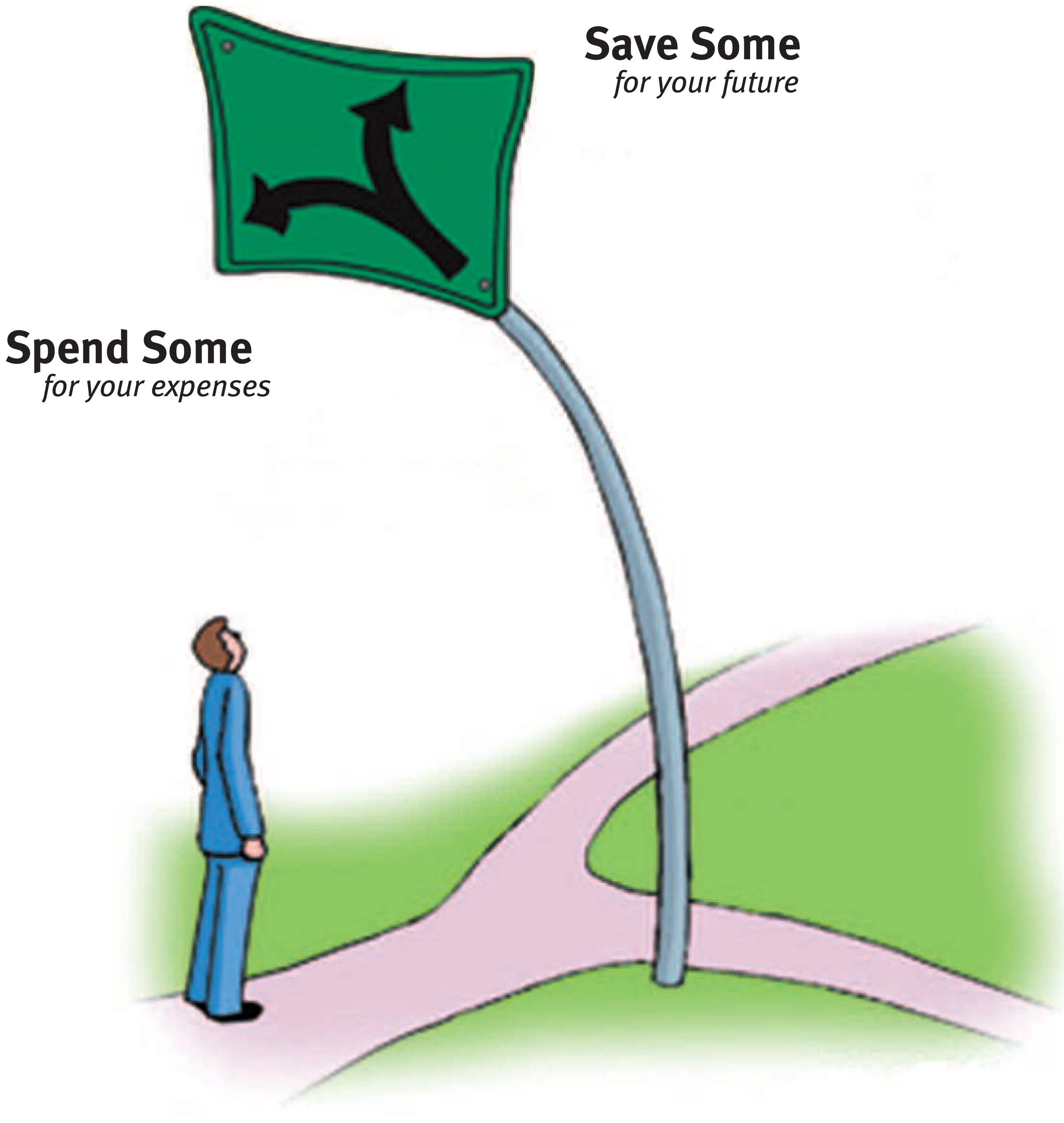

Build Savings at Tax Time
A Guide to Split Refunds

This Guide was authored by Jeff Zinsmeyer, with Tim Flacke, of D2D Fund. It is based on split refund pilot tests and resulting research conceived and conducted by D2D from 2004 to 2006. D2D Fund is proud to partner with the National Community Tax Coalition and United Way of America to ensure broad distribution of the guide in an effort to help families build savings at tax time.

D2D Fund (D2D) works to expand access to financial services, especially asset building opportunities, for low-income families by creating, testing and deploying innovative financial products and services. A nonprofit, D2D publishes research about its financial innovations which are available at *www.d2dfund.org*.

The National Community Tax Coalition (NCTC) (*www.tax-coalition.org*) leads a national community-based movement in connecting working families to tax benefits. The Coalition and its 500-plus affiliates promote tax credits and financial opportunities by bringing the voices of low- and moderate-income taxpayers to the tax policy arena and providing tools for free tax preparation and financial service programs.

United Way of America (UWA) (*www.unitedway.org*) is the national leadership organization for the network of more than 1,300 locally governed United Ways, whose mission is to create positive, lasting changes in communities and people's lives. UWA supports tools and strategies that help low-income working families build assets.

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Split Refunds: Just Another Tax Form or an Opportunity for Millions to Save?

More than three-quarters of the nation's taxpayers receive tax refunds each year. In 2005, the average refund was $2,171—for many low to moderate income households, this is the largest sum of cash they will receive all year. To encourage individuals and families to make the best use of their refund, the Internal Revenue Service (IRS) has created a new program to allow taxpayers who use direct deposit to send it to multiple accounts.

Beginning in 2007, taxpayers will be able to designate up to three different accounts for their refund—including checking, savings, and retirement accounts—giving them greater control over their money. With appropriate marketing and other complementary services, this simple procedural change—referred to as 'split refunds'—could encourage millions more Americans to save.

This Guide explores the opportunities and implications of split refunds as they apply to the segment of low and moderate income[1] (LMI) tax filers who rely on Volunteer Income Tax Assistance (VITA) sites to process their taxes. The Guide provides information on split refund procedures, appropriate marketing and messaging for VITA clients, integrating refund splitting into VITA site operations, training volunteer tax preparers, and partnering with financial institutions.

www.Splitrefunds.net
D2D has created a companion website for this Guide that provides additional resources, updated IRS information and forms, and a discussion Forum that allows tax preparers to ask questions and share best practices. Visit the site for the latest information on split refunds before and throughout tax season.

While the Guide is directed primarily at those engaged in EITC outreach and VITA site activity, it might also be useful for financial institutions, advocates of asset building, for-profit tax preparers, public officials, and others who acknowledge the importance of saving for LMI households. Links to additional resources on split refunds can be found in Appendix C.

The Importance of Saving

Many VITA clients recognize the value of saving. In 2005, of over 850 clients surveyed, 49 percent agreed or strongly agreed with the statement: "I wish that when I had cash, I was better disciplined and saved it rather than spent it".[2] With the added option of split refunds, tax time provides a 'savable moment,' offering clients a mechanism to commit to saving before they receive their refund in hand.

Recognizing the importance of savings for LMI households, D2D Fund conducted a demonstration project to test the concept of split refunds at VITA sites. D2D began testing split refunds in 2004 at the Community Action Project for Tulsa County (CAPTC) in Tulsa, OK. In 2005 the project was expanded to include FoodChange in Brooklyn, NY and in 2006 an additional five VITA sites were

1 Low and moderate income may differ by location but includes those households/individuals that qualify for Earned Income Tax Credit [EITC] and/or the Child Tax Credit [CTC].

2 *An Evaluation of Tax-refund Splitting as an Asset-building Tool for Low-to-middle Income Individuals*. Policy Analysis Exercise prepared by Anne E. Chiou, Samuel E. Roe and Ethan S. Wozniak. An evaluation of the effectiveness of the R2A programs in Tulsa, OK and New York City, NY offered during the 2005 tax season, April 2005. at http://www.d2dfund.org/news/research.php

added in communities nationwide. The sites experienced take-up rates ranging from zero to fifteen percent, which is roughly consistent with the experience of for-profit tax preparers who have offered savings options to their clients.

The Refunds to Assets project (R2A) yielded critical insights on savings, including client preferences, VITA site procedures, tax preparer attitudes, and the experience of financial institutions. Data and insights collected from these pilots are included throughout the guide. For a complete list of all the organizations involved in the pilot as well as more extensive project data, please see Appendix B.

