</b>  | OMB No. 1545-0074                                   |
| Department of the Treasury<br>Internal Revenue Service   | ▶ See instructions below and on back.<br>▶ Attach to Form 1040, Form 1040A, Form 1040EZ, Form 1040NR, Form 1040NR-EZ,<br>Form 1040-SS, or Form 1040-PR. | <b>2006</b><br>Attachment<br>Sequence No. <b>56</b> |
| Name(s) shown on return  |   | Your social security number                         |
| 1a Amount to be deposited in first account   |   | 1a  |
| b Routing number <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> ▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings |   |   |

- Barriers to tax time saving
  1. Do Tax Filers have savings product? Can one be provided at tax time?
  2. Will product provided be
    - Accessible
    - Support long term savings?

# Are Savings Products Accessible?

- Savings product access limited by:
  - Fees and account minimums
  - Credit Checks – ChexSystems -24% could not save (Tulsa- 2003)
  - Bank requirement for onsite representation
    - For Know Your Customer (KYC) / Patriot Act
    - Signature cards
  - Account run-off (quick account draining) = low profitability/ interest for banks
  
- ☞ Result: VITA savings product offerings site specific – dependent on FI generosity – no scale

# Tax Time quandary: a pipe from savable refunds to... Nowhere



# Do Current Products support long term savings?

- VITA Site originated savings account experience significant run-off:
  - **Chicago-** Extra Credit Saving Program (2001) – After 7 months, only 14% of Tax clients who deposited into saving accounts still maintained savings balances.
  - **Tulsa-** Refunds To Assets-1 (2004): Tax Clients split into savings accounts. After 10 months, average savings account balance dropped from \$644 to \$27.
- Mix of short & long term savings needed
  - Short – Emergencies
  - Long- Retirement, Education, Homeownership

# Wouldn't it be nice

- To have savings product that
  - ❑ Required no fees, little/no minimum
  - ❑ Offered good rate of return
  - ❑ Had no credit screen (chexsystems)
  - ❑ Fostered long term savings

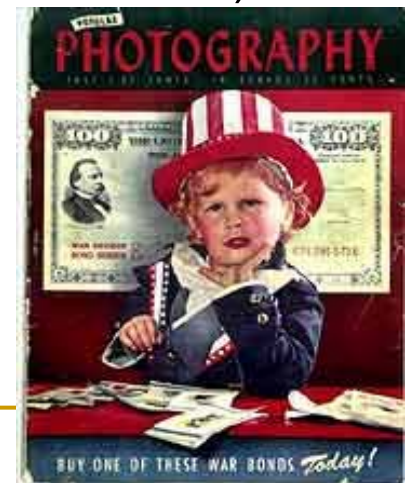
AND was

- ❑ widely Known & Trusted
- ❑ Universally available
- ❑ Easy to offer



# U.S. Savings Bonds

- Compelling features:
  - Easy entry (low \$50 min.)
  - High return (4.52% in TS '07, no fees)
  - Universal (no ChexSystems, anyone w/ SSN)
  - Low risk (gov't backed)
  - Credible (strong history, no "profit agenda")
  - Long-term orientation (1 year min., 30 year horizon)
  - Gift-able
- EZ processing
  - No Patriot Act or KYC compliance



# Would Anyone want Savings Bonds at tax time?

## Tests at VITA Sites (2007)

### ■ Sites

- Community Action Project of Tulsa County
- Baltimore CASH
- Denver Asset Building Coalition
- FoodChange (NYC)
- Roxbury Resource Center / Boston EITC

### Results:

- Bonds offered to 8,000+ clients
  - 510 clients bought bonds for 881 people
    - Take –up: 5.9% (of all with refund > \$50)
    - Take-up: 9.6% (who used direct deposit)

# Marketing

**Buy a Savings Bond with  
some of your refund**

- Easy & Free • Highest Rate
- Low Minimum • Safe & Secure

Save  
Some

**"I used part of my refund  
to buy a savings bond for  
each of my children"**



**You decide what to save  
and what to spend!**

**Ask your tax preparer!**

Spend  
Some

**Purchase Savings Bonds  
AT the Tax Site**

**U.S. Savings Bonds 4.5% Interest Rate  
Can Start with as little as \$50.00  
No Fees**



Save  
Some

**You decide what to save  
and what to spend!**

Spend  
Some

**Use some of your tax refund to purchase U.S. Savings Bonds –  
It's free, fast, easy and sensible. Ask your tax preparer!**

# Notable Bond Buyer Characteristics

- **54% Buyers reported no savings**
    - Of remainder, 46% reported savings & investments < \$1,000.
  - 53% - would have saved less if they had not bought a bond
  - Averaged 5.8% (\$185) of refund for bond
  - Purchasers tended to have higher refund, more dependents than decliners
  - **Brand Awareness**
    - **75%** of buyers & decliners aware of bonds
    - Despite no marketing since 2003 (wasting national asset)
  - **Gifting Shocker:**
    - **84%** purchasers bought one or more bonds for child
- For more, see “A Gateway to Longer Term Savings..” at [d2dfund.org](http://d2dfund.org)

# Questions raised by Bond test

Giftng: D2D research suggests children --  
powerful force in LMI financial planning



Were Savings Bonds serving as starter saving  
or 'feeder account'?

