

# MoTax

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## Missouri Taxpayer Education

## FINANCIAL EDUCATION THROUGH TAXPAYER ASSISTANCE

### Impact Report

#### What is the Missouri Taxpayer Education Initiative (*MoTax*)?

Many low income working families are eligible for a variety of income tax credits – *including the refundable Earned Income Tax Credit (EITC)* – which are only available to qualified individuals who file federal income tax returns. This extension initiative seeks to assist people through (a) preparation and electronic filing of income tax returns and (b) the provision of financial education to help families maximize their tax refunds. Using the IRS’s Volunteer Income Tax Assistance (VITA) program as its cornerstone, this financial education initiative provides free tax preparation and filing services and promotes family income tax credits and opportunities for increased financial stability and wealth building among low- to moderate-income, disabled, homebound, and “English-as-a-second-language” taxpayers. The focus is in rural areas where choice – access to and availability of – tax preparation and e-filing services is limited. This educational initiative reaches its audience through the “3 P’s”:

**PROMOTION:** *Promote tax credits and services.* Pre-tax season promotion via media and financial education classes provides awareness of the need to file federal income tax returns to maximize tax refunds by taking advantage of family tax credits.

**PREPARATION:** *Prepare and e-file tax returns.* During the tax season (January through April), free tax preparation and electronic filing services are offered to qualified taxpayers at VITA sites. Capitalizing on the relationship building opportunities and the timely teachable moment a large tax refund provides for financial education, financial information and on-site coaching are provided so learners can make maximum use of income tax refunds.

**PLANNING:** *Plan for financial stability and wealth building.* Financial information is provided to each taxpayer and additional financial education opportunities through extension are promoted to tax refund recipients. The goal is for families to use tax refunds to increase financial stability and wealth building opportunities.

#### Why is Missouri Taxpayer Education Initiative (*MoTax*) needed?

Nationwide, as many as 20% of eligible families do not take advantage of the federal Earned Income Tax Credit (EITC), which averages just over \$2,000 per family. A California study found that in rural areas only 17% of eligible Latinos, 57% of eligible Whites, and 59% of eligible Blacks actually received the EITC.

Many EITC-eligible families are also eligible for a \$1,000 per child tax credit and the child and dependent care credit. Families either do not know about the credits or have multiple barriers (especially rural families) to receiving them. Taxpayers who receive these credits pay an average of \$175 in tax preparation fees that are difficult to afford. Many take out costly refund anticipation loans to pay for tax preparation—loans that can carry as much as a 2000% annual percentage rate. Since families do not pay tax preparation, filing, and loan fees, they have increased resources to devote to financial stability and wealth building activities. This is a timely, teachable moment for meaningful financial education. *The MoTax initiative removes information, availability, and resource barriers, provides an alternative to costly loan, tax preparation, and filing fees (through VITA), creates a valuable teaching opportunity, and is an important economic development tool for rural communities.*

## What is the scope of the Missouri Taxpayer Education Initiative (*MoTax*)?

In Missouri, financial education through taxpayer assistance is offered through the **Missouri Taxpayer Education Initiative (*MoTax*)** and this work is partially supported via formula funding from the USDA's Cooperative State Research, Education, and Extension Service (CSREES). A University of Missouri Extension specialist team provides year-round leadership, marketing, VITA site coordination, and educational support for this initiative. *MoTax* is heading into its final year of a 3-year pilot project and is a fully integrated financial education through taxpayer assistance initiative including all "3 P's" – promotion, preparation, and planning. For the 2005 tax season (2004 tax return) in Missouri, the key results from the *MoTax* initiative are:

- Across the **26** VITA sites serving **19** rural counties, **2,037** federal income tax returns were prepared and electronically filed by IRS-certified VITA volunteers.
- Federal refunds totaled **\$2,103,590**.
- 812 returns had the Earned Income Tax Credit (EITC) totaling **\$1,084,740**.
- According to filing status, clients at VITA sites were as follows: **64%** (1,297) single, **17%** (337) married filing jointly, **<1%** (18) married filing separately, **19%** (385) head of household, and **0%** (0) qualifying widower.
- Total number of dependents on all federal tax returns was **812**.
- **2,374** clients were counseled and provided with financial information and educational materials to promote financial stability and wealth building.
- Approximately **65** workshops or financial education classes were held to promote and/or educate **528** potential or actual program participants. Thousands were reached through media efforts including television, newspapers, radio, flyers, coupons, and other promotional items.
- It is estimated that these low income taxpayers saved at least **\$356,475** in tax preparation and filing fees (*this does not include fees for refund anticipation loans*).
- Savings from tax preparation and filing fees plus federal income tax refund dollars are estimated to have a local economic impact of over **6.2 million dollars**. (*assuming a 2.5 multiplier effect*)

## What is Cooperative Extension?

Cooperative Extension is a nationwide educational network that brings research and knowledge of land-grant institutions to people in their homes, workplaces, and communities. Extension links the resources and expertise of nearly 3,000 county extension offices, 107 land-grant colleges and universities (which include historically black colleges, tribal colleges, and institutions serving the U.S. territories), and the federal government through USDA's Cooperative State Research, Education, and Extension Service (CSREES).

## The Future of Financial Education through Taxpayer Assistance

Currently nationwide, financial education through taxpayer assistance is offered through a variety of independent state extension projects and initiatives. These range in scope from family tax credit promotion in Mississippi to a fully integrated approach in Missouri including all aspects – promotion, preparation, and planning. Monitoring of activities, or planned activities, in rural areas among the 12 identified states (Missouri, Georgia, Iowa, New Hampshire, Pennsylvania, Michigan, Mississippi, Oklahoma, Texas, Kentucky, California, Tennessee) provides a foundation to assess impact and potential for taking the program to scale nationwide.

In Missouri, the University of Missouri Extension *MoTax* pilot project team incorporates innovative program developments to support financial education through taxpayer assistance in rural areas. These strategic approaches include strong local coalitions, creative site venues, local tax preparation provider partnerships, college student volunteers via service learning classes, and complementary programs such as *Get Checking*. The intent of the *Get Checking* program is to ensure VITA clients have a relationship with a financial institution (i.e. bank, credit union) in order to facilitate direct deposit of income tax refunds.

Reaching the right audience with the right tools at the right time with the right education is what makes *MoTax* ... right on the money.