Split Refunds in Oklahoma

In 2004, D2D and the Community Action Project of Tulsa County offered over 500 EITC-eligible taxpayers the choice to split their refund into saving and spending accounts at the time of filing. The average income of these tax filers was $12,300. Of those offered this opportunity, approximately 15 percent were able to participate. A total of seventy-nine clients saved an average of $583, or 47 percent of their total refund. Unfortunately, many more clients were interested in participating but were unable to open a savings account due to a ChexSystems disqualification.

IRS Form 8888

The IRS will create a new tax form, Form 8888, which will allow taxpayers—at the time of filing–to designate up to three accounts into which to deposit their refund in any proportion they choose. The accounts can be located at up to three different financial institutions.

The IRS has released a draft of Form 8888 (located in Appendix A) and expects to finalize it in late 2006. The following is an outline of basic split refund procedures as they relate to Form 8888. Updated information about the form, its integration into tax preparation software, and refund splitting procedures can be found at *www.splitrefunds.net*.

1. **Availability.** Split refunds will be available to all filers, whether they file Form 1040, 1040A/EZ, 1040NR or any of the other 1040 series forms.
2. **Structure.** When using Form 8888, the entire refund must be sent to accounts able to receive direct deposit (i.e., no paper checks).
3. **Platform.** Deposits must be made to accounts accessible through the electronic fund transfer system (Automated Clearing House system). A valid routing number and account number must be provided for each account. This means that most Mutual Funds, many College Savings Plans, some IRAs and all 401(k) s will not be accessible. Individuals interested in depositing their refund to one of these types of accounts should check with the appropriate financial institution before going to the tax preparation site.
4. **Incorrect Account Information.** The IRS will issue refunds via paper check if they receive an incorrect routing or account number. For example, if one digit of a savings account number is omitted, but checking account information is entered correctly, the correct amount will be directly deposited to the checking account and a paper check will be issued for the portion that was directed to the savings account.
5. **Math Errors.** Tax filers and/or their preparers must be sure that the sum of all of the deposits equals the total amount of the refund. If an error is made (e.g. Form 8888 indicates that $750 should be deposited into Accounts 1 and 2, but the total amount of the refund is $1450) the entire refund will be converted to a paper check.
6. **Adjustments.** If the refund amount differs from the amount calculated on the return, an adjustment will be made to the last account listed on Form 8888. For instance, if a client requests a split into two accounts and the refund received is less than the refund expected, the reduction will be made to the second account. Likewise, if the actual refund is higher than expected, the amount deposited in the second account will be higher. In the case of a direct deposit to an Individual Retirement Account (IRA), where a client may want to ensure the precise amount in order to claim an IRA deduction, that deposit should be placed on the first line.

Promoting and Marketing Saving via Split Refunds

Split refunds represent an innovation in tax procedure that can help tax filers make more targeted use of their tax refunds. In order to maximize the use of this new process, however, it is critically important that the concept and process of split refunds be clearly explained to all parties at a tax site—clients, staff and financial institutions. To do this, VITA sites and EITC coalitions should reflect on how to communicate the concept and utility of refund splitting, as well as how to promote its availability to clients.

Promoting Saving

A number of studies document the beneficial effects of saving and asset building for LMI households[3], including greater confidence in one's future and feelings of greater economic security. In addition, saving is often an essential first step toward purchasing a home or other significant asset, which has proven to positively impact both families and the communities in which they live. These tangible assets can be passed on to offspring or other family members, offering the promise of a lasting impact on future generations.

An awareness of typical saving goals can help tax preparers identify goals that are likely to resonate with particular clients (e.g., parents may be motivated to save for their child's education). Some of the typical saving goals are 'asset building' goals such as housing, education, retirement and/or an automobile. Other goals, while more short-term, may have more relevance to clients, such as:

- **Emergencies:** because a sudden illness, unexpected home or auto repair, or job disruption can have a devastating effect on families that have no funds in reserve, a "rainy day" or emergency fund is a common saving goal.[4]
- **Household items:** without a special saving effort, the purchase of major durable goods like furniture or appliances often requires costly and/or difficult to access credit.
- **Children**: some parents save in order to model savings behavior to children, or to ensure that funds are set aside for unexpected but important child-related expenses (health care, clothes for school, etc.).
- **General/Miscellaneous:** clients have many other reasons to save, from a trip overseas to see family, to special gifts for loved ones, or to take the first step away from an entirely cash-based existence.

3 See the Center for Social Development website, publications page for additional information about the benefits of saving for low-income families [www.gwbweb.wustl.edu/csd/publications/index.htm]:
1. Page-Adams, Deborah, Scanlon, Edward, Research Background Paper - "Assets, Health and Well-Being: Neighborhoods, Families, Children and Youth".
2. Sherraden, Margaret, McBride, Amanda Moore, "Saving in Low-Income Households: Evidence from Interviews with Participants in the American Dream Demonstration".
From the Corporation for Enterprise Development web site [www.cfed.org/think]:
"IDA State Policy Brief: Promoting Asset Building through the Earned Income Tax Credit"

4 Experts advise a reserve fund with an amount equal to three month's wage income, though this target may seem overwhelming to some low-income families.

Marketing Savings

When marketing savings via a split refunds to VITA site clients, there are two primary factors to consider:

- **Message:** What do you call it? How do you talk about it?
- **Medium:** What is the most effective way to communicate the message to clients?

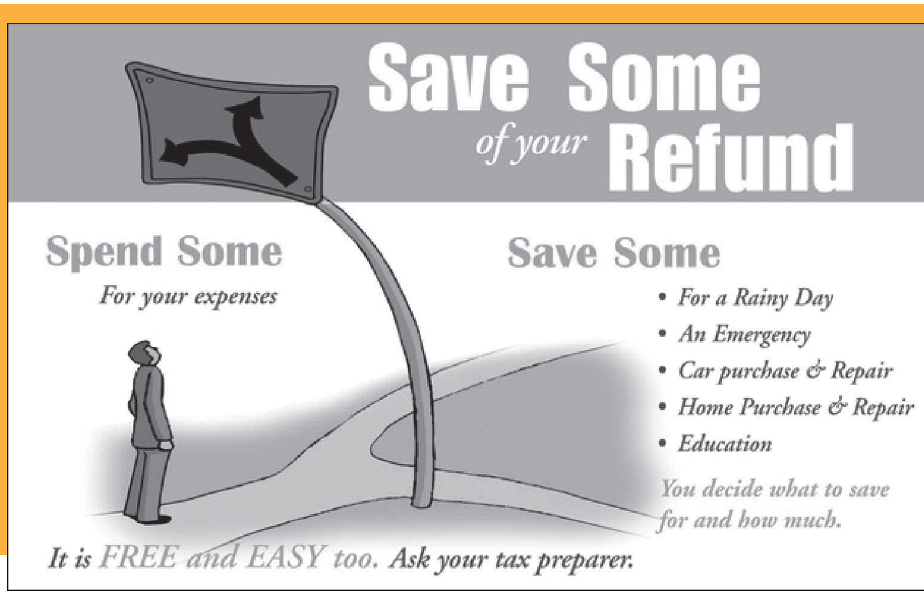
Message

While the IRS refers to this service as 'split refunds,' focus groups indicate that the term "splitting" confuses clients. Again and again, they describe splitting as a convenient savings service or product—a welcome a mixture of convenience and choice. They see the option according to its benefit (saving) not its function (splitting). Effective marketing will describe this service according to its features and benefits rather than its function.

Key Features. Clients at one Refunds to Assets pilot site that chose to split their refund were asked which of the process' features most appealed to them. The two that ranked highest were "that it was free" and "that it was easy". When considered together, these two features comprise a clear and direct message for taxpayers. If you can work these two words into your message and communicate them with enthusiasm, you will reach many clients.

Benefits. When marketing saving and split refunds to clients, VITA sites should consider what clients are saving for and whether or not that objective can be included in the message to stimulate interest. Data from Refunds to Assets pilot sites indicates that savings goals are varied and hard to define; however, short term goals such as emergency or "rainy day" funds represent good, general goals. It is important to stay focused on the end result—savings or a home purchase—rather than focusing on the concept of refund splitting. For clients, a split refund is a procedure and in itself of little consequence.

