

## Updates on Tax Assistance and EITC: Planning for AFI Project Participation<sup>1</sup>

In the 2007 tax filing season, AFI Projects and their tax assistance partners will have a new tool available—the split refund option—to help families save for assets, for long-term dreams, and for emergencies. At the same time, the Earned Income Tax Credit (EITC) continues to be the single largest opportunity for low-income families to put aside money for their IDA goal or pay down debt. Accessing tax refunds without losing value to paid preparers or high-cost refund anticipation loans (RALs) has long been a common goal for AFI Projects. Now, tax assistance services can offer filers more than “all or nothing.” They won’t have to choose to save it all or take it all in a single refund but can apply their refund to multiple goals: save some, pay down debt, or even make major purchases, such as automobile or energy-efficient appliances.

With opportunity, however, come challenges. This resource document summarizes some of the issues that arise from incorporating the new split refund option into tax assistance and suggests ways of addressing them based on field research. In addition, this document updates basic information on the EITC and other tax benefits for which AFI participants may be eligible. Last, it provides references for marketing and communication templates, IRS rules and training, and research on the impact of tax assistance, the EITC, the results of pilots with the split refund, and related topics.

The first point is to get started: the sooner the better. Don’t wait until the filing season begins. Talk to staff about how to promote saving and, in some cases, wise spending. Begin communicating to participants the possibility of both saving and spending from their refunds as part of ongoing financial education. And be sure you and your partners take a strong role in local tax campaigns and support the same messages.

Here’s an outline of topics:

1. Credits and Refunds of Interest to AFI Projects and Participants
2. The Split Refund Option
3. AFI Project Tax Season Strategies and Policies
4. To Be or Not to Be a Tax Assistance Site?
5. Other Guidance and Tips from the IRS

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<sup>1</sup> This document updates information developed in 2005 by the AFI Resource Center.

- a. Low Income Tax Clinics and Services for the Elderly
- c. Other Tax Topics of Interest to AFI Grantees (Hurricane Victims, ITINs, Students with Financial Aid)
6. Appendix A: Resources for Tax Assistance Campaigns
7. Appendix B: Minimizing Errors in Returns Prepared
8. Appendix C: The Draft IRS Form 8888 for Using the Split Refund

## Introduction

Families eligible to participate in asset-building programs, such as AFI, also stand to gain significantly from a variety of tax credits and other benefits of the current tax code. Unfortunately, many families eligible for substantial tax credits miss out because they do not know they are eligible, they do not file, or they lack the necessary documentation to file as required. Others file, but do not receive the full benefits because they pay stiff fees to have their returns prepared or agree to high-interest Refund Anticipation Loans (RALs) based on their projected refund.

AFI Projects can help ensure their participants benefit fully from these credits by:

- Offering free tax preparation
- Referring participants to free preparation sites in their communities
- Educating participants about tax opportunities, how to qualify for them, and the documentation they will need to bring to tax assistance sites
- Working with participants to make uses of tax credits and refunds part of overall money management plans

The IRS supports thousands of free sites, called Volunteer Income Tax Assistance (VITA) sites, around the country by providing current tax software and training volunteers. To locate VITA sites, call 1-800-TAX-1040 (829-1040). In addition, current guidance, regulations, and forms are available on the IRS web site, along with many frequently asked questions. In recent years, a number of private nonprofit organizations and foundations have also supported tax information campaigns, production of outreach materials, and tax assistance sites (see Appendix A for links).

## Credits and Refunds of Interest to AFI Projects and Participants

Many AFI participants are eligible for the Earned Income Tax Credit and other credits or refunds.

The value of the EITC refund is considerable, ranging oabove \$4,500 for the 2006 tax year (varying according to the size of the household and earned income). According to several studies, the EITC refunds alone lift more than four million households above Federal poverty lines annually. For the 2005 tax year, for example, more than 22 million workers collected more than \$41 billion in EITC payments. More than six million also received Child Tax Credits as well.

The EITC receives most of the attention in tax preparation campaigns because it is the most “valuable.” Other tax opportunities, however, may significantly boost cash flow or savings for AFI Project participants. Here are brief summaries of a few of the tax benefits most likely to apply to AFI Project participants, along with URLs for Web sites with detailed information. Note that free tax assistance sites often deal only with EITC and the Child Tax Credit. Local IRS offices, however, may have additional free resources for those who wish to take advantage of other possible credits.

