TAX-TIME SAVINGS:

Opportunities and Strategies for Policy and Practice

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About Southern Bancorp Community Partners:

Southern Bancorp Community Partners is a certified Community Development Financial Institution that provides lending, financial development services, and public policy advocacy in economically distressed communities. Part of the Southern family of financial organizations, SBCP works in tandem with Southern Bancorp, Inc., a bank holding company, and Southern Bancorp Bank, one of America's largest rural development banks, toward a shared mission of creating economic opportunity for all.

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Introduction

Research discussed in the Report on the Economic Well-Being of U.S. Households in 2017, from the Board of Governors of the Federal Reserve System (2018), noted that, "Four in 10 adults, if faced with an unexpected expense of $400, would either not be able to cover it or would cover it by selling something or borrowing money." This lack of savings makes families vulnerable to economic shocks and unable to take advantage of educational, business, or other opportunities that come with a price tag. In addition, the stress that can come with trying to manage inevitable economic shocks can have health and other consequences. According to data from the 2013 Panel Survey of Income Dynamics, 7 percent of those surveyed who reported zero or negative wealth reported psychological distress, compared with only 1.5 percent of those with high wealth (Purnell & Hajat, 2017). People with zero to negative wealth also reported higher rates of poor health, obesity, and smoking (Purnell & Hajat, 2017). Given these statistics and resulting challenges, US organizations and government entities have mounted considerable efforts to increase savings rates. For many families, particularly those with low- or moderate-income, the check for their tax refund and credits is the largest check they receive all year. This provides a meaningful, often annual, opportunity to save.

In this paper we describe several policy and practice strategies that show how tax time is the prime time to save.

“It makes me feel secure knowing that I have money in the event of an emergency.”

- L.S., a tax-time saver

Communication with Taxpayers

The preparation and submission of federal income tax returns provides one of the few common threads in US society, with more than 130 million people and families filing individual income tax returns. April 2019 data from the IRS shows that the average refund was $2,725 and that 73 percent of tax filers received a refund. This data suggests that tax time provides an opportunity to communicate broadly about and encourage savings.

It is then not surprising that America Saves Week and Military Saves Week fall during tax season. These events are managed by the nonprofit Consumer Federation of America and participation is free for the nonprofits, businesses, government agencies, banks, credit unions, and others who are committed to promoting savings among their customers, clients and constituents. Their websites—www.AmericaSavesWeek.org and www.MilitarySaves.org—provide resource packets, event lists, savings goal pledge forms, and other tools that VITA sites and others can use to promote savings. The Your Money Your Goals Financial Empowerment Toolkit from the Consumer Financial Protection Bureau includes a useful section called “Starting the Money Conversation” which reminds practitioners to communicate in a way “that acknowledges [taxpayer’s] personal goals.” Printable materials and other resources to facilitate the savings conversation are available from Prosperity Now (2012). If this conversation is held at a VITA site, it can be helpful to remind the taxpayer that since

VITA Site Tips:

- Ask taxpayers to save the money they would have spent on tax preparation.
- Encourage taxpayers to “split” their refund to emphasize options.
- Ask taxpayers to consider savings vehicles other than savings accounts.
- Register your program with America Saves Week or Military Saves Week.

the tax preparation services are free, the taxpayer could save the money they would have spent on tax preparation. We find it helpful to talk about specific savings goals rather than savings in general. For example, it can be helpful to ask if taxpayers are interested in saving for a home, saving for emergencies, or saving for a child's college or other expenses. If a person has or is willing to create a savings goal, then tax-time savings can be a straightforward next step. Given that many people make plans for the tax refund long before they receive it, it is critical to start conversations with taxpayers early, perhaps in mid-Fall so that savings can be an intentional part plan for the tax refund (Covington et al., 2015).

There has been significant research on how to set effective savings targets. Some tips include (all from Dholakia, 2016):

- Set targets that are not so high that savers get discouraged. Some savers, when having trouble meeting their savings goals, simply give up and spend more money. It may be more effective to plan to save $200 per month rather than $1,000 per month.