Effective Messaging: The "Spend Some, Save Some" Campaign. Following their first test of the split refund process, D2D, and their nonprofit partner, CAPTC, conducted a series of focus groups with VITA site clients. The participants were presented with a number of different potential messages for promoting saving via split refunds. The group agreed that the slogan "Spend Some / Save Some" best described this opportunity and chose the graphic presentation on the right.



Medium

Once you have determined the message that you want to communicate to your clients, you must decide how you want to communicate that message as well as the most appropriate time during the VITA site experience for doing so. As a reminder the material presented below is not conclusive, and comes from a limited number of pilot tests.

> **Promotion at the Tax Site.** D2D's Refunds to Assets demonstrations suggest that almost half of those who decide to save some of their refund make that decision at the tax site. According to one survey conducted in 2006, 49 percent of tax clients that used split refunds said they decided to save a portion of their refund while they were at the tax site. This finding implies that a significant percentage of clients came to the tax site with an "open mind" regarding the use of their refund. Perhaps the most effective opportunity for promoting saving is at the "point of sale" and the site itself is the best place to allocate promotional resources.
>
> **Pre Tax Season Notification.** Many free tax preparation coalitions notify clients before tax season about their tax preparation services with flyers, leaflets, and postcards. Some of these communications include instructions regarding the necessary documents for return preparation at a VITA site, including checking account information for direct deposit of refunds. This year, free tax preparation campaigns should encourage clients to bring their savings account Routing Number (RTN) and deposit account number (DAN) to their tax site. A deposit slip or account statement will suffice.

Tips for Promoting Savings via Split Refunds

- **Message Consistency.** Whether it is "Spend Some / Save Some" or another message, once you have chosen a message, continue to promote it consistently throughout tax season.
- **Repetition.** Studies show that individuals must be exposed to a message at least six times before it is absorbed. Consider this when determining the number of times a client will see or hear your message before she makes the decision to deposit a portion of her tax refund into a savings account.
- **Medium Variety.** Make sure that your message is communicated to clients in a variety of mediums—spoken by a greeter, an intake volunteer, or a tax preparer, written via a campaign flyer, and illustrated via a poster or a card pasted alongside computers at tax preparation stations. By using different methods, you can be confident most clients will receive the message.
- **Face-to-face interaction.** Forty percent of clients who split their refund believed that a face-to-face explanation of the purpose and benefits of split refunds is the most effective way to communicate it.

Saving is Not Appropriate for All Clients

While split refunds are designed to offer all clients an opportunity to save, staff must recognize that there are legitimate reasons for choosing not to save a portion of one's tax refund (or use refund splitting). A client carrying thousands of dollars in credit card debt, for instance, might wish to eliminate that first. Another issue for many clients is receipt of public benefits. Certain public benefits, including Food Stamps, Medicaid and TANF, count applicants' assets in determining eligibility. The intention of these tests is to ensure that public funds are directed to those who need it most. A regrettable consequence is that they could serve as a savings disincentive. Public benefit recipients are often aware of these restrictions; in fact, studies indicate that many low-income individuals save less than they could for fear of losing benefits.

So called "asset tests" are complex, both because of the number of federally funded programs and because, for large programs like TANF, asset limits are established at the state level. However, all state programs allow recipients to maintain a limited amount of financial assets. In California, for instance, TANF recipients are allowed to hold up to $2,000 in assets ($3,000 if a family member is 60 or older), excluding the value of their home and one car per adult.

Tax preparers should be aware that the largest benefit programs have guidelines for the treatment of savings generated by EITC refunds. In most states, TANF recipients' EITC refunds are counted as assets if they are not spent by the end of the month after the month in which they are received. The table[5] below summarizes how EITC is treated under major Federal assistance programs.

Summary of Treatment of EITC for Program Eligibility

Asset Source	Treatment for Eligibility Purposes			
	TANF	**Food Stamps**	**Medicaid**	**SSI**
EITC	Counted the month after the month received. States have option to liberalize or exclude	Counted twelve months after the month received.	Counted the month after the month received.	Counted nine months after the month received.

5 "To Save, or Not To Save? Reforming Asset Limits in Public Assistance Programs to Encourage Low-Income Americans to Save and Build Assets" www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_1286_1.pdf

VITA Site Operations

The success of split refunds in facilitating savings will be determined by how well it is integrated into VITA site operations. For this reason, thoughtful planning regarding site procedures, staffing roles and training can help make this simple procedural change into a positive experience for clients and site staff.

Integrating Refund Splitting into Site Operations

This section of the Guide provides advice on the integration of split refunds into VITA site operations. There are at least four opportunities to address refund splitting during the tax preparation process:

1. In the waiting area
2. During the intake and routing process
3. During tax preparation
4. At a quality control station

1. **The waiting area.** The waiting area is a perfect opportunity to introduce clients to the split refund concept.

   Considerations:

- Presentations to small groups of waiting clients can be more efficient than individual conversations while still intimate enough to capture clients' attention. Such presentations work best when the person speaking is also well versed in other tax preparation issues, as clients tend to engage first around their most pressing concerns. After addressing these, and establishing their credibility, a presenter has an opportunity to introduce the topic of saving and refund splitting.
- It is helpful to establish a system to identify clients that have savings accounts and have the necessary account information with them, as these clients will be best positioned to make use of refund splitting. A simple system may work well, such as a yellow sticker placed on the client's paperwork.

2. **Intake and routing.** The client intake process, which often involves a data collection form, presents another opportunity to assess clients' needs and interests with regard to saving. During intake volunteers can determine if clients are already savers (those with 401(k) contributions indicated on their W2s or prior year IRA deductions) or have natural reasons to save (small children or evidence of on-going educational expenses). The intake process

Promote Savings Prior to Tax Season!

Many VITA sites and EITC collaboratives advertise their free tax preparation services prior to the tax season using flyers, postcards, and/or newspaper ads. Often these communications include instructions regarding the necessary documents for return preparation at a VITA site, such as checking account information for direct deposit of refunds. This year, free tax preparation campaigns could also use these pieces to promote saving at tax time by encouraging clients to bring their saving account number and routing number to their tax site. A deposit slip or account statement is sufficient documentation to substantiate their account information.

also allows volunteers to route clients through the tax preparation process appropriately; for instance, those who are interested in opening a savings account might be directed to a bank account representative while those who are interested in saving but have questions might go to a "specialist" who can better explain how split refunds work.

To expedite the intake and routing process, VITA sites can create a system to identify clients according to interest level in saving via refund splitting. For example, a notation on the intake form or a yellow sticker on a file folder is easily identifiable and can be understood by all parties at the tax site.

Considerations:

- Clients who have already decided to save part of their refund and who have their savings account and financial institution routing number with them do not need to be "educated" on saving or offered a new savings account; rather, they need to be routed to tax preparers who understand how to complete Form 8888.
- Clients considering saving may want to know if optional activity, such as establishing a new savings account or opting to split their refund, will lengthen the time it takes to complete their return. Intake staff should be prepared to address this question.

3. **Tax Preparation.** D2D's survey data suggests that many clients make decisions about saving while seated with a tax preparer; indeed, 52 percent of 2006 Refunds to Assets clients who elected to split their refund decided to do so while having their tax return prepared. Therefore, the interaction between client and tax preparer offers an important opportunity to promote savings. It can be as low key as identifying and answering clients' questions or as directive as making a statement such as "with this new service, we're suggesting clients consider saving at least 10% of their refund."

Considerations:

- Tax preparers will need to complete IRS Form 8888 for all clients who choose to split their refund. The taxpayer will need to specify the accounts they would like their refunded sent to as well as the specific amounts to be deposited in each account.
- If a VITA site provides clients with an opportunity to open a savings account, those who are interested in saving but do not have an account will require special attention. Ideally, the process to open a new account will not significantly extend a client's time at the tax site, as longer tax appointments create a strong disincentive to save. If this process requires the client to leave the tax preparation workstation, the site will need a procedure to put partially complete tax returns "on hold' until a new savings account is created. VITA sites may want to consider designating a member of their staff to finishing completing returns for those who have opened new accounts.

4. **Quality Control.** Quality control is particularly important to split refunds, as efforts to help clients save will only be as good as the information that is transferred to the IRS. Clients who must wait weeks for their refund in the form of a paper check because their account information was entered incorrectly will likely never elect to save via split refunds again. Particularly in its first year, VITA sites will want to exercise extra care in reviewing returns and Form 8888s.