- **The Earned Income Tax Credit:** The Earned Income Tax Credit (EITC), sometimes called the “Earned Income Credit (EIC)”, is a refundable Federal income tax credit for low-income individuals and families with earned income. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. The value varies according to family size and the amount of income. For the 2005 tax year, the latest for which figures are available, 22 million returns claimed the EITC. The average actual refund was over \$1,800, for a total of about \$41 billion. As many as 25 percent of households eligible for EITC, however, do not claim the benefit.<sup>2</sup>

To qualify, families must meet several requirements and actually file a tax return, even if they did not earn enough money to be obligated to file a return otherwise. Basic requirements include:

- Must have earned income, including taxable wages, salaries and tips; net earnings from self-employment

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<sup>2</sup> A quick way to check eligibility is to use the IRS EITC Assistant, which is available in English and Spanish. Go to: <http://www.irs.gov/individuals/article/0,,id=130102,00.html>. Follow the link for the 2006 Tax Year and enter the required information.

- Must have a social security number for person(s) filing and for any children included on the return for EITC purposes (cannot use an ITIN, Individual Tax Identification Number)
- May not be a dependent or child claimed on someone else's return
- May not be married and filing separately
- Generally must be a citizen or resident alien the entire year
- Investment income is limited.

The IRS establishes specific eligibility rules annually, such as earned income and investment income limits. Be sure to check the IRS Web site for current information.<sup>3</sup> Filers who were eligible for EITC in prior years but did not claim it may file for it using an amended return. VITA sites, however, are not equipped to handle this option, which should be pursued with the local IRS tax payer assistance office.

#### **IRS Resources and Tools Related to EITC and AEITC**

- Don't Guess Whether You Qualify for EITC. Know! (Publication 962): <http://www.irs.gov/pub/irs-pdf/p962.pdf>
- EITC Eligibility Checklist: <http://www.irs.gov/pub/irs-pdf/p3524.pdf>
- Frequently Asked Questions About the EITC: <http://www.irs.gov/individuals/article/0,,id=119267,00.html>
- Information on What Counts as A Qualifying Child for EITC: <http://www.irs.gov/faqs/faq-kw145.html>
- Advance EITC Brochure (Publication 1235): <http://www.irs.gov/pub/irs-pdf/p1235.pdf>
- Advance EITC Q & A: <http://www.irs.gov/individuals/article/0,,id=96515,00.html>.

- **The Advance EITC:** The Advance EITC (AEITC) allows taxpayers who expect to earn less than \$33,000 for 2007 (\$35,000, if married filing jointly), and who have at least one qualifying child to receive up to half of their projected EITC in installments. People can register for the Advance EITC in January with their employers, using a W-5 form, available on the IRS site or in employers' personnel offices. The credit will be disbursed to them in each paycheck, in equal amounts, throughout the year. Those who use the AEITC must file a return, and the AEITC total will be included on the W-2 they receive from their employer. The AEITC, however, may lead to some confusion or

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<sup>3</sup> Go to <http://www.irs-eitc.info> for links to current information and additional details. Different tax credits and refunds have different income or other eligibility requirements. Always refer to the most recent IRS publications.

disappointment if the employee receives a substantial raise during the year that creates a tax liability greater than anticipated, if the worker holds more than one job, or marries a spouse who also works during the year.

- **State and Local Earned Income Tax Credits:** Eighteen states offer some form of earned income credits for 2006, many of them as a percentage of the Federal credit claimed. In addition, several local governments, including New York City; Washington, D.C.; Montgomery County, MD; and San Francisco, CA, have local-level earned income tax benefits. To learn more about the options in your state, go to: <http://www.taxcreditsources.org>. There you will find reports on eligibility and use of the opportunity by state. Other sources for state and local EITC information include your state revenue office, the Center for Budget and Policy Priorities, or the National Community Tax Coalition. (See references in Appendix A)
- **Child Tax Credit and Additional Child Tax Credit:** This credit may be claimed in addition to the credit for child and dependent care expenses. If AFI Project participants have a child or children, including foster children or adopted children, for whom they provide primary care and who are no older than 17 (24 for full-time students), and if their income is below certain thresholds (depending on filing status), they may be eligible for this credit. People can be eligible for this credit even if they do not owe any taxes or are not required to file. For more information on this credit, go to: <http://www.irs.gov/individuals/article/0,,id=121434,00.html>.
- **Saver's Tax Credit:** A number of low-income households may be eligible for this nonrefundable income tax credit for eligible taxpayers who have adjusted gross income of \$50,000 or less. The credit is equal to a specific percentage of employee contributions made to a retirement plan or IRA. The percentage varies depending on filing status and income, with a ceiling of \$2,000. An eligible taxpayer must be at least 18 before the taxable year, and cannot be a full-time student or be claimed as a dependent on someone else's tax return.
- **Hope Scholarship Tax Credit:** This program provides up to \$1,500 in credits per student in the first two years of undergraduate postsecondary education if enrolled at least halftime. It is based on the difference between tuition and fees and any financial aid or grants received. It does not cover books, supplies or equipment, room and board, transportation, or other living expenses. For more information go to: <http://www.irs.gov/pub/irs-pdf/p970.pdf>, *Tax Benefits for Higher Education*.

