August 2017

Building the capacity of tax preparation providers to encourage saving

The CFPB Office of Financial Empowerment

Consumer Financial Protection Bureau

Executive summary

In 2015 the CFPB published its first paper regarding practices employed by tax preparation providers to encourage consumers to save while filing their tax returns. Building savings is important for every consumer because it helps them to establish a financial foundation on which to plan for the future. It is particularly important for consumers with low incomes, because they often have to survive on a razor thin financial margin that creates economic stress for themselves and their families. There are three strong reasons for encouraging saving at tax time. For many consumers with lower incomes their tax refund is the biggest single lump sum they will receive all year. Many of those same consumers have little to no savings, which makes them economically vulnerable to financial shocks. Finally, the process of filing a tax return provides an easy and automatic way to save some or all of their tax refund.

In the 2015 paper, we identified ten practices that have shown promise for increasing consumer saving activity at tax time. In the intervening two years we have worked closely with both Volunteer Income Tax Assistance (VITA) providers and members of the commercial tax preparation industry to further explore consumer interest and engagement in saving at tax time. Our goal was to learn more about the context in which tax preparation providers operate while attempting to best serve their customers and clients.

This paper builds on these additional observations of the tax preparation field and offers further information on the barriers and opportunities for tax filers to save. It also provides greater focus on how tax preparers can help consumers meet their savings goals and identifies areas where organizations like the CFPB, other federal and state agencies, and non-profits can collaborate to offer tax preparers the tools and training they need in order to have a productive savings conversation with their customers before and during the tax event.

This paper refines the list of promising practices and provides deeper insight into the goals and intent of consumer behavior during the tax filing and refund process. It also complements other research and findings of several national convening organizations such as the Prosperity Now Taxpayer Opportunity Network (TON) and large VITA Programs such as the Center for Economic Progress in Chicago, Illinois, and Prepare and Prosper in St. Paul, Minnesota. These organizations have used their own unique approaches to successfully implement many of these practices in the field. Our collective goal is to provide the VITA community and other tax preparation providers a set of key learnings along with some practical applications that providers can employ to assist consumers in achieving their savings goals through the tax filing process.

The practices and their application that we will describe in this paper include the following:

Promising practices

Helping Tax Filers to Choose to Save

1. Communicate with consumers about saving before they come to the tax site.
2. Offer saving choices more than once at the tax site.
3. Provider multiple product choices for saving.
4. Use “anchoring” and prompts to help consumers focus on a savings goal.
5. Don’t overwhelm consumers by offering too many different types of services.
6. Provide incentives, including non-financial rewards, to encourage saving.
7. Make saving fun and exciting.

Training and Motivating Staff and Volunteers to Help Tax Filers to Save

8. Build commitment among staff and volunteers to encourage saving.
9. Make sure tax preparers know how to help consumers save while filing.
10. Dedicate staff or volunteers to encourage saving.

We appreciate the many VITA program providers who have contributed to this report by sharing their stories, inviting us to visit their tax sites during the tax season, and openly engaging in conversations during and after the tax season about what they have learned from offering this valuable service to people with low incomes in their respective communities.

We thank the Internal Revenue Service SPEC[1] division for its collaboration and the Taxpayer Opportunity Network, operated by Prosperity Now (formerly the Corporation for Enterprise Development), for providing a communications channel to the broad VITA community.

Thanks also to H&R Block for its willingness to share information about the nature of the tax preparation business and key consumer behavior insights it has developed before, during and after consumers file their taxes.

[1] Stakeholder Partnerships, Education & Communication (SPEC) is the outreach and education arm of the Wage and Investment Division of the IRS. http://www.irs.gov/Individuals/Become-an-IRS-Partner-to-Help-in-Your-Community