- Set targets that are not too small. If savers think the amount is so tiny as to not make a relevant difference, they may just spend the money rather than save it. A

savings goal of $5 per week may just be spent on lunch.

- Set targets that can be reached in the short term. This helps savers stay committed. They can always set another short-term goal, and given their success, they may be more motivated to do so. People also often incorrectly estimate their ability to save far in the future. A three-month goal may be more effective than a one-year savings goal.

- Connect savings targets to meaningful goals, especially if it is a long-term goal. A one-year plan to save for a down payment for a home may work well if the home is kept as the focus.

- Connect savings targets to actual steps for saving, especially if it is a short-term goal. Someone aiming to save $200 per month may benefit from focusing on reducing eating out, working extra hours, etc.

- Set targets by range rather than by specific amounts. People with range goals are generally more motivated so aiming to save between $100 and $200 one month may be more effective than aiming to save exactly $150.

Still, there will be instances where the taxpayer does not have or want to develop savings goals. In these cases leading with or emphasizing "savings" can discourage taxpayers. That word can cause concerns and inaction if the taxpayer does not have a savings account or cannot immediately determine how much or why to save, or even if they can afford to save. Instead, we find it helpful to ask taxpayers to split their refund. When a taxpayer splits her refund, she may feel more flexibility about where to put the money. It could go in a savings account, but she may also choose a child's college account, a prepaid card, a savings bond, a retirement account, a checking account or even a paper check. Each of these can serve as a savings vehicle. Also, splitting the refund does not imply that the taxpayer has to hold money for a period of time, though they often do. Splitting is a critical first step to savings and can serve as a reasonable proxy, especially if the alternative is no savings at all.

Tax refunds are often the largest lump sum payments a family receives all year (Flacke, 2005). However, the refund represents money that was already due to the taxpayers but was being held, interest free, by the US Treasury. We asked 54 participants in our VITA program if they would be interested in seeing more money in their paycheck by making changes on their W-4 withholding form. Because of the new tax reform laws, taxpayers who filed single and married without children saw the most impact from the tax reforms and were more likely than others to see the need to change their W-4 withholding form. Twenty-two percent of this group surveyed received information about making the needed changes for next tax season. In addition, these conversations resulted in the identification and subsequent correction of errors in the W-4. In general, people who owed money were more receptive to making changes on the W-4. One taxpayer summed up how many felt about the W-4 by noting that after saving, he felt, "Good—Money I had already earned I got back in a lump sum." It can be difficult to save, so if taxpayers figure out how to do so using the W-4, practitioners should acknowledge that and suggest additional liquid savings to meet needs that occur before the next tax refund check is expected.

"I feel great when I am able to save. It makes me feel like I am doing something important for myself."

- K.E., a tax-time saver

Tax Return Form Design

One of the simplest ways to save at tax time is to use IRS Form 8888 to split the refund into two or more accounts. This form facilitates the deposit of a portion of the refund into a checking account, savings account, prepaid card, or up to three total savings vehicles with account and routing numbers. In addition, this form can be used to purchase savings bonds or request a portion of the refund in a paper check. As of 2016, only six states provided a similar form that allows taxpayers to split their income tax refund, though two states, Arkansas and Oregon, restricted splitting a 529 college savings plan (Pham and Jones, 2016). Also, because taxpayers have to remember the form exists, remember/find its name/number, then locate and complete the form, these separate refund allocation forms are not the most efficient or effective way to promote tax-time savings.

A more effective approach would be to include the option to split on the standard tax form so that as soon as a taxpayer learns she is receiving a refund, she is presented with the opportunity to split and save her refund. Arkansas Senate Bill 584, also known internally as the Add a Line for Saving Bill, was designed to do just that. This legislation, now act 774 of 2019, requires the Arkansas Department of Finance and Administration to add a second direct deposit line to state income tax forms. The second direct deposit line allows a taxpayer to split their refund into two accounts, and ideally save a portion toward some family goal. The changes are effective on tax forms beginning with the 2020 tax year.