- **Lifetime Learning Tax Credits:** This credit targets advanced college and graduate students and adults upgrading skills or changing careers. The credit covers up to 20 percent of the first \$10,000 of qualified expenses, after subtracting other aid from costs, and may apply to the tax filer or to a spouse or dependent. It may be applied to any postsecondary education to acquire or improve job skills, including noncredit training. There is no limit on the number of years in which it is applicable, and training does not need to lead to a specific degree or certification. For more information go to: <http://www.irs.gov/pub/irs-pdf/p970.pdf>, *Tax Benefits for Higher Education*.

## The Split Refund Option

This is not itself a refund or a tax credit but a way to direct any refund to multiple accounts. Under this new option, any filer, regardless of income level, can direct the refund to up to three different accounts. Here are the key features of the split refund option.

- The refunds can be divided into one, two, or three portions, with the total of the three not to exceed the total refund amount due.
- The funds must be directed to accounts that can receive direct deposit through the electronic fund transfer system; there can be no paper checks. This requirement also rules out many investment accounts, college savings plans, some IRAs, and all 401(k)s.
- The accounts may be at different institutions.
- The instructions for allocating the refund are captured on a new IRS Form 8888 (see Appendix C).
- For each allocation, there must be provided on the IRS Form 8888 an account number and correct routing information. If routing information is incorrect, a paper check will be issued for the portion with the error.
- If there is a math error so that the sum of the allocations differs from the total due, the entire refund will be issued via a paper check.
- If the IRS determines that the total refund is different than the total indicated on the return and allocated on the Form 8888, it will make the adjustment to the third or last option listed, which may then receive more or less than the filer expected.

## The Opportunity

Research, carried out with asset-building projects and in other venues, has suggested that a split refund option may lead to more individuals saving at least some of their refunds, but *only* if it is easy and still allows them to address immediate cash needs, such as household debt. At pilot sites over the past three years, as many as 15 percent of filers offered a split refund option took it. These “takers” consistently saved just under half of their refunds. Savings, however, were more often used for short-term goals, such as emergencies, debt payment or transportation, than for

traditional IDA asset purchases: Only six percent used it for home purchase, and 12 percent for education.<sup>4</sup>

## The Challenges

While the split refund may lead to more low-income filers initiating or adding to savings accounts, it also adds to the operational complexity of tax assistance sites. Results from the pilot sites underscores the negative effect on uptake of multiple, complex forms, longer waiting times, and additional documentation. Experience with the pilots has highlighted the following issues:

- Offering the split refund has implications for staffing sites and training volunteers. As with any new process, there will be a learning curve on how to fill out the new form. Sites may want to have specialists dealing with those who choose the split option or train all preparers to handle it.
- Filers are unlikely to know about the split refund before they arrive. Sites will have to explain the option and allow filers to make a decision, including the possibility of depositing to an existing IDA. The informational process may add to the time filers must wait to be served. AFI Projects can, of course, contact their participants prior to the beginning of the filing season to alert them about the option and what documentation to bring, such as the account and routing information.
- Filers who want a split refund may not have existing accounts. Sites will need financial partners willing and able to open accounts and provide numbers and routing information the same day or very quickly. Delays will lower the number of filers who go with the option and lower satisfaction with the site. Further, accounts offered must have desirable features, such as no fee, no minimum balance, or access via ATM, for example.
- The process of opening accounts may itself create difficulties or confusion. A large portion of those who would like to use the split refund may be rejected by Chexsystem. Sites will need to plan with their financial partners on how to handle such situations. Large numbers of rejections may dim the attractiveness of the option and the reputation of the tax site.
- If AFI Projects want to use the split refund option to recruit and enroll new participants, they will need a process to determine AFI eligibility, complete their enrollment procedures, and set up the IDA account on site. Alternatively, they may follow up with filers who express interest in IDAs and who have portions of their refunds directed to existing checking accounts with plans to enter the IDA program.