Table of Contents

Executive summary..1

1. Introduction..6

2. What we have learned to date...9

3. Why encourage saving at tax time?..12

4. Challenges and barriers for consumers to save at tax time...........................15

4.1 A Challenging Tax Time Environment in 2017 17

5. The gap between measureable savings and consumer intent to save..........................19

6. Setting the context for encouraging saving......................................21

7. Promising practices 23

1. Communicate with consumers about saving before they come to the tax site... 23
2. Offer the saving option more than once at the tax site 24
3. Provide multiple product choices for saving...25
4. Use "anchoring" and motivational prompts to help to focus the consumer on a saving goal. 26
5. Don't overwhelm consumers by offering too many different types of services.............................27
6. Provide incentives, including non-financial rewards, to encourage saving 27
7. Make saving fun and exciting 28
8. Build commitment among staff and volunteers to encourage saving ...29
9. Make sure tax preparers know how to help consumers save while filing30

10. Dedicate staff or volunteers to encourage saving.................................. 31

8. Conclusion 32

Appendix I: Participating Organizations 34

1. Introduction

The CFPB's work to encourage saving at tax time is led by its Office of Financial Empowerment, which focuses on helping economically vulnerable consumers to achieve their financial goals. The mission of the Office of Financial Empowerment is to promote a more inclusive and fair financial marketplace, and empower economically vulnerable consumers to make informed financial decisions by providing tools and information. To fulfill this mission Financial Empowerment focuses on increasing access to fair and affordable financial products, helping consumers to build and sustain good credit, offering providers of services to economically vulnerable consumers tools and resources to better serve their clients, and striving to provide greater opportunities for consumers to save.

The CFPB also has a specific charge to provide opportunities for consumers to access "wealth building and financial services during the preparation process to claim earned income tax credits and Federal benefits."[2] [3] Consumers determine their eligibility and claim the Earned Income Tax Credit (EITC) during the process of filing their federal and state tax returns.[4] Our involvement in targeted ways to encourage savings at tax time has primarily focused on offering

[2] The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), Pub. L. 111-203 § 1013(d)(2)(F), *codified at* 12 U.S.C. 5493(d)(2)(F).

[3] Individual offices within the CFPB have collaborated to fulfill this mandate. The Office of Financial Empowerment works to empower low-income and economically vulnerable consumers to make informed financial decisions by providing them with tools and information and by promoting a more inclusive and fair financial marketplace. The Office of Financial Education and the Office of Consumer Engagement both develop and implement initiatives intended to educate and empower consumers to make better informed financial decisions.

[4] Forty-three states and the District of Columbia have a state income tax. In those states consumers are required to file both federal and state tax returns. Of those, twenty-five states and the District of Columbia have established a state or local Earned Income Tax Credit which is supplemental to the federal EITC. http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits

support to the network of Volunteer Income Tax Assistance (VITA) providers that offer free tax help in many hundreds of communities around the country.[5] We have also offered our tools, training and technical assistance to the companies in the commercial tax preparation industry that are interested in achieving better financial outcomes for their customers.

The long-term vision of the CFPB in offering savings opportunities for people at tax time is: "Savings outreach and education to consumers at tax time should be available across all service and product platforms - both commercial and VITA."

This vision is particularly achievable for the large majority of consumers who file their tax returns electronically, either on their own or with the help of someone else. A growing number of consumers are electronically filing their returns and an even greater percentage of consumers are choosing to prepare their own returns using a variety of commercial software products. Between 2013 and 2017 the number of e-filed returns[6] increased by 8% to a total of 88.6% of all returns filed.[7] During the same 5 year span the number of self-prepared e-filed returns increased by 19.4% to a total of 37.4% of all returns filed. Still, a majority (57.8%) of all e-filed returns in 2017 were prepared by commercial tax preparers.[8]

Regardless of who is preparing the return, the tax filer, a tax professional or a volunteer, as information is entered the software being employed typically calculates a running total of the amount owed or the amount of refund due to the tax filer. At the final summation page, if a tax filer is due a refund the next screen the tax filer or the tax professional sees could prompt them to consider saving a portion of their refund. This same page could also include information on

[5] The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $53,000 or less, persons with disabilities, and the elderly and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers

[6] This includes all electronically filed returns whether they were prepared and filed by the taxpayer or prepared and filed with the assistance of a commercial or volunteer tax preparer.