Rationale

According to data from Prosperity Now (2019), only half of the people in Arkansas had emergency savings over the last year, and the federal shutdown at the end of 2018 brought much-needed attention to the fact that Americans in general don't save enough for emergencies, much less for retirement, a home, or higher education and training. CNBC reported after the shutdown ended that 62 percent of federal workers used up all or most of their savings during the 35-day government closure (Connley, 2019).

Research in behavioral economics shows, however, that people will save if you make it easy (Torres Flores, 2011). In addition, one long-held concept from personal finance and retirement best practices is to "pay yourself first," meaning individuals should set aside money for savings before spending discretionary money, usually through direct deposits or regular electronic transfers from checking to savings.

VITA Site Tips:

- Encourage taxpayers to save a portion of their refund using IRS Form 8888 or the appropriate state form, if available.
- If you live in states that collect income taxes but do not provide a way to split tem, consider how you might advocate for a second direct deposit line.

Southern first proposed the Add a Line concept for Arkansas in an Oct. 18, 2018, post to Southern Bancorp Community Partners' public policy blog titled, "How a little line can add up to big savings" (Southern Bancorp Community Partners, 2018).

California is the only other state with two direct deposit lines on the tax form itself and the original intent of the California bill was "to make it easier for people to set aside money for retirement" (California, 2006). However, the California Franchise Tax Board's latest analysis showed that less than one-tenth of 1 percent of filers who used direct deposit for their refunds split them into separate accounts. It is unclear what marketing and outreach activities, if any, were done to promote this option.

After an initial conversation with a state senator who objected to the Add a Line concept, citing an unwillingness to "baby" the populace into saving, the policy team decided to emphasize how adding a second direct deposit line would empower people to exercise personal responsibility over their finances (see Appendix A for talking points).

Other messaging included evidence-based information on the rationale for the bill, as well as tying the bill to promotion efforts around America Saves Week. For the third year, Southern facilitated a governor's proclamation designating the observance of Arkansas Saves and Military Saves Week at the same time as America Saves. In addition, the

Arkansas Democrat-Gazette, the state's largest newspaper, ran an editorial on Feb. 29 by Southern leadership which discussed the increased need to help people save and outlines several public policies toward that goal, including Add a Line (Williams, 2019).

Lobbying Activities and Legislative Response

The Add a Line legislation had bipartisan support with sponsors Rep. Monte Hodges (D-Blytheville), a loan officer for Southern Bancorp, and Sen. Jonathan Dismang (R-Searcy), a certified public accountant and former President Pro Tempore for the 91st General Assembly. After Southern provided the draft bill language (modified from the California legislation), Sen. Dismang led the process to get the bill vetted by the Bureau of Legislative Research and filed. He also ran the bill through the Senate Revenue and Tax Committee and on the Senate floor. There were no questions or objections to the bill during the committee meeting or in the Senate. The bill passed the Senate by a vote of 34-0, with one senator voting present. Rep. Hodges took the lead on the bill in the House, where it passed unopposed in committee and with a vote of 94-0 in the House. Arkansas Governor Asa Hutchinson signed the bill on April 10, 2019, and it became Act 774 of 2019.

Arkansas Governor Asa Hutchinson signs Act 774 into law, making Arkansas the second state in the nation to require the addition of a direct deposit line to state income tax forms. The change will give taxpayers the option of dividing their refund into two separate accounts, thus increasing their opportunities to save.

Next Steps

California's low adoption rate of splitting tax refund direct deposits shows that much work will need to be done to educate Arkansas taxpayers about the change to the tax form and to support other states in similar efforts. Next steps include:

- ***Evaluating potential barriers.*** It will be important to identify early on any barriers to splitting refunds, for example, not having a savings account, that need to be addressed.