Tax assistance sites may not have very large numbers of filers who choose the refund option this year. It will take time for word to spread in the community; time to bring volunteers and program

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<sup>4</sup> See *Build Savings at Tax time: A Guide to Split Refunds*, which reports on the pilots and makes recommendations for procedures to maximize uptake: [www.SplitRefunds.net](http://www.SplitRefunds.net) in Appendix C.

staff up to speed; and time to adapt procedures, education, outreach, and documentation to work smoothly and with minimal delays. Implementing an education and marketing campaign prior to opening the tax site may help, especially if the campaign focuses on the opportunity for families to achieve personal goals, rather than on the technicalities of the splitting process.

## AFI Project Tax Season Strategies and Policies

AFI grantees may use several strategies for supporting their participants during tax season. One of these is to become a tax assistance site. Another is to refer participants to tax assistance sites.

Usually, tax preparation sites are part of coalitions that may include community and faith organizations, financial institutions, employers, the IRS, and public agencies. In some instances, banks and credit unions open accounts without fees or with favorable terms on the spot so that unbanked individuals can use direct deposit in conjunction with electronic filing, the quickest way to receive a tax credit or refund.

Free tax assistance sites also offer opportunities for financial education focused on how to use the refunded money when it comes, and marketing and enrollment opportunities for AFI Projects. A number of tax sites linked to AFI Projects also offer benefits screening while participants are waiting to see a preparer. There are several current software applications that offer not only continually updated benefits eligibility information but on-line applications and, for some states, electronic filing of applications for benefits.<sup>5</sup>

**TIPS:** Many AFI Projects have policies that limit the proportion of the savings goal that comes from any lump sums, including tax refunds, in order to emphasize the value of regular saving behavior.

AFI Project participants may not withdraw their savings and receive allocated match funds earlier than six months after their initial deposit into their IDA. This rule applies even if participants have met their savings goals earlier and fulfilled other requirements of their Savings Plan Agreements with the AFI Project.

It is important to emphasize tax credits, such as the EITC, and wise uses of tax refunds as part of general financial education. For example, participants may see long-term benefits from using all or part of their refunds to pay off existing debt. In addition, AFI Projects may allow participants to deposit all or part of their refunds in their Individual Development Accounts so they will meet

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<sup>5</sup> Examples include: SEEDCO's EarnBenefits: <http://www.seedco.org/earnbenefits/>; Nets2Ladders: <http://www.netstoladders.com/>; Real Benefits: <http://www.realbenefits.org/wv/index.php>; and The Benefit Bank: <http://www.thebenefitbank.com/>.

their savings goals more rapidly. EITC and other tax refunds are included in the definition of earned income for AFI purposes. Another good use is to set up a “rainy day” fund for emergencies so AFI Project participants will be more likely to protect their IDA savings if they experience job loss or have unexpected expenses while they are in their savings period. Accounts separate from the IDA may also encourage savings habits in general.

On the other hand, saving may not be the best option for a given filer at a given point. It may be better to repair credit or invest in a different kind of asset, such as a car to get to better employment opportunities. Therefore, financial counseling is a very important component of tax assistance. The split refund option makes such counseling even more important.

## **To Be or Not to Be a Tax Assistance Site?**

Here are some points to consider when deciding whether to be a tax assistance site or to refer participants to another site.

**Staffing:** Does your organization have the personnel or access to enough temporary volunteer assistance leading up to and through the tax season? Are staff or volunteers committed to the extensive training (free from the IRS) and flexible scheduling necessary to serve individuals who require evening or weekend appointments?

Typical staffing roles and responsibilities include:

*Project Coordinator*—A point person to coordinate the effort, whether that is to organize the referral and follow up with existing sites, or to manage development and implementation of your own tax assistance site. This job is intensive and needs to begin months before tax season.