   Considerations:

- Does the site have documentation to substantiate routing and account numbers for each account on Form 8888?
- Does the name(s) on the savings account documentation match the name(s) on the tax return?
- Can the client describe the split refund selections made (demonstrating these were informed choices), and is it consistent with the selections on Form 8888?
- Does the client understand what will happen if the refund amount is less or more than anticipated?

Quality Control in Chicago

The Center for Economic Progress incorporates an important control mechanism at its Chicago VITA sites to ensure that direct deposit of refunds is done correctly. When tax clients specify an account number and routing number on their tax return, they are asked to initial the number on the form prior to signing it. In this way the client is assured that the number is correct prior to electronic submission, and that the proper account receives the deposit. In the case of a misdirected refund, this quality control measure protects the VITA program from liability. With split refunds there are now more opportunities for funds to go to improper accounts (or even for fraud related to refund deposits), so a quality control measure of this type makes even more sense.

Staffing Models

It is difficult to predict the demand for split refunds or how challenging it will be to manage at VITA sites during the first year of the service. Yet VITA site managers will need a staffing structure that effectively manages the demand for split refunds. There are two staffing models that VITA site managers may wish to consider: a generalist approach or a specialist approach.

Under the **generalist model**, every tax preparer is trained to offer a split refund to all clients and to promote it on an informed basis. All tax preparers would engage clients in a discussion about their plans for their refund and interest in saving a portion of it. Preparers must also understand how to talk about and encourage saving, as well as how to recognize inappropriate savings circumstances. (noted on page 11 above).

The **specialist model** relies on a select number of staff to promote savings with one or more site staff trained as experts in split refunds and the completion of Form 8888. These experts should also be informed about the process of opening a new savings account (if such products are available at the site). Site managers must determine when and how often savings specialists will they be inserted into the tax preparation process, and what role they will play. Sites may rely on specialists to perform all functions at the tax site, from first approaching clients to completing Form 8888, or they may use specialists for tasks like facilitating the creation of new savings accounts, while relying on tax preparers to complete Form 8888.

Some tax preparers may prove to be very successful at promoting savings and will develop their own style of doing so, while others may prefer to ignore refund splitting. Thus managers may wish to watch closely for what works, mixing approaches to create a model tailored for their tax site.

Generalist Model

Strengths	Weaknesses
Credibility. Tax preparers often have the most influence on clients because they (1) typically spend 20 minutes or more with each client and often develop a rapport; and (2) are assumed to be the 'tax experts,' giving their advice credibility.	**Training.** Successfully persuading clients to save involves more than completing Form 8888. Effectively equipping every tax preparer with the informational and motivational tools to present refund splitting can add hours to already-packed tax preparer training schedules.
Consistency. If every tax preparer is trained to present refund splitting, in theory every tax client can be asked about their interest in saving.	**Preparer resistance.** Some tax preparers do not want to promote saving during tax preparation. Some view it as an unnecessary complication, while others feel it is inappropriate to counsel tax clients on personal financial matters.
Timing. The ideal moment to ask clients about saving may be when they learn the amount of their refund.	**Quality control.** Refund splitting could add to tax preparer responsibilities and complicate preparer training, which could distract preparers from the importance of tax return accuracy.
Positioning. The generalist approach makes the strong statement that encouraging saving is the responsibility of every tax preparer – an integral part of the tax preparation process rather than a sideline or special project.	**Demand uncertainty.** It may take a few years for clients, tax preparers and financial institutions to fully embrace refund splitting, making demand for this service low during the first tax season; training every tax preparer may therefore be overkill.
Operational simplicity. Every client can be served in the same way, without referrals to specialist work stations, special routing or similar arrangements.	

Specialist Model

Strengths	Weaknesses
Training. Using specialists decreases the number of people that have to be trained and managed on refund splitting. Further, specialists can be selected with an eye toward enthusiasm for the topic, comfort in presenting to small audiences and with talking about financial matters.[6]	**Operational complexity.** The specialist model may increase operational complexity, raising questions about how to identify and route clients interested in saving between specialists and tax preparers. Integrating specialists in an unobtrusive way may require preplanning and trial and error.
Flexibility. It is hard to predict where resources for refund splitting will be needed most – will client greeting and intake require more explanation? Will onsite financial institution partners require extra assistance? Will tax preparers need help with Form 8888? Specialists may be better able to quickly adapt to site conditions.	**Decreased reach.** Using specialists to promote savings may discourage tax preparers from fully promoting savings via refund splitting, resulting in clients who do not receive an adequate explanation of the offering.

Staff Training

Integrating split refund procedures into tax preparation training for volunteers will require careful planning by VITA site coordinators. When creating the site's training plan, coordinators should consider the following questions: Will the site employ a generalist, specialist or mixed model? How much training time is available? How committed are site staff? Will a financial institution partner be present? What portion of tax preparers will be new – and presumably more open to new ideas – vs. returning?

This section presents four training modules, ranging from basic to in-depth. Though in-depth training on split refunds will require more time, it will increase the likelihood of client usage and savings rates. The four training modules are:

1. **Informing** tax preparers and staff about the new IRS procedures for split refunds, specifically focusing on Form 8888 and its correct completion.
2. **Justifying** the need for clients to save a portion of their tax refund in order to build assets.
3. **Equipping** tax preparers and staff with skills to counsel tax clients on the advantages of saving through split refunds.
4. **Motivating** tax preparers and staff to help tax clients save.

6 At the R2A pilot sites, the specialist model has seen the most success in producing informed, enthusiastic and effective split refund advocates.

Informing. At a minimum, volunteer training should equip tax preparers to assist clients who ask to use the new split refund service. Therefore, training should include basic information about split refund procedures as well as how to complete Form 8888. Quality control staff will also need to be trained on Form 8888 in order to review it properly. VITA sites may want to orient all staff and volunteers—beyond tax preparers—to this new service so they are prepared to address clients' questions and concerns. A simple, one-page description of split refunds can help with this. Sites with financial institutions on the premises might also consider creating a one-pager on the financial products being offered—including the name of the financial institution, the product(s) being offered, fee schedule, minimum balance requirements, and process for opening an account.

Justifying. Some tax site volunteers and staff might feel that saving is a not good idea for most LMI families. Or, staff might sense that saving is appropriate for a particular client but lack a well developed argument to support that intuition. For these reasons, VITA site coordinators might consider adding a short discussion on the importance of saving into the training curriculum. (See Promoting and Marketing Savings section above for suggestions on content for this discussion.) It is critical for staff and volunteers to have a solid understanding of why saving is important as well as the benefits it provides. This information helps them understand why they are being asked to support this effort, equips them with language to use when speaking to clients, and increases their comfort level with the subject of saving.

Equipping. Talking about money is not easy, particularly when doing so with a stranger. Yet, if tax sites aim to encourage saving, their staff must have practical tools to engage clients in meaningful conversations. For clients, the easiest option is to do what they did last year–deposit their refund into one account. Making a new choice–sending a portion to a checking account and the balance to a saving account–may require deliberation and encouragement. Staff need to be equipped with the tools to help clients make this decision, which requires coaching during the training process as well as ongoing support.

Tax preparers must proceed through the following steps in order to successfully engage clients in a discussion about saving: believing, asking, and listening / responding.

- **Believing.** Tax preparers must be convinced that saving is a good option for most clients, as clients will sense ambivalence. Tax preparers must believe that saving is a no-harm activity that can, if necessary, be easily undone (saved funds can be withdrawn).
- **Asking.** Many tax preparers are concerned about making time to ask about refund splitting in the midst of a busy tax interview. One approach is to ask clients about refund splitting by referencing its benefits: easy, fast, convenient, automatic. The box below offers some "opening lines" staff can use to start this conversation. Tax preparers need not take more than a minute or two.
- **Listening & Responding.** Although asking clients about their savings preferences is important, listening carefully to their response and providing information that addresses their needs is essential. After raising the subject of saving, tax preparers should take the time to listen to what the client has to say. There are no wrong answers. This is also a

chance for clients who have not yet decided to stop and think. By listening carefully, tax preparers can encourage momentary reflection and provide information, as appropriate.

Motivating. Training and support of tax preparers does not stop in the training classroom; where possible, it must be an on-going effort throughout tax season. If your VITA site achieves a five percent uptake rate–a rate that past pilots suggest is good–tax preparers will only hear "yes" one out of every twenty times they ask a client if they are interested in a split refund. Hearing "no" repeatedly could be discouraging to preparers, and they may need on-going motivation and support in order to continue promoting the service.