- ***Marketing and outreach.*** Educating the public about the change to the tax forms will be key in getting people to split their refunds. Ideas include recruiting other banks and credit unions in the state, as well as tax preparers and accountants, to promote the option during tax time. It would also be beneficial to create messaging for nontraditional partners, such as credit counseling agencies, social service agencies, and others. For certain partners, messaging could center on reducing stress and preparing for the next big bill by setting aside part of the individual's refund to help with expected costs or emergencies.

- ***Evaluation.*** It will be necessary to have an intentional, robust evaluation plan to measure both overall impact of the bill on saving and to gauge the effectiveness of marketing and outreach activities.

Earned Income Tax Credit

In order to save, taxpayers and others must have a source of funds to set aside. Once such source can be the Earned Income Tax Credit (EITC), a federal tax credit for low- and moderate-income working people, recognized for its success in promoting work and alleviating poverty in part by offsetting payroll and income taxes. Nationally, an estimated 5 to 7 million taxpayers are eligible for the EITC, but do not claim their credits, leaving about $12 billion on the table each year. This is money that could be claimed and saved.

EITC is not limited to federal funds. Twenty-nine states and the District of Columbia have an EITC, which builds on the benefits of the federal EITC. In many cases, the eligibility for the state EITC is similar to eligibility for the federal EITC (National Conference of State Legislatures, 2019). Ideally, the state EITCs are, like the federal version, refundable so that taxpayers receive the full benefit of the credit.

Given the impact of federal and state EITCs, it is critical that return preparers ensure that taxpayers correctly complete the paperwork needed to claim the credit and save at least a portion of it.

VITA Site Tip

- If your state does not have a refundable state earned income tax credit, consider how you might advocate for one using your experience as a VITA site.

Tax-time Savings Incentives

"Gamification" can facilitate engagement in even the most routine or tedious tasks, including savings. Recognizing this, in 2014 Commonwealth and America Saves launched the Save Your Refund tax-time sweepstakes to offer "a simple, innovative, and fun program focused on a crucial and universal but often stressful moment in people's lives—filing taxes." They identified three key drivers for tax-time savings:

> ***VITA Site Tip***
>
> - Encourage your taxpayers to participate in SaveYourRefund.com

- Tax time provides many American households with the best and, perhaps, only opportunity to save.
- IRS Form 8888 facilitates tax-time savings.
- Frequent and significant prizes, totaling $30,000 in 2019, incentivize savings.

Participants are often referred by their VITA sites, but as a sweepstakes, everyone is eligible to participate. The SBCP VITA sites regularly refer taxpayers to this program.

In addition, SBCP was inspired by Save Your Refund to set up a similar sweepstakes that, due to a more limited geographic focus, would provide better odds for winning. With advice and guidance from Commonwealth, we developed the Split, Save, and Win (SSW) Tax-time Savings Sweepstakes, which launched in 2016 and uses the same key elements as Save Your Refund—tax time as the prime time to save, Form 8888 as a proxy for savings, and the combination of frequent small prizes with a single large prize. Participation has grown from 47 people in 2016 to 203 in 2019. We survey participants each year to learn about their experience and improve the program. Several results are worth noting:

- 44% of people saved more than $300. This is a critical amount since the average size of a payday loan is $350 and since 40 percent of people in the US cannot access $400 without borrowing or selling something.

- During 2016, the first year of SSW, 58 percent of survey respondents indicated that SSW was the first time they had ever saved at tax time. In 2019, that number was on 19 percent, suggesting that tax-time savings is becoming standard operating procedure among at least some of the taxpayers we serve. This is critical given that 21 percent of Americans are not saving anything at all—for retirement, emergencies, or other goals or purposes (Dixon, 2019).

- Despite local advertising and promotion, many participants in the sweepstakes only decided to save while at the VITA site. This suggests that VITA volunteers must be well trained on how to talk about tax-time savings and savings incentives so that taxpayers will finalize their decision to save.