*Volunteer or Site Coordinators*—To manage each site to insure that operations run smoothly, that the volunteer preparers are in place, that equipment is ready and maintained, and to insure your site procedures are followed. It is also best if coordinators have some experience with the kinds of questions that will come up so that they can advise the volunteer preparers and help to insure the quality of returns and minimize the number rejected.

*Volunteer Tax Preparer*—Volunteer preparers need to be adequate in number and well trained, as well as committed to site procedures for documentation and confidentiality.

*Financial Counselors*—These individuals may be especially trained volunteers, AFI Project financial education staff, or other knowledgeable partners, such as credit counseling agencies or financial institutions. Their role may be critical in helping filers make the best decisions about their refunds. In some cases, financial counselors may also double as benefits screeners or counselors.

*Quality Controller*—Many sites have one or more knowledgeable individuals who review prepared returns before they are filed electronically or before the filer leaves the site with the documents. This practice can greatly reduce the number of errors that may delay or invalidate refunds. (See also Appendix B for additional quality checkpoints)

**Facilities and Equipment.** Do you have the physical space that will accommodate waiting filers, children, and reasonably private discussions between the volunteer preparers and clients? Do you have places to secure documentation?

The IRS will provide software and training. Do you have computers with the platform needed and high-speed Internet access? Dial-up would likely be too slow to work well.

**Information and Outreach.** Do you (or partners) have the means to inform your target population about this service well in advance of the first official filing date? If you choose to focus your efforts only on current clients, in your AFI Project and other programs, this is less complex. However, it is important that project participants or others know well in advance that you will be offering the service.

It is never too early to begin communicating the benefits of the various credits and of using free tax assistance. A few ways to begin include: notices with monthly savings statements, one-on-one contacts, email, automated messages on your phone menu, newsletters, and posters (see Appendix A for sources of templates). Include information on what filers will need to bring to the site. Emphasize the benefits of claiming tax credits and refunds in your regular financial education, along with consideration of how to make the best use of these dollars. Most individuals want to file as soon as they have the necessary documentation.

**TIP:** Any media—print, TV, radio, flyers—should emphasize that the service is *free*, the refund is *fast*, and the confidentiality *assured*. Paid preparers, especially those that pop up in low-income neighborhoods start advertising well before the filing date, and some will even complete returns in advance of the actual first day to file.

## What Filers Should Bring to VITA Sites

1. Must bring photo identification
2. Social Security Cards for the taxpayer, their spouse and dependents, *if applicable*
3. Birth dates for primary, secondary and dependents on the tax return
4. Current year's tax package, *if they received one*
5. Wage and earning statement(s): Forms W-2, W-2G, 1099-R, from all employers
6. Interest and dividend statements from banks: Form 1099, *if applicable*
7. A copy of last year's Federal and State returns, *if available*
8. Bank routing numbers and account numbers for direct deposit, *required for split refund*
9. Other relevant information about income and expenses, such as
  - o Total amount paid for day care
  - o Day care providers' identifying numbers (Employer Identification Number)
10. To file taxes electronically on a married, filing jointly tax return, both spouses must be present to sign the required forms.

## Other Guidance and Tips from the IRS

In addition to VITA sites, the IRS sponsors assistance for special groups. You may wish to follow up these links.

- **Low Income Tax Clinics (LITC)**  
Sometimes AFI Project participants or other low-income families may have tax problems more complex than VITA sites and volunteers are prepared to handle. They may have had problems with past returns, with disallowed claims, or penalties and sanctions that do not permit them to apply for credits, such as the EITC. Low Income Tax Clinics have staff that represent low-income taxpayers involved in disputes with the IRS or provide education on tax rights and responsibilities to taxpayers for whom English is a second language or who have limited English proficiency. The Internal Revenue Service LITC grant program encourages the creation and growth of Low Income Taxpayer Clinics across the nation. For more information, go to:  
<http://www.irs.gov/advocate/article/0,,id=108538,00.html>.
- **Tax Counseling for the Elderly (TCE)**  
The Tax Counseling for the Elderly (TCE) Program provides free tax help to people age 60 and older. Trained volunteers from nonprofit organizations provide tax counseling and

basic income tax return preparation for senior citizens. Volunteers who provide tax counseling are often retired individuals associated with nonprofit organizations that receive grants from the IRS. As part of the IRS-sponsored TCE Program, the American Association of Retired Persons offers the Tax-Aide counseling program at approximately 9,000 sites nationwide during the filing season. Trained and certified AARP Tax-Aide volunteer counselors help people of low-to-middle income, with special attention to those age 60 and older. For more information on TCE, call 1-800-829-1040. To locate the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit the AARP-TaxAide site: <http://www.aarp.org/taxaide>.