One way to motivate tax preparers is to document the results they are achieving. A chart that displays how many clients have agreed to split their refunds as well as *how much* in aggregate they have saved can foster a sense of accomplishment and teamwork. Site managers should also keep an eye out for "champions"—preparers who seem especially gifted at encouraging clients to save. Champions often believe strongly in saving, are talented at encouraging clients to articulate their plans and dreams, or are resourceful in ways to raise the topic of saving. Use these champions to coach other preparers.

Are Tax Preparers Willing to Promote Savings?

Tax preparers may be ambivalent about promoting saving at tax time. In 2006, D2D surveyed 93 tax preparers (both paid and unpaid) working at seven tax sites around the country. Most supported the concept of helping clients save:

"If properly trained, when acting as a tax preparer I would be willing to encourage clients to save a portion of their refund."

Agree	84%
Disagree	5%
Don't Know	11%

However, they were not sure if tax preparers were the best people at tax sites to promote savings.

"Of all tax site staff, the tax preparer is the most appropriate person to promote saving to the client."

Yes	43%
No	24%
Don't Know	33%

These answers likely reflect tax preparers' discomfort with discussing financial matters and savings products. Preparers may fear that clients will seek their advice about the amount that they should save or the proper use of their savings. Proper training can equip preparers with suitable answers, such as "that's up to you, but remember that you can always take money out if you need it."

Practicing Client Discussions

Whatever training model you choose, practice will help tax preparers become more comfortable discussing savings and refund splitting with clients. Role playing is an easy way to make staff more comfortable with these tasks. Before a training session, trainers should prepare roles for "clients" by writing a sentence or two on a slip of paper describing a hypothetical scenario. In some scenarios, a client may be ready to save and have an account number in hand. In others, a client may be uncertain about what to do with their refund, resistant to saving, or have several questions about the process. Bear in mind that client will decline to split their refund more often than they will accept, so training scenarios should expose tax preparers to "no" frequently.

Below are two different role playing activities that can be used during training sessions.

- ✓ **Role play in pairs.** Trainers divide the class into groups of two, with one member of each group designated as the “client”. Trainees can alternate roles and, when finished, discuss their “performance” with their partner. After a round, the group can reconvene to discuss learnings and observations about how best to engage clients.

  During this exercise trainers can observe different groups. Are there preparers that seem to excel at explaining split refunds and the importance of saving? Trainers may wish to ask these preparers to serve as “savings champions” during the tax season. This is also a good time to identify tax preparers who seem disinterested in the concept. If some are reluctant to perform this role, it is better to surface and discuss their concerns than have them linger unaddressed.

- ✓ **Group role play.** A role play similar to the one described above, but done in front of a large group also offers a good learning opportunity. After a pair of trainees has finished enacting a scenario, trainers can ask group members to comment on the tax preparer’s technique. Would those watching have responded well to what they witnessed if they had been real clients? Would others have done it differently? Was it too long or too short? Too invasive or too passive?

Conversation Starters

Below are some of the questions that staff at the R2A pilot sites have used to start a conversation about saving via split refunds.

- Would you be interested in saving part of your refund?
- Would you like to hear about a *new* service being offered this year?
- This year the government is offering a *free* service that can send part of your refund directly to a savings account. Would you like to know more?
- This year the IRS has a service that will save you a trip to the bank and, if you’re like most of us, help you be sure to save some of your refund.
- What did you do with your refund last year? What are your plans for it this year? (Draw out any evidence of a saving interest or orientation.)
- Have you planned what you are going to do with all of your refund this year? Is there something you would like to save for?
- At the beginning of the interview, ask clients how much of a refund they are expecting to receive. If the actual refund exceeds this amount, tax preparers might suggest that the client save the difference.

Financial Institution Partnerships

In order to take advantage of split refunds, clients need a savings vehicle. For clients who arrive at a VITA site with their checking and savings account information, this is not a concern. VITA sites must decide how to address the needs of clients who do not have an existing relationship with a financial institution, have either a checking or savings account but not both, or who do not have information about their existing account(s) with them at the tax site. Many EITC collaboratives choose to address this issue by partnering with a financial institution to offer basic deposit and transaction accounts.

Savings Products

Particularly in the first year that split refunds will be available, D2D recommends that VITA sites focus on splitting refunds to basic savings, or deposit, accounts,[7] as these accounts are easy to open and typically familiar to clients. A 2001 survey by the Consumer Banker Association found that 79 percent of banks reported their institution provided a basic savings account that is appropriate for low-income individuals.[8] When working with a financial institution, it is important to ensure that their product offering will work for your VITA clients.

D2D surveyed over 800 VITA clients from Brooklyn and Tulsa and asked them to select the account attributes most important to them. Thirty percent listed "no monthly fee" as the most important attribute, while 23 percent listed "earns interest," suggesting that no fee accounts paying competitive rates may be most attractive to clients. The table below is excerpted from one provided by the Center for Economic Progress[9] and illustrates some of the major product features that are important to clients.

Opening Requirements	**Ideal Savings Account**
Minimum Opening Deposit	$10 or tax refund
ChexSystems Review	None or 'relaxed' standards
Minimum Daily Balance Requirements	$0 — $50
ATM Fee	No fee at financial institution-owned ATMs / Unlimited free transactions
Withdrawal Fee	$1 / up to 6 free per month

In addition to basic deposit accounts, there are a number of other financial products that can be used for tax refund deposits. The IRS will direct deposit refunds to accounts with any U.S. financial institution that accepts electronic deposits. Clients should verify that their financial institutions accept direct deposits for the type of account they want to deposit to before tax preparers complete Form 8888. Below are two additional financial products that could meet the needs of low-income taxpayers.[10]

7 A deposit account at a bank, credit union, or savings and loan which pays interest, but cannot be withdrawn by check writing.
8 CBA Survey, Released July 2001: "Financial Literacy Programs – A Survey of the Banking Industry" (http://www.cbanet.org/surveys/literacy/documents/CBA%20Survey.pdf).
9 http://www.tax-coalition.org/Resource%20Library/2005_Financial_Institutions_Parternship_%20Guidelines.xls (http://www.retirementsecurityproject.org/pubs/File/SplitRefundIwryFinal.pdf).
10 A brochure that provides a simple introduction to the services offered by banks and credit unions, including checking accounts, savings accounts, certificates of deposit and debit cards is "You Can Bank on It" (http://www.money-wise.org/modules/banking%20basics/).

✓ **Stored Value Cards**

Stored value cards (SVCs) operate like a bank debit card without an accompanying checking account. Typically, deposits, including tax refunds, are "loaded up" to the SVC and clients can obtain cash from participating ATMs (for which they may be charged a fee) or they can use their card for "point of sale" purchases in stores. SVCs may be most suitable for "unbanked" clients since applicants are not normally subject to ChexSystems review and identification requirements are often less stringent than for checking accounts. The SVC market is fairly new and encompasses a variety of products that differ in terms of fee structure, liability protections, customer service, and other factors. VITA sites should research any SVC offering carefully before presenting it to clients.[11]

✓ **Certificates of Deposit**

A certificate of deposit (CD) is a deposit that provides a guaranteed interest rate for a fixed term, from three months to five years. Funds are withdrawn at the end of the term together with accrued interest. Unlike many savings accounts, CDs sometimes have to be funded at the time of opening, which could present a problem for direct deposit of tax refunds which typically take a few weeks. If VITA sites and financial institutions are interested in offering CDs to clients, they may have to institute some type of 'work around' to overcome this issue.

ChexSystems: Barrier to Savings for Many Low-Income Families

ChexSystems is the brand name of a product that financial institutions use to evaluate prospective customers in terms of their prior history of responsible use of and/or attempted fraud with bank products. Because ChexSystems reports bounced checks or accounts closed with negative balances, it can have a major impact on the account opening rate for tax clients, many of whom may have had troubled prior banking relationships. Approximately 90 percent of banks in the U.S. rely on ChexSystems to serve as a screening device for new account customers. It is not uncommon for banks to deny consumers with poor ChexSystems records the opportunity to open any type of account, even a basic savings account.

In the 2004 R2A test, 137 Tulsa-area clients expressed interest in splitting their refunds. Of those, 36 (26%) were unable to open a savings account at the tax site because of a poor ChexSystems report. In subsequent R2A pilots, financial institution partner Bank of Oklahoma agreed to relax ChexSystem reviews except for applicants with a history of fraud, resulting in significantly fewer reported ChexSystem denials.