[7] 2017 and Prior Year Filing Season Statistics. Internal Revenue Service. https://www.irs.gov/uac/2017-and-prior-year-filing-season-statistics

[8] Ibid.

easy ways to have the IRS automatically distribute the refund to multiple accounts of the consumers' choosing. However, this is not yet the case for most tax preparation software. By making this relatively simple process available, a greater number of tax filers would be offered the saving option and would have the opportunity to leverage the tax time moment to make a financial decision that may benefit themselves and their families.

To provide greater saving opportunities for consumers, the CFPB has established five operational goals for its tax-time savings work. The five goals are to:

1. Identify and spread practices for providers to offer consumers who have low-incomes and/or low-wealth more information and saving choices while filing their tax return;
2. Help tax preparation service providers to develop a deeper understanding of consumer decision-making and service provider capability before and during the tax season;
3. Test the effectiveness of promising approaches in both the nonprofit and commercial environment to promote saving at tax time;
4. Quantify, through research, the consumer benefits of saving, and of maintaining some amount of savings for short- to medium-term goals and needs; and
5. Learn how and where the CFPB can productively contribute to increasing the financial stability of low-income consumers through encouraging tax-time saving.

2. What we have learned to date

For the past five years, the Consumer Financial Protection Bureau has provided information and training to staff and volunteers at community VITA programs around the country to promote saving at tax time. Through these engagements with VITA providers and other experts in the field, we initially identified ten promising practices that may help tax preparation programs be more successful at informing and encouraging consumers about this opportunity to save, and their saving choices. This information may in turn help consumers follow through on their savings goals while filing their tax return. As our work has evolved and as we have learned more from practitioners and researchers we have refined these promising practices with an eye towards effectiveness, replication and practical application in different tax preparation environments.

We have collaborated with the Internal Revenue Service and engaged providers in the tax assistance field in pilots to develop and test tools and resources, and to learn how the CFPB could be most effective in offering help to consumers. In 2013, we worked with three communities on a direct-to-consumer outreach initiative. We provided the nonprofit organizations operating the VITA programs in those communities with basic outreach and information tools to assist them in encouraging saving. In 2014, we engaged in a 13-city pilot with local community VITA programs. This included providing enhanced consumer-facing informational materials along with training on promising practices to increase saving while consumers are filing their returns. After the end of each tax season, we asked for feedback from participating communities regarding the effectiveness of our approach. We used that information to make improvements to our tools and resources the following year.

In 2015 we made our informational materials and training available to all VITA programs via download from our website. In addition, we began a multiyear collaboration with H&R Block[9] to learn about the effectiveness of targeted communications to offer consumers opportunities to save. H&R Block's research study explores two major research questions: Can certain strategies encourage saving behavior? And; is saving behavior associated with better outcomes for consumers? [10]

In 2016 we expanded our initiative to include 41 VITA programs located in 25 states. Results from the 2016 tax season included the following:

- 281,603 total consumers were provided free tax preparation services
- 188,897 consumers had their taxes prepared at a site using CFPB information[11]
- 148,615 of those consumers received a refund; Of those;
    - 47,450 claimed the Earned Income Tax Credit
    - 86,595 used direct deposit to receive their refund
    - 2,562 (1.7%) used Form 8888 to split their refund
    - 639 purchased U.S. Series I Savings Bonds
    - 70 deposited part of their refund into a myRA account

In 2017, the most recent tax season we expanded our saving initiative to include 58 VITA programs located in 26 states (See Appendix I for a list of participating VITA programs). With 45 of the 58 programs reporting we identified the following results.

- 255,782 consumers were provided with free tax preparation services
- 187,941 consumers had their taxes prepared at a site using CFPB information;
- 140,308 consumers received a refund; Of those;

[9] H&R Block is one of the largest commercial tax preparation firms in the nation. In fiscal 2014, H&R Block prepared 24.2 million tax returns worldwide. https://www.hrblock.com/corporate/our-company/

[10] CFPB Project Catalyst Announcement 2014-02. http://files.consumerfinance.gov/f/201409_cfpb_summary_hr-block.pdf

[11] Some VITA Programs with multiple tax preparation sites in their communities chose to implement savings initiatives in a portion of their sites, thus creating a difference between total number of people served and number receiving CFPB information about saving.