More information is available in Appendix B. Taxpayers who used Form 8888 were automatically entered into the sweepstakes. The prizes consisted of 33 weekly prizes of $50 each and one grand prize of $1,000. This is less than $3,000 in prize money and may be quite feasible for others to replicate. Also, since SBCP employees and spouses were ineligible to participate, they were encouraged to enter Save Your Refund.

From Tax-time Savers: How did you feel when you saved some of your tax refund?

"Great, because I now have money for an emergency.

"Happy to have a nest egg for the future."

"I wish I could save more".

"It helps to make me feel financially secure."

"Proud."

Sweepstakes such as Save Your Refund and Split, Save, and Win are attractive to many potential tax-time savers but not everyone wins and participants have a delay of weeks or months before finding out if they're among the lucky ones. The tax-time savings scratch-off card addresses both of those issues. Entergy Charitable Foundation provided both the scratch-off cards and the cash prizes for use at several of their funded VITA sites during their Super Tax Day or Taxathon promotions (see Tax-Bundled Services, below). Taxpayers were told about the scratch-offs (and Split, Save, and Win) when upon arrival at the VITA site. If they chose to save, they were then given a scratch-off card which they would scratch to reveal their prize. Importantly, every card was a winner – from \$5 to \$50. Given that this was unexpected money that they would walk away with, people were just as excited about winning \$5—"That's lunch!"—as they were about winning larger amounts. The immediate gratification served to make the scratch-off cards both popular and a meaningful and effective incentive to save.

2016 Split, Save, and Win! Grand Prize Winners

Tax-bundled Services

According to an old saying, taxes and death are the only two things that are certain. Because almost everyone in the US is engaged with tax preparation at the same time, it provides an opportunity to connect tax time with other services, particularly those related to asset building and asset retention. It can be particularly beneficial to develop partnerships with organizations that offer services that can help taxpayers both build and protect their financial assets. Many VITA sites hold Taxathons or Super Tax Day events that cater to taxpayers who are only available in the evenings or on weekends. Such events are often held in February, as most taxpayers like to file early since most expect to receive a refund. Some examples of additional services include:

- Intentional discussion of asset building services that our organization offers. These include credit counseling, housing counseling, matched savings or individual development accounts, and financial education resources. VITA tax preparers often have conversations with taxpayers about how they might use their refund and these can lead naturally to discussion of other services. For example, if someone comments about hoping to get enough of a refund to pay off bills, the tax preparer could offer a referral for assistance in prioritizing bills. Or if the taxpayer wonders about having enough for a down payment, the tax preparer could refer him to housing counseling.

VITA Site Tip

- Develop partnerships that will benefit taxpayers and allow them to make productive use of any waiting time.