11 For a good description see "Building a Better Stored Value Card: Options for VITA Sites" By Chi Chi Wu, National Consumer Law Center, November 2004 – (http://www.responsiblelending.org/pdfs/RALs-BetterStoredValueCard-1104.pdf)
More information on SVCs: "From the Margins to the Mainstream: A Guide to Building Products and Strategies for Underbanked Markets" and "Reaching the Unbanked with Stored Value Cards," http://www.cfsinnovation.com/publications.php

Engaging Financial Institutions

Recognizing that clients receive their tax refunds more quickly via direct deposit than paper checks, many EITC collaboratives have partnered with local financial institutions to offer basic financial products to clients at the VITA site.

For VITA sites or EITC collaboratives that have not yet engaged financial institutions in their work, or whose banking partners have lost interest, split refunds provide an opportunity to create or renew these relationships. When initiating partnerships with financial institutions in your community, make sure that you are getting products and services that meet the needs of your clients.

Tips for Selecting a Financial Institution Partner

- ✓ **Explore existing relationships.** Does your organization have an account at a local financial institution? Is a member of your board connected to a financial institution? Do any of your partner organizations have banking relationships that they care to leverage?
- ✓ **Consider community banks, credit unions and locally focused institutions.** Large national banks often have lengthy decision-making processes for participating in community work, while community-based banks and credit unions are often locally oriented and often have an interest in serving the low to moderate income market.
- ✓ **Engage multiple organizations.** If possible, approach more than one financial institution. One financial institution might consider fulltime VITA site coverage too onerous, but several institutions may be able to share the responsibility.
- ✓ **Approach a variety of different organizational leaders.** While it is almost always helpful to engage executive leadership or a senior manager, don't underestimate the importance of engaging a local branch manager.

Additional considerations:

1. Many clients will feel more comfortable with a bank that has a nearby branch where they can access their funds.
2. How does the financial institution present itself to the community and to the LMI customers? For instance, does it feature multilingual marketing material and bilingual staff?

Let the Bank Regulators Lend a Hand

The Federal Reserve System is a great potential partner for engaging financial institutions in free tax preparation campaigns. There are twelve Federal Reserve Banks located across the country. Each bank has a Community Affairs Office that is responsible for engaging other financial institutions in conversations with community-based organizations that serve the financial interests of LMI population. Split refunds offer a great opportunity for VITA sites to contact their regional Community Affairs Officer and suggest that the Reserve Bank sponsor an informational meeting with interested financial institutions to learn about the potential of split refunds and savings for tax clients at VITA sites.

Go to *http://www.federalreserve.gov/communityaffairs/national/reservebanks.htm* to find a Federal Reserve Bank, or a local branch, near your city.

Approaching and Attracting Financial Intuitions

Now, more than ever, split refunds strengthen the case for financial institution involvement at VITA sites. Refund splitting may appeal to retail bankers because it opens up new possibilities to secure new customers and increase deposits. Now is the time to get prospective partners excited.

- **Split refunds could affect more than 100 million households.** In 2003, more than 100 million households in the United States (out of 131 million filers) received tax refunds totaling $220 billion (an average of $2,150 per refund). Approximately 50 percent of those households used direct deposit.[12] Since refund splitting is available to all taxpayers who file a 1040 and expect a refund, regardless of income level, financial institutions might find the information you provide useful in engaging existing customers.
- **Substantial amounts are returned even to LMI households at tax time.** According to the IRS, 55 million tax filers had Adjusted Gross Incomes under $30,000 in 2003. Together, this group received nearly $82 billion in refunds, an average of nearly $1,500 per refund. In R2A pilots, clients who split their refund saved on average about 47% of their refund. These figures suggest financial institutions could open accounts with initial deposits averaging $750.
- **Split refunds are a universal component of the tax preparation process.** Many financial institutions that provide services at VITA sites complain about small numbers and low volume. Split refunds offer an opportunity to test large scale approaches and initiatives.
- **Refund Splitting at VITA Sites attracts new banking customers** – At one of the R2A pilot sites, 75 percent of the 79 clients that split their refund did not have an existing savings account prior to splitting.

[12] "Using Tax Refunds to Increase Savings and Retirement Security" by Mark Iwry; (http://www.retirementsecurityproject.org/pubs/File/SplitRefundIwryFinal.pdf).

Addressing Financial Institutions' Concerns

Some financial institutions may not share your enthusiasm for serving low-income families at VITA sites. Below are some common concerns expressed by financial institutions, along with a suggested response VITA site managers may wish to provide.

✓ **Staffing VITA sites is too time and labor intensive.**

Response: With the IRS' new split refund option, every client that passes through a VITA site will be asked if they are interested in saving and/or opening a savings account. For most clients, this is the best 'savable moment' of the year. If full-time staffing of the VITA site is too time intensive, you (financial institution) might want to have staff available on-site only during peak periods of the tax season or busy days of the week.

✓ **LMI customers are unprofitable because their account balances are too low.**

Response: The first point— that account balances are too low—is not borne out by data. D2D's R2A pilots have demonstrated significant allocations to savings accounts. Clients saved nearly 50 percent of their tax refund using the refund splitting procedure. The pilot research also indicates that refund splitting clients are a good market for additional product sales—25 percent of tax clients in Tulsa who opened a saving account at the VITA site purchased additional bank products.

✓ **LMI customers are unprofitable because they drain their savings accounts too quickly, reducing or eliminating the product's profitability.**

Response: While 40 percent of the savings accounts opened during Refunds to Assets pilot tests were reduced to zero within six months, some advocates of split refunds expect that it can help clients to become habituated to saving at tax time, particularly now that the option to split will be available from the IRS year after year. With financial education and other support, clients may be better able to maintain a balance in their account and replenish it annually with their refund.

Expanding Financial Institution Partnerships

Financial institutions can engage in VITA site activity beyond opening savings or checking accounts. Their staff are a great resource for marketing and promoting savings via split refunds. Provide training for financial institution staff regarding VITA site operations, tax refunds, and the opportunity split refunds provide and engage them as site greeters, or in another similar role. Some VITA sites have also used financial institution staff to provide brief financial education workshops or to retrieve and interpret clients' credit reports.

Using Bankers as Greeters

The Bay Area's *Earn It! Keep It! Save It!* EITC Coalition employed bankers as greeters at its VITA sites. The bank staff, who volunteered for this effort, attended staff training, greeted clients, counseled them on bank products, and worked with staff from other financial institutions who sold accounts. As a result of their efforts, the banks had a high rate of account sales, the participation by bank staff continues to increase, and clients are satisfied with the level of customer service they receive.

Serving Clients without On-Site Financial Institutions

Despite a solid effort, VITA site managers may be unable to persuade a financial intuition to offer on-site services to their tax clients. However, there are still ways to help clients open accounts in order to facilitate savings.

- ✓ **Creating Assets Saving & Hope (CASH), Rochester, New York.** CASH convinced a group of local banks and credit unions to approve account applications remotely. Volunteers would obtain appropriate client identification, complete account applications, and fax them to the financial institution chosen by the client. If approved, the financial institution would send the account number to the VITA site within 20 minutes. Returns using this service were flagged and set aside until the account number was available entry on the return (or, if the client's account application was rejected, he or she could choose a paper check or provide alternative account information). Since most VITA sites do not transmit their returns until the end of the day, this process was compatible with site work flow. In 2006, over 250 accounts were opened in this manner.
- ✓ **Delaware EITC Campaign, Wilmington, Delaware.** This coalition formed a productive arrangement with PNC Bank in Wilmington, Delaware. PNC established a toll-free phone number that allowed tax clients to open accounts without bank employees present. Clients participate in a short, informational interview via phone, after which their identification is verified by site staff and an account number is issued. The relevant paperwork is then mailed to the client's home. In 2004, 143 accounts were opened using this system.[13]

13 For more, see (http://www.frbsf.org/community/resources/files/2004crc/markets/newcustomers/zumsteghiner.pdf)

Conclusion

The IRS' introduction of split refunds—enabled by IRS Form 8888—could unleash a host of opportunities and new responsibilities for VITA sites with an ambition to promote asset building.