### **Other Tax Topics of Interest to AFI Projects**

- Guidance for 2005 Hurricane Victims: There continues to be special guidance for persons affected by the hurricanes. Check this site for current guidance as it is finalized. <http://www.irs.gov/newsroom/article/0,,id=108362,00.html>.
- Regulations concerning Individual Taxpayer Identification Numbers (ITIN): <http://www.irs.gov/individuals/article/0,,id=96287,00.html>.
- Documents and regulations relevant for students and student financial aid. See IRS publication 1577 and Form 4506, which you can access through the search engine on the IRS site.
- Information concerning taxes and earnings for those with disabilities: <http://www.irs.gov/pub/irs-pdf/p3966.pdf>.
- Long-Distance Telephone Tax Refund: Most of the 15 million households that did not file Federal tax returns last year are low-income households and half were likely headed by someone over 65. Taxpayers can file a request for the telephone tax refund with any 2006 return, or may file a special short form alone. The refund amount depends on the family size in 2006 and will range from \$30 to \$60 dollars per household. Filers will not need to document specific charges, but the refund does not apply to prepaid calling cards. If a filer is also entitled to EITC, the telephone refund will be added to that amount and distributed according to the filer's instructions. Forms and instructions are included in the IRS training and software offered to VITA sites.

## Appendix A:

### Toolkits About EITC and Other Tax Benefits for Low-Income Households

**America Saves (AS):** <http://americasaves.org>. America Saves is a nationwide campaign in which a broad coalition of nonprofit, corporate, and government groups help individuals and families save and build wealth. The site offers tools and advice on building local coalitions, tips on saving, and an on-line form of a savers' club for individuals ready to begin saving. Several AFI Projects are active in these coalitions.

**Center on Budget and Policy Priorities (CBPP):** <http://www.cbpp.org>. *Make Tax Time Pay* is a community outreach and education kit that includes details on eligibility and required documentation for the Earned Income Tax Credit and the Child Tax Credit. *AFI grantees will receive one full kit by mail from the AFI Resource Center.* Kits contain fact sheets; tips on outreach; camera-ready posters, flyers, and envelope stuffers to which you can add your contact information; checklists for required documentation and forms; and the actual forms needed for filing. Other information on the EITC, Advance EITC, and CTC is available on the CBPP Web site, along with a current list of IRS territory managers to contact about local sites or becoming a site.

**Corporate Voices for Working Families (CV):** <http://cvworkingfamilies.org/Employerguide/employerguide.htm>. CV represents 49 major employers with more than four million employees in all 50 states. CV focuses on employer-based tax education and tax return preparation. Their toolkit, which includes camera-ready brochures and flyers, posters, paycheck stuffers, and a calendar of EITC dates, may be downloaded from <http://www.cvwf.org>. The toolkit is available in English and Spanish and includes information on predatory lending, the child tax credit, and state EITC programs.

**First Nations Development Institute (FNDI):** <http://www.firstnations.org/EITCwb.asp>. This site offers a downloadable workbook to develop a campaign to increase EITC participation among Native Americans.

**Internal Revenue Service (IRS):** <http://www.irs-eitc.info/SPEC/>. The IRS offers a comprehensive toolkit and is, of course, the authoritative online source for current guidance for the EITC and other credits. This toolkit contains information about eligibility, tips for choosing a tax return preparer, a guidebook for preparers, and other downloadable resources. There is also *Link and Learn*, self-paced instruction module focused on the EITC.

**National Community Tax Coalition (NCTC):** <http://www.tax-coalition.org/> This umbrella organization, based at the Center for Economic Progress in Chicago, offers a library of resources and technical assistance documents, including some on linking asset building to tax benefits and on services to special populations, such as immigrants. They sponsor an annual series of conference calls on how to manage tax preparation sites and how to develop local coalitions to support free or low-cost tax preparation. NCTC also offers a limited number of spaces in H&R Block tax training for staff of affiliated organizations. Registration (no charge) is required to participate in the calls and to access the resource documents.

**National Immigration Law Center (NILC):** <http://www.nilc.org/> The NILC site has information on tax requirements and benefits for immigrants, as well as outreach materials in several languages.