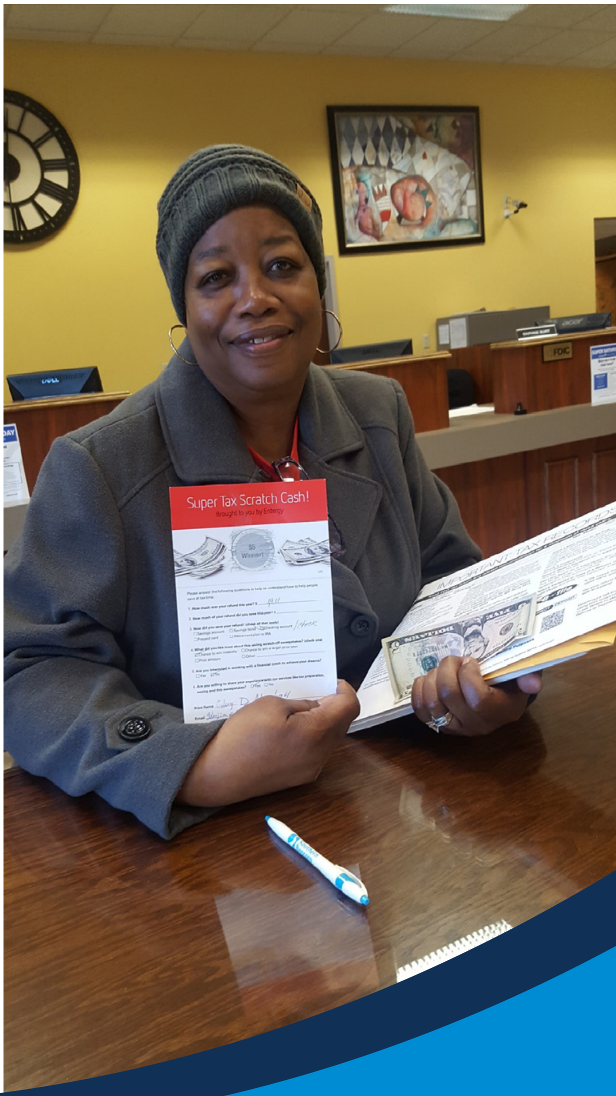
- During our February Super Saturday tax events, we invite pro bono and legal aid attorneys to provide free legal services like wills, beneficiary deeds, criminal record expungement, living wills and other documents. These services, which help families retain and transfer assets, have become just as valued as the tax preparation services, which help people build assets. For example, at our 2019 event in Helena, Ark., there were the same number of legal documents prepared as federal tax returns prepared: 84. It can be helpful to incentivize participation in these services as well. During our Super Saturdays, those using legal services could also receive a tax-time saving scratch-off card.

- Some February Super Saturday events include local community health organizations which provide health information to attendees. Such organizations could also provide health screenings.

- VITA sites can recruit volunteers to assist with completion of the Free Application for Federal Student Aid (FAFSA) form. Research has shown that FAFSA completion rates for positively associated with college enrollment (Reaves and Guyot, 2018).

The tax events can benefit from a carnival type atmosphere, with partners providing food for attendees and games for kids. Because taxpayers are together for the event, word of mouth about savings and other opportunities can spread easily and quickly among the attendees. For example, one taxpayer was reluctant to even hear about our scratch-off savings promotion until 30 minutes later when she saw a another taxpayer excitedly waving her cash savings incentive and posing for pictures. At that point, she called over the same volunteer who she'd initially rebuffed to ask for more information and later saved a portion of her refund.

A Super Saturday participant with her scratch-off card and winnings.



Connection with Savings Vehicles

Some taxpayers hesitate to save or split their refund because they do not have a savings account. An insured savings account is one of the safest, most effective savings vehicles, and if it is interest-bearing it can be productive as well. However, saving accounts are not the only savings vehicles. Taxpayers are often more willing to split and save if they can use a savings option that works for them (Consumer Financial Protection Bureau, 2015). In addition to traditional personal savings accounts, other savings vehicles can include:

- ***Checking account***—Many people have more than one checking account with one or more being less used than others. Some taxpayers will choose to put funds in a checking account so that they have reliable access to them in an emergency. (Savings accounts usually limit the number of penalty-free withdrawals during a statement period.)

- ***Savings bonds***—Taxpayers may prefer to use IRS Form 8888 to place their savings in a US savings bond, in our experience, most often for a child or grandchild. These bonds can be used later for higher education or other purposes.

- ***College savings accounts***—Taxpayers may choose to save for a child using a state 529 or other child savings program. There is significant research exploring the often positive relationships between these kinds of accounts and educational attainment (Markoff, et al., 2018), college readiness (Markoff, et al., 2018), parental educational expectations (Kim et al., 2017), and parental financial investment (Kim et al., 2017).

- ***Individual development accounts***—These matched savings accounts are usually administered by nonprofit organizations or governments and are often used for appreciable asset purchases such as homeownership, higher education, or small business development (Neal, et al., 2012).

- ***Retirement accounts***—IRAs and other retirement savings vehicles can also benefit from tax-time deposits.

- ***Paper check***—Because these are uninsured and can be lost, we do not generally recommend paper checks, though sometimes taxpayers use IRS Form 8888 to choose them.