This simple procedural change opens the door for millions of taxpayers to set aside a portion of their refund for saving each year. For many tax filers, this could evolve in to annual ritual, which could have far-reaching consequences for both their family's well-being and the nation's savings rate. While just a single tool and certainly not a panacea, this simple IRS innovation is:

- **Free:** tax filers will be able to save at tax time with no cost.
- **Perpetual:** as split refunds will be available indefinitely, tax preparers and clients can gradually grow comfortable with the idea of 'setting some aside' at tax time.
- **Universal:** Spilt refunds will be available 'at scale', increasing the interest of financial institutions and allowing broad-based promotion to all tax clients.
- **Integrated:** choosing split refunds will be part of the tax return preparation process, and therefore more natural to tax filers and part of tax preparer training.
- **Credible:** With the IRS offering the service, split refunds should have credibility with clients, tax preparers, and financial institutions.

Split refunds offer an opportunity for VITA sites to offer a new service to their clients, to engage financial institutions productively, to promote savings and asset building, and to involve their volunteers in this process in many ways. This Guide aims to support that effort.

Tax season 2007 may be the beginning of an important and far reaching, if gradual, change in the role and purpose of the annual tax filing process. With leadership from the VITA field, families, financial service firms, and civic institutions may come to see tax season as the prime moment to promote and fuel saving across the income spectrum. The benefits over time of asset building on a broad scale are exciting to contemplate and would constitute an achievement worthy of a focused, long-term effort.

Appendix A: IRS Form 8888

Form **8888**

Department of the Treasury
Internal Revenue Service

Direct Deposit of Refund

▶ See instructions below and on back.

▶ Attach to Form 1040, Form 1040A, Form 1040EZ, Form 1040NR, Form 1040NR-EZ, Form 1040-SS, or Form 1040-PR.

OMB No. 1545-0074

2006

Attachment Sequence No. **56**

Name(s) shown on return	Your social security number

1a	Amount to be deposited in first account	1a	
b	Routing number ▶c ☐ Checking ☐ Savings		
d	Account number		
2a	Amount to be deposited in second account	2a	
b	Routing number ▶c ☐ Checking ☐ Savings		
d	Account number		
3a	Amount to be deposited in third account	3a	
b	Routing number ▶c ☐ Checking ☐ Savings		
d	Account number		
4	**Total amount to be directly deposited.** Add lines 1a, 2a, and 3a. The total must equal the amount shown on Form 1040, line 74a; Form 1040A, line 45a; Form 1040EZ, line 12a; Form 1040NR, line 72a; Form 1040NR-EZ, line 24a; Form 1040-SS, line 12a; or Form 1040-PR, line 12a	4	

General Instructions

Purpose of Form

Use Form 8888 if you want us to directly deposit your tax refund into either two or three of your accounts at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) instead of sending you a check. An account can be a checking, savings, or other account such as an individual retirement arrangement (IRA) (see page 2 for more information on IRAs), health savings account (HSA), Archer MSA, or Coverdell education savings account (ESA). You cannot have your refund deposited into more than one account if you file Form 8379.

Note. *If you want your refund deposited into only one account, do not complete this form. Instead, you can request a direct deposit of your refund on the tax return you are filing.*

Why Use Direct Deposit?

- You get your refund faster by direct deposit than you do by check.
- Payment is more secure. There is no check that can get lost or stolen.
- It is more convenient. You do not have to make a trip to the bank to deposit your check.
- It saves tax dollars. It costs the government less to refund by direct deposit.

TIP *The IRS is not responsible for a lost refund if you enter the wrong account information. You can check with your financial institution to get the correct routing and account numbers and make sure your deposit will be accepted.*

Specific Instructions

If you file a joint return and you complete and attach Form 8888, you are appointing your spouse as an agent to receive the refund. This appointment cannot be changed later.

CAUTION *Some financial institutions will not allow a joint refund to be deposited into an individual account. If the direct deposit is rejected, a check will be sent instead. The IRS is not responsible if a financial institution rejects a direct deposit.*

Lines 1a, 2a, and 3a

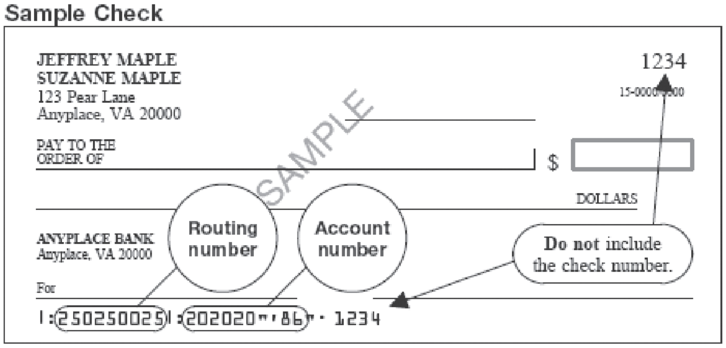
Enter the portion of your refund you want directly deposited into each account. Each deposit must be at least $1. The amount of your refund can be found on Form 1040, line 74a; Form 1040A, line 45a; Form 1040EZ, line 12a; Form 1040NR, line 72a; Form 1040NR-EZ, line 24a; Form 1040-SS, line 12a; or Form 1040-PR, line 12a. The total of lines 1a, 2a, and 3a must equal the total amount of your refund.

Lines 1b, 2b, and 3b

The routing number must be nine digits. The first two digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the sample check, the routing number is 250250025.

CAUTION *Your check may state that it is payable through a financial institution different from the one at which you have your account. If so, do not use the routing number on that check. Instead, contact your financial institution for the correct routing number to enter.*

Sample Check



Note. The routing and account numbers may be in different places on your check.

For Paperwork Reduction Act Notice, see back. Cat. No. 21858A Form **8888** (2006)

Lines 1c, 2c, and 3c

Check the appropriate box for the type of account. Do not check more than one box for each line. If your deposit is into an account such as an IRA, HSA, or other similar account, check the "Savings" box.

Line 4

The total on line 4 must equal the amount you want refunded to you shown on your tax return (Form 1040, line 74a; Form 1040A, line 45a; Form 1040EZ, line 12a; Form 1040NR, line 72a; Form 1040NR-EZ, line 24a; Form 1040-SS, line 12a; or Form 1040-PR, line 12a). If the total on line 4 is different, a check will be sent instead.

Individual retirement arrangement (IRA). You must establish the IRA at a bank or other financial institution before you request direct deposit. You must also notify the trustee of your account of the year to which the deposit is to be applied. If you do not, the trustee can assume the deposit is for the year during which you are filing the return. For example, if you file your 2006 return during 2007 and do not notify the trustee in advance, the trustee can assume the deposit into your IRA is for 2007. If you designate your deposit to be for 2006, you must verify that the deposit was actually made to the account by the due date of the return (without regard to extensions). If the deposit is not made into your account by the due date (without regard to extensions), the deposit is not an IRA contribution for 2006. You must file an amended 2006 return and reduce any IRA deduction and any retirement savings contributions credit you claimed.

You and your spouse, if filing jointly, each may be able to contribute up to $4,000 ($5,000 if age 50 or older at the end of 2006) to a traditional IRA or Roth IRA for 2006.

TIP *For more information on IRAs, see Pub. 590, Individual Retirement Arrangements (IRAs).*

Changes in Refund Due to Math Errors or Refund Offsets

If your refund is increased or decreased due to a math error or if your refund is offset to pay past-due federal tax, state income tax, child support, spousal support, or certain federal nontax debts, such as student loans, the rules below explain how your direct deposits will be adjusted.

Refund increased. If you made an error on your return and the amount of your refund is increased, the additional amount will be deposited into the last account listed. If you asked that your refund be split among three accounts, any increase will be deposited into the account shown on line 3. If you asked that your refund be split among two accounts, any increase will be deposited into the account shown on line 2.

Example. Your return shows a refund of $300 and you ask that the refund be split among three accounts with $100 in each account. Due to an error on the return, your refund is increased to $350. The additional $50 will be added to the deposit into the account shown on line 3.

Refund decreased. If you made an error on your return and the amount of your refund is decreased, the decrease will be taken first from any account shown on line 3, next from the account shown on line 2, and finally from the account shown on line 1.

Example. Your return shows a refund of $300 and you ask that the refund be split among three accounts with $100 in each account. Due to an error on your return, your refund is decreased by $150. You will not receive the $100 you asked us to deposit into the account on line 3 and the deposit into the account shown on line 2 will be reduced by $50.

Note. If you appeal the math error and your appeal is upheld, the resulting refund will be deposited into the account on line 1.