**National League of Cities (NLC):** <http://nlc.org/> This site offers a toolkit focused on developing municipal tax assistance coalitions, sample fliers and other outreach materials, and links to other resources.

## Appendix B

### Ways to Insure the Quality of Tax Preparation Assistance

Whether you plan to develop your own tax assistance site or to partner with others, it is helpful to think about the quality of services offered. Errors not only frustrate filers but may expose them to penalties or audits, in addition to delaying or reducing their expected refunds. The Annie E. Casey Foundation, which initiated an EITC campaign in 41 communities across the country in 2003, is supporting ongoing evaluation of the quality of the services provided. The report, published in 2006, analyzed the number, types, and seriousness of errors and suggests way to maximize benefits and minimize errors that may lead to disappointment or negative consequences.<sup>6</sup> Recommendations include the following:

1. Standardize procedures to make sure certain questions are asked of all filers, especially concerning marital status, residence of children, or other factors essential to determine eligibility for EITC or other tax credits and deductions.
2. Use decision trees in training and in preparation. Determining eligibility, filing status, and dependency follows a series of questions leading to a single correct answer. Using the trees will increase accuracy.
3. It may be wise to limit the types of returns prepared, for example, not handling returns based on self-employment or returns that require attached schedules.
4. Try to have someone on site at all times who has a high level of knowledge of tax law as it relates to the Earned Income Tax Credit, Child Tax Credit, and other likely benefits for your participants. This person can coach less knowledgeable preparers and review returns before they are submitted and before the filer leaves the site.
5. Have someone ready to review returns on-site before the filer leaves. This step can catch many basic errors, even simple typos that can jeopardize smooth filing and a prompt refund.
6. Enter information directly from source documents and interviews rather than from general intake forms. For example, use the actual social security card or W-2 as the source of information, and use follow-up questions to the filer to maximize accuracy of information.
7. Do not try to interpret tax law. Follow the specifications as given.
8. Insure confidentiality. Have reasonably private spaces for interviews and data collection from individual preparers and keep any retained documents or files in locked cabinets. Use password protection for computers and applications. Try to have a shredder to dispose of worksheets, intake forms, and other materials that could be used unethically.
9. Encourage e-filing on-site. It is fastest with respect to refunds coming to participants and gives quick notice of some errors (but not all).
10. Encourage direct deposit of refunds if possible. If you have a banking relationship that would allow participants to establish accounts without fees or with access to products favorable to participants' situations, encourage their use.

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<sup>6</sup> Read the full report at: [http://www.aecf.org/initiatives/fes/eitc/assessing\\_quality\\_eitc.pdf](http://www.aecf.org/initiatives/fes/eitc/assessing_quality_eitc.pdf).

## **Appendix C:**

### **DRAFT IRS Form 8888 for Split Refunds**

Following is the DRAFT Form 8888 to be used by filers who choose the split refund option. Tax forms for the 2007 filing season will be similar but may not be identical.

There is a web site dedicated to education and discussion of the new option: [www.SplitRefunds.net](http://www.SplitRefunds.net). At this site, you can download a guide to the option and learn the results of pilots over the past two years. You can also participate in a forum on the split refund, its challenges, and effective practices for implementation.

Form <b>8888</b> Department of the Treasury Internal Revenue Service	<b>Direct Deposit of Refund</b> ▶ 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 <b>2006</b> Attachment Sequence No. <b>56</b>
Name(s) shown on return		Your social security number
1a Amount to be deposited in first account b Routing number <input type="text"/> ▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="text"/>		1a
2a Amount to be deposited in second account b Routing number <input type="text"/> ▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="text"/>		2a
3a Amount to be deposited in third account b Routing number <input type="text"/> ▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="text"/>		3a
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.



*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.*



*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.

**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.

**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.



*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**

JEFFREY MAPLE  
 SUZANNE MAPLE  
 123 Pear Lane  
 Anyplace, VA 20000

PAY TO THE ORDER OF \_\_\_\_\_ \$  1234  
 DOLLARS

ANYPLACE BANK  
 Anyplace, VA 20000

For \_\_\_\_\_

⑆ 250250025 ⑆ 202020 ⑆ 86 ⑆ 1234

Routing number

Account number

Do not include the check number.

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

For Paperwork Reduction Act Notice, see back.

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**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.



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.



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.