- 54,857 claimed the Earned Income Tax Credit
- 93,525 used direct deposit to receive their refund
- 3,179 (2%) used Form 8888 to split their refund
- 545 (.4%) purchased U.S. Series I Savings Bonds
- 44 deposited some of their refund into a myRA account.[12]

In addition to the quantitative information provided by the VITA programs we received significant qualitative feedback that helped to provide insights into the challenges the providers faced in effectively having saving conversations with tax filers and the responses and reactions to savings messages provided to them before and during the tax filing process.

The findings and observations in this paper are based primarily on that qualitative data gathered in a variety of ways both during and after the 2017 tax season. The staff and volunteers of the VITA programs which participated in the 2017 cohort were extremely generous with both their time and their expert insights. Among the data collection methods we used were:

- Technical assistance calls conducted during tax season
- Site visits to a limited number of programs
- Online surveys of site leads, volunteers and staff of the VITA Programs
- Focus groups with program representatives including both site leads and frontline staff and volunteers

[12] The U.S. Department of the Treasury has decided to phase out the *my*RA® retirement savings program and the program is no longer accepting new enrollments. For more information go to https://myra.gov/

3. Why encourage saving at tax time?

Research shows that having even a small amount of savings in reserve has a number of beneficial effects, including:

- increased resiliency (the ability to bounce back financially)
- reduced use of high-cost financial services in response to a financial emergency
- reduced household stress[13]

Tax time presents a unique opportunity for many consumers to save in part because of the level of economic vulnerability experienced by a large number of consumers. Included in a survey conducted for the Federal Reserve Bank's 2015 Report on Economic Wellbeing were several questions designed to determine an individuals' preparedness for a smaller scale financial disruption. Respondents were asked how they would pay for a hypothetical emergency expense that would cost $400. Just over half (54 percent) reported that they could fairly easily handle such an expense, paying for it entirely using cash, money currently in their checking/savings account, or on a credit card that they would pay in full at their next statement (collectively referred to as "cash or its functional equivalent"). The remaining 46 percent indicated that such an expense would be more challenging to handle and that they either could not pay the expense

[13] "Holding liquid assets of up to $1,999 (versus having no such assets) significantly reduces the incidence of multiple hardships, by 5.1 percentage points. Progressively larger effects are found with larger asset holdings: 10.6 percentage points for $2,000–$9,999 and 13.7 percentage points for $10,000 and above." Urban Institute: Can Savings Help Overcome Income Instability, 2010 http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412290-Can-Savings-Help-Overcome-Income-Instability-.PDF

or would borrow or sell something to do so.[14] By comparison in 2015, 100.9 million people (31.7% of the population) had household income less than twice the federal poverty level which was $48,000 for a family of four.[15] These comparative findings suggest that lack of sufficient liquid savings is not limited to the lowest income consumers but can also affect those who have more moderate incomes but are still potentially vulnerable to financial shocks.

Tax time is the period between January and April of each year when the vast majority of households file their annual tax returns. Tax time offers a unique opportunity to save for many consumers. In tax year 2015, 100.7 million tax returns, or 73.6% of all returns filed resulted in a refund. The average refund was $2,701.[16] In that same year 84.2 million tax returns (63.5% of all filers) reported adjusted gross incomes of less than $50,000.[17]

To put this into context, a married couple with two children earning $50,000 per year, with one full time worker would gross $1,923 per each 2 week pay period assuming a standard work year. Subtracting standard income tax and social security withholding and assuming that this family claimed no other tax credits their net income would be $1,718 per pay period. In other words if this family only received the average refund of all filers in 2015 that refund would be nearly $1,000 more than the biggest paycheck they received all year.