- ***Prepaid card***—Because these are uninsured, can be lost, and often have significant usage and storage fees, we do not generally recommend these products, though sometimes taxpayers use IRS Form 8888 to choose them.

Many taxpayers make the final decision to save while they are at the tax preparation site. This means that they may not have all the proper account documentation with them. It is important for tax preparers to share all reasonable options since the likelihood of saving decreases once the taxpayer leaves the VITA site.

Taxpayers who want to save in an insured bank or credit union account need to have a relationship with a depository financial institution. If they do not, they may want to choose one that intentionally invests in community and human development. These include:

- Community development banks and credit unions which help create “economic growth and opportunity in some of our nation’s most distressed communities.” A complete list can be found at **www.CDFIFund.gov**.

- Bank On certified accounts and coalitions which “connect consumers to safe, affordable bank accounts.” A complete list can be found at **www.JoinBankOn.org**.

- Members of the Global Alliance for Banking on Values, an independent network of banks using finance to deliver sustainable economic, social and environmental development.” A complete list can be found at **www.gabv.org**.

- Banks with B Corp certification, which “are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.” A complete list can be found at **www.BCorporation.net**.

Tax time is often the time when taxpayers meet other financial goals like paying off or paying down bills. It can be helpful for VITA sites to connect interested taxpayers to nonprofit credit counseling, homebuyer education, targeted and relevant financial education resources, or other services that promote financial capability (Davison et al., 2018).

Charlestien Harris, Credit Counselor in Clarksdale, Miss., helps two credit counseling clients.

Call to Action and Conclusion

While it is both alarming that 40 percent of adults in the United States cannot find $400 without borrowing money or selling something, it is encouraging that it is an improvement from the 2013 study which found half of Americans unable to cover such an expense (Federal Reserve, 2018). That change shows that progress is possible. Increased use of the tax-time savings strategies discussed herein and others can facilitate continued improvement and increase financial security and economic mobility.

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Appendix A

Add a Line Talking Points

SB 584 - Add a Line for Saving

Empowering people to exercise personal responsibility for their own financial future

The recent federal government shutdown brought much-needed attention the fact that most Americans don't save enough for emergencies, much less for retirement, a home, or higher education and training.

SB 584 would provide Arkansans an opportunity to exercise personal responsibility for their finances by adding the option on their state income tax forms to direct deposit all or a portion of their refunds into a savings account. Currently there is only one option for direct deposit into a bank account.

Why add a line?

- According to the National Conference of State Legislatures, tax refunds are often the largest lump sum payments a family receives all year. (Torres Flores, 2011)
- Data from Prosperity Now reveals that in Arkansas, only half of the population had emergency savings over the last year. (Prosperity Now, 2019)
- Behavioral economics research shows that when we make it easy to save, people will save! (Thaler, n.d.)
- Providing an easy way for people to save some of their tax refund will increase savings rates and boost economic opportunity, according to a national research project on financial security and mobility. (Plunket and Kavanaugh, n.d.)

Adding a second direct deposit line to state income tax forms makes the process of saving easier and helps Arkansans take control of their financial destiny. Vote yes on SB 584.

Appendix B

Data from Split, Save, and Win Surveys (n=32)

How much did you save?

- **Less than $300:** **56%**
- **$301 - $1,000:** **16%**
- **More than $1,000:** **28%**

How much did you save?

- **Split between checking and savings:** **30**
- **Split between checking a paper check:** **2**

What were you saving for?^*

18	**4**	**1**	**1**	**1**	**1**
Emergency savings	Vacation	Moving expenses	New home	Child's education	Education: self

Have you continued to add to your savings? ^

18	**8**	**1**
Yes	No, because I don't have the money right now	No, because I don't feel I need to right now

Did you have a savings goal? ^

- **No** **14**
- **Yes, but I haven't reached it yet** **13**

Had you ever saved part of your tax refund before?

- **Yes** **22**
- **No** **5**

Notes:

**Some choose more than one answer.*

^Some did not answer this question.