# Bonds at VITA–Pluses and Minuses



- Supports I.t. saving
- Recognized, accepted, proven
- Scalable
- Easy processing at site
- Portable, good return, etc.
- Straightforward policy prescription



- Small amounts saved
- Little tie to financial institution / asset bldg
- Complex back office processing
- Unusual lost bond replacement process
- Risk of non delivery (moving)

# What Next? – 2008 Policy Agenda

## ....think back, waaay back

**Form 1040A U. S. INDIVIDUAL INCOME TAX RETURN (Less than \$10,000 total income) 1962**

Please print →

1. Name (If a joint return of husband and wife, use first names and middle initials of both) \_\_\_\_\_

2. Year Social Security Number \_\_\_\_\_

3. Wife's Social Security Number \_\_\_\_\_

Home address (Number and street or rural route) \_\_\_\_\_

4. Check one:  
 Single;  Married filing joint return (even if only one had income);  
 Married filing separate return—if wife or husband also filing separately,  
 give name \_\_\_\_\_

City, town, or post office \_\_\_\_\_ Zone \_\_\_\_\_ State \_\_\_\_\_

5. WAGES SHOWN ON FORMS W-2 AND OTHER INCOME \_\_\_\_\_ FEDERAL INCOME TAX WITHHELD \_\_\_\_\_ EMPLOYER'S NAME. Where employed. Write (W) before name of each of wife's employers \_\_\_\_\_

If item 9 is \$10,000 or more, or if item 6 is over \$200, use Form 1040.

6. INTEREST, DIVIDENDS, AND OTHER WAGES  
 Yours \_\_\_\_\_  
 Wife's \_\_\_\_\_

7. Total Federal income tax withheld \_\_\_\_\_

8. If you had an expense allowance or charged expenses to your employer, see instruction 8 and check here  if appropriate.

9. TOTAL INCOME → \_\_\_\_\_

10. Enter tax from Tax Table or from tax computation schedule → \_\_\_\_\_

11. If item 10 is larger than item 7, enter balance due → \_\_\_\_\_

12. If item 7 is larger than item 10, enter refund → \_\_\_\_\_

U.S. TREASURY DEPARTMENT • INTERNAL REVENUE SERVICE (OVER) LIST YOUR EXEMPTIONS AND SIGN ON OTHER SIDE.

Enclose Forms W-2, Copy B. If your income was \$5,000 or more, you must compute your tax. However, if your income was less than \$5,000, you may have the Internal Revenue Service compute your tax by omitting items 10, 11, and 12. If you compute your own tax, pay balance (item 11) in full with return to your District Director.

● Check here , if you want refund applied to U.S. Savings Bonds.

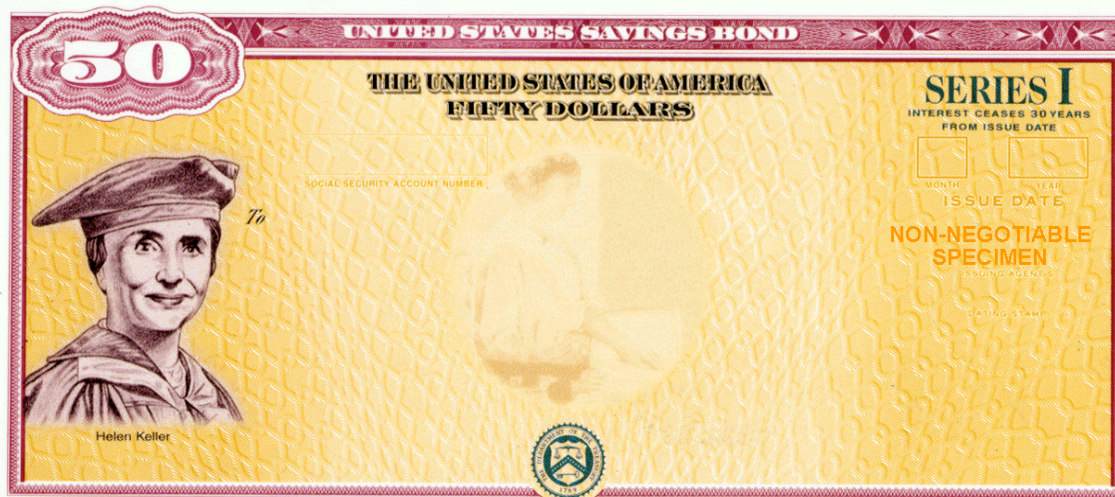
1962 IRS  
Form  
1040A

● Check here , if you want refund applied to U.S. Savings Bonds.

ER) LIST YOUR EXEMPTIONS AND SIGN ON OTHER SIDE.

# What Next? – 2008 Policy Agenda

- ❑ New Savers' Act \* – Introduced August '07
  - Return Savings Bond to tax return (Form 8888?)
  - Returns Savings Bond Marketing Budget
- ❑ Allow use of ITIN to purchase Savings Bond



\* Summary avail at: [.newamerica.net/publications/resources/.](http://newamerica.net/publications/resources/)