For a similar family who earns less and receives the Earned Income Tax Credit (EITC) that refund could be substantially more. Consider, for example a couple with two children and an annual income of $25,000 per year. Taking standard deductions and assuming no other

14 Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households; May 2016. https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf

15 Proctor, B.D., Semega, J.L., & Kollar, M.A. (2016). Income and Poverty in the United States: 2015. Washington, D.C.: U.S. Census Bureau. Retrieved from https://www.census.gov/library/publications/2016/demo/p60-256.html

16 TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Results of the 2015 Filing Season; August 31, 2015 https://www.treasury.gov/tigta/auditreports/2015reports/201540080fr.html

17 Internal Revenue Service. Late-May filing season statistics by AGI. https://www.irs.gov/uac/filing-season-statistics

adjustments to income this couple would owe $0 net taxes and would receive back whatever income tax withholding they had paid in during the course of the year. In addition if the parents and dependent children met all the other qualification requirements[18] for EITC eligibility they would receive an additional $5,300 based on the calculations for the 2016 tax year.[19]

For those households that are saddled with debt or expenses, tax time can offer an opportunity to catch up by reducing or even eliminating their existing debt and helping them to maintain all their current financial obligations. For those households who have more manageable debt and obligations, tax time offers an opportunity to get ahead by building up their emergency savings fund and starting a nest egg for financial goals that at other times during the year may only be aspirations. Some families might want to use the tax refund for both debt reduction and savings, to reduce the need for incurring more debt.

Despite substantial refunds that in many cases represent the largest lump sum low-income families receive during the course of the year, the vast majority do not set aside funds into a separate savings account while filing their return. [20] Research from one study conducted by the Center for Social Development (CSD) at Washington University in St. Louis indicates that these households actually do "save" at higher rates by setting aside funds for planned purposes for an extended period of time, but they may do so through mental accounting by keeping money in their checking accounts where the funds are also readily available in the case of emergency.[21]

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[18] https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/do-i-qualify-for-earned-income-tax-credit-eitc

[19] Internal Revenue Service EITC Outreach Earned Income Tax Credit Calculator https://apps.irs.gov/app/eitc2016/CalculateAgiExpense.doTax Year 2016. http://www.eitcoutreach.org/help/married-2-children/

[20] According to IRS data in 2017 only 1.1 % of all consumers that filed returns and received a refund through VITA programs split their refund using form 8888 and less than 1% purchased Series I Savings Bonds. .

[21] Findings from Refund to Savings, a large scale randomized control trial study being conducted by the Center for Social Development in collaboration with Intuit, distributors of the Turbo Tax Freedom Edition software, indicate that participants say that they save approximately 1/3 of their refund with the other 2/3 being distributed to spending and paying off debt. http://csd.wustl.edu/Publications/Documents/RR13-11.pdf

4. Challenges and barriers for consumers to save at tax time

The majority of tax filers of all incomes receive a lump sum refund. The amount of the refund is dependent on a variety of factors including the amount the consumer chooses to have withheld in income taxes during the course of the year, [22] and their eligibility for a variety of credits and benefits built into the tax code.

People living paycheck-to-paycheck, may fall short at times throughout the year. Many of the people who fall short count on their refunds to catch up by paying off past due bills or to meet current expenses. Qualifying for less than their expected refunds (which could happen, for example, due to a change in filing status or income from the previous year) can be extremely stressful.

Because of this potential stress and the need for short term planning many consumers may have already mentally committed their refund to other known expenses before learning the precise amount of the refund. Both commercial and volunteer providers report that this is by far the most common response by consumers as the reason they don't choose to save.

[22] The most common reasons cited for "over-withholding" are planned forced savings, taxpayers taking precautions against changes in filing status, and inertia, i.e., the failure to change withholding amount when filing status changes. Damon Jones, "Inertia and Over-withholding; Explaining the Prevalence of Income Tax Refunds," 2012. http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.4.1.158

Tax filers may not be offered or may not be aware of the opportunity to save while filing their return. People who self-prepare their taxes with software generally see an option to direct deposit their refund, but often without an explicit offer to save. People who seek assistance from commercial or volunteer preparers do not consistently hear about their savings choices.

Tax filers do not have account information on hand. In tax assistance centers, even if a consumer wants to save they may not have the necessary information with them to route their money into a savings account.