Past-due federal tax. If you owe past-due federal tax and your refund is offset by the IRS to pay the tax, the past-due amount will be deducted first from any deposit into an account shown on line 3, next from the deposit into the account shown on line 2, and finally from the deposit into the account shown on line 1.

Example. Your return shows a refund of $300 and you asked us to split the refund among three accounts with $100 in each account. You owe $150 from a prior tax year. You will not receive the $100 you asked us to deposit into the account on line 3 and the deposit into the account shown on line 2 will be reduced by $50.

Other offsets. If you owe other past-due amounts subject to offset by the Treasury Department's Financial Management Service (FMS), the past-due amounts will be deducted first from the account with the lowest routing number. Any remaining amount due will be deducted from the account with the next lowest routing number and then from the account with the highest routing number.

CAUTION *If the deposit into one or more of your accounts is changed due to a math error or refund offset, and that account is subject to contribution limits, such as an IRA, or the deposit was used as a deduction on your tax return, you may need to correct your contribution or file an amended return.*

Example. You deduct $1,000 on your 2006 tax return for an IRA contribution. The contribution is to be made as a direct deposit from your 2006 refund. Due to an offset by the FMS, the direct deposit is not made into your IRA. You need to correct your contribution by the due date of your return (determined without regard to any extension) or file an amended return.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

Appendix B: Refunds to Assets Project Data

Over the past three years, D2D and its financial and community partners conducted a demonstration project to test the concept of split refunds at VITA sites—the Refunds to Assets ("R2A") project. In addition to testing the split refund process at the sites, D2D also conducted surveys of clients and taxpayers to get a sense of how best to market split refunds and saving at tax time. The results of the R2A demonstration project are below.

R2A Project Participants

Program	Year	Location	Sponsor	Financial Processors[14]
R2A-1	2004	Tulsa, OK	Community Action Project of Tulsa County (CAPTC)	Bank of Oklahoma
R2A-2	2005	Brooklyn, NY Tulsa, OK	FoodChange CAPTC	Independence Community Bank Bank of Oklahoma
R2A-3	2006	Brooklyn, NY Chicago, IL Denver, CO Des Moines, IA San Antonio, TX Seattle, WA Tulsa, OK	FoodChange Center for Economic Progress Denver Asset Building Coalition ISED Ventures YWCA Madrid Center United Way of King County CAPTC	H&R Block

Split Refund Take Up Rate

During the three year pilot test, the take up rate for split refunds ranged from zero to fifteen percent. One should view these highly variable results in light of the newness of the concept, regional differences in client preferences, and the cumbersome process necessary to split refunds in the absence of IRS forms and procedures.

R2A-1	R2A-2	R2A-3
Tulsa	Brooklyn and Tulsa	Brooklyn, Chicago, Denver, Des Moines, San Antonio, Seattle, Tulsa
15%	5 - 8%	0 - 8%

14 These are financial institutions that conducted the actual splitting process which the IRS will perform. At some sites, other financial institutions opened accounts for clients.

Percent of Refund Saved

The pilot tests showed clients consistently saved almost half of their tax refund.

Split Refund Test	**R2A-1 2004**	**R2A-2 2005**	**R2A-3 2006**
Number of Splits	79	102	136
Average Savings	$583	$602	$984
Average Refund	$1,240	$1,338	$2,072
Percent Saved	47%	45%	48%

Savings Goals

As the survey results from R2A-2 demonstrate, clients may have shorter term objectives for saving. In this survey, more conventional asset purchases, such as a home, did not score as high.

How do you plan to use your savings?	
Other	28%
Emergencies	25%
Rainy Day Fund	16%
Car	13%
Education	12%
Home	6%
n=93	100%

Benefits of Split Refunds

In a survey of R2A-3 refund splitters, the benefits that resonated strongest for clients were 'free and easy'. These characteristics scored high in other surveys as well.

Of the following, which is best about this service?	
It is free	33%
It is easy	30%
It ensures that I will save some of my refund	21%
It is fast	16%
n= 81	100%

Communicating Split Refunds to Clients

The survey responses below show that almost 40 percent of tax clients who used refund splitting preferred an in-person explanation of the service. Note that calling people beforehand did not rank highly.

A better way to explain this service to people would be to...	
Have a greeter explain the service	37%
Have more brochures and handouts available	24%
Have a video in the waiting area explaining it	18%
Put up more posters	14%
Phone people before they come to the tax site	7%
n=107	100%

Client Influences

As stated elsewhere in the Guide, 49 percent of the clients who split their refund in R2A-3 made up their mind to split while at the tax site. Of those, 52 percent said that their decision was most influenced while having their taxes prepared. It is also worth noting the importance of financial institution staff at the tax site; however, some R2A-3 tax site staff dispute these survey results, arguing that clients may have confused greeters with bank staff.

If you decided to save after you came to the tax site, what most influenced your decision to use this (split refund) service?	
Having my tax preparer explain the service to me	29%
Learning how much my refund was	23%
Opening a bank account and talking with bank staff at tax site	20%
Listening to staff at the tax site describe the service	14%
Reading the written material provided (brochure & leaflet)	1%
Other	13%
n=70	100%

Appendix C: Split Refund and Asset Building Resources

SplitRefunds.net

D2D has established a special purpose website, www.splitrefunds.net, to address issues related to the information in this guide. The site will offer:

- ✓ **Resources.** The latest versions of forms, including Form 8888, as well as announcements from the IRS, the National Community Tax Coalition, and other organizations involved in setting refund splitting procedure.
- ✓ **Discussion Forum.** A venue for dialogue among tax preparers, D2D, NCTC, UWA and others with an interest in the topic. Visitors are encouraged to post questions, seek input and feedback, and share innovative practices.
- ✓ **Research.** Studies and papers on refund splitting, asset building and the importance of savings for low income families.
- ✓ **Links.** To organizations that support EITC outreach, free tax preparation, and asset building.

Additional Split Refund Resources

Splitting Refunds and Building Assets. Presentation of R2A pilot research findings to NBER Tax Policy and the Economy Conference, September, 2005 (PDF)
http://www.d2dfund.org/downloads/TPE_Sept_15_2005.pdf

Leveraging Tax Refunds to Encourage Savings. Policy brief published by the Retirement Security Project prepared by Peter Tufano, Daniel Schneider, and Sondra Beverly, August 2005. (PDF)
http://www.d2dfund.org/downloads/RSP-PB_TSB_8.05.pdf

Splitting Tax Refunds and Building Savings: An Empirical Test. Working paper prepared by Sondra Beverly, Daniel Schneider, and Peter Tufano on the 2003 R2A pilot, February 2005. (PDF)
http://www.d2dfund.org/downloads/2005-02_Splitting_Tax_Refunds.pdf

An Evaluation of Tax-Refund Splitting as an Asset-building Tool for Low-to-middle Income Individuals. Policy Analysis Exercise prepared by Anne E. Chiou, Samuel E. Roe and Ethan S. Wozniak. An evaluation of the effectiveness of the R2A programs in Tulsa, OK and New York City, NY offered during the 2005 tax season, April 2005. (PDF)
http://www.d2dfund.org/downloads/2005-04_Eval_Refund_Splitting.pdf

Free Tax Preparation and Asset Building Resources

National Community Tax Coalition: Serves as a clearing house for information and resources about free tax preparation. *http://www.tax-coalition.org*

Center on Budget and Policy Priorities: Conducts research and analysis to inform public debates on proposed budget and tax policies and to help ensure that the needs of low-income families and individuals are considered in these debates. *http://www.cbpp.org/pubs/eitc.htm*

George Warren Brown School of Social Work, Washington University: Research by Michael Sherraden, Director of the Center for Social Development and creator of the Individual Development Account. *http://gwbweb.wustl.edu/csd/asset/keyquestions.htm*

The New America Foundation's Asset Building Program: Aims to broaden the ownership of assets in America, providing low-income Americans with the means to get ahead and a direct stake in the overall success of our economy *www.assetbuilding.org*

Brandeis University Institute on Assets and Social Policy: Aims to broaden wealth, reduce inequality, and improve the social and economic well-being of American households by fostering the adoption of an asset policy framework. *http://iasp.brandeis.edu/about/policies.html*

The Corporation for Enterprise Development (CFED): A leader in the IDA and asset building movement *http://www.cfed.org/focus*

D2D FUND

NATIONAL COMMUNITY TAX COALITION

United Way