

Colorado Asset Growth Project

Tax Preparation

Why should your community care where and how the working poor get their taxes done as long as they are done? Because it needlessly diverts funds that can be used by the individual or family within their community. In 2003, the average Earned Income Tax Credit (EITC) recipient earned a credit of \$1,788, and EITC dollars accounted for 68% of recipients' net tax refunds.

Studies have shown that the working poor may pay more than half of their tax return reimbursement for tax filing and rapid anticipation loans (RALs). The proportion of EITC recipients who filed their returns through paid tax preparers increased from 65% in 2000 to 71% in 2003. In addition families that lack bank accounts are more likely pay hefty fees to cash checks or pay bills, and more important, they are not building the credit records needed, for example, to buy a house or to secure a loan to start a business, (The Brookings Institution)

Through Volunteer Income Tax Assistance Site(s) in the community, skilled volunteers help prepare tax returns for the low income individual or family. If the family has or can open a bank account, the returns can be filed electronically, while the client is on site. If the client has an account, they will receive their full tax refund within fourteen days with no preparer's fees. Some communities make arrangements with a local bank to be onsite at the Volunteer Tax Site to help clients set up an instant savings account. This allows clients to receive the electronic refund.

Child and Dependent Care Tax Credit: Fewer than 8% of EITC recipients with qualifying children in 2003 received the Child and Dependent Care Tax Credit (CDCTC) to offset their child care costs, despite research suggesting that 20% of EITC-eligible families with children pay for child care. It provides childcare assistance up to \$1,400 a year to working parents. Fifty-five percent of CDCTC goes to families with less than \$50,000 a year of adjusted gross income. Unlike EITC, the CDCTC is not refundable, and therefore does not benefit very low-income families, but it can provide needed support to families that are beginning to work their way up.

Tax incentives contributes to a family's financial stability as well as the economic viability of an entire community. Getting the word out in each community, and offering services when possible is one way a community can help its residents.