The majority of low-income filers seek assistance from a trained preparer to file their taxes.[23] VITA preparers annually prepare approximately 4 million returns serving around 3% of all taxpayers. However, the majority filers with low incomes use commercial preparers that charge a fee. For consumers with limited incomes and resources, paying for tax preparation services may reduce the amount of money available for saving.[24]

Tax filers may worry that savings will affect their benefit eligibility. Some consumers who receive public benefits to supplement their income are aware that having too much savings may jeopardize eligibility. These “asset limits” can cause recipients to be cautious about saving money in a formal account that they have to report or that could be tracked.[25]

[23] In tax year 2012 the IRS reported that 44.2% of tax filers with adjusted gross incomes less than $50,000 and 39.8% of tax filers that claimed the EITC prepared and filed their own tax returns. IRS Market Segment Summary Report.

[24] The average cost of a professional income tax preparer to handle a "typical" 2014 tax return (the one filed by April 15, 2015) was $273 this year. This includes an itemized Form 1040 with Schedule A and a state tax return, according to the National Society of Accountants. Fees vary by region, as well as by the complexity of the return being filed. http://www.cpapracticeadvisor.com/news/12065684/average-income-tax-preparation-fees-increased-in-2015

[25] Rourke O’Brien. Ineligible to Save? Asset Limits and the Savings Behavior of Welfare Recipients. New America Foundation 2006. http://newamerica.net/publications/policy/ineligible_to_save

4.1 A Challenging Tax Time Environment in 2017

In addition to the general challenges consumers face when considering saving at tax time the most recent 2017 tax season presented some unique additional barriers for both tax assistance providers and tax filers.

1. The IRS provides tax filing software and training for free to all VITA programs.[26] In this most recent tax season the IRS changed software vendors. As often happens with upgrades or major software changes many users experienced a significant learning curve which drained resources from their tax time savings efforts. Participants in the 2017 tax time savings cohort reported a variety of challenges including difficulties with return processing and reporting that made preparing and filing returns plus processing savings requests more difficult than in past years.
2. A number of adjustments to the tax code went into effect in 2017, one of which required the IRS to hold refunds which included either the EITC or the Additional Child Tax Credit (ACTC) (which are typically larger refunds offering potentially greater opportunities for savings) until after February 15.[27] Due to additional delays in check processing and funds transfers, the first refunds containing these two credits were not distributed to consumers until the last week of February in 2017.[28] The rationale for this delay was to give the IRS more time to match tax returns with information provided by employers and also to reduce the incidence of tax fraud.

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[26] The Internal Revenue Service, through its Stakeholder Partnerships, Education & Communication (SPEC) Division provides free software and corresponding training to VITA programs around the country. Through a competitive federal procurement the IRS selected a new software vendor starting in the 2017 tax season.

[27] The PROTECTING AMERICANS FROM TAX HIKES ACT was enacted in late 2015 and the tax code changes associated with EITC and ACTC payments went into effect in the 2017 tax season. https://waysandmeans.house.gov/wp-content/uploads/2015/12/PATH_Act_xml.pdf

[28] IRS Press Release. Avoid the Rush: EITC and ACTC Refunds Expected to Arrive the Week of Feb. 27. https://www.irs.gov/uac/newsroom/avoid-the-rush-use-irs-gov-to-track-status-of-tax-refunds

Both consumers and tax assistance providers were affected by this change in policy from previous years. Consumers who normally filed their tax returns in January as soon as tax season opened, and were used to receiving their refund within 2 to 3 weeks after filing, this year had to wait up to two to four additional weeks to receive their refund. For those tax filers that have in the past relied on their refund to pay necessary expenses the delay may have caused additional financial stress which might have been likely to decrease their inclination to save.

It affected tax assistance providers because, based on filing patterns early in tax season, it appears that knowledge of the new refund schedule spread among affected communities and individuals, and as a result many came into the tax sites later than usual. In 2017 early filing and return acceptance rates through February 17 were approximately 13% behind 2016 rates.[29] This may be an indication that some consumers heard about the refund delays and were adjusting their filing patterns accordingly. This, in turn, required adjustments to sites' staffing and changed the timing of resource needs.

[29] Internal Revenue Service. *Filing Season Statistics for Week Ending February 17, 2017.* https://www.irs.gov/uac/newsroom/filing-season-statistics-for-week-ending-february-17-2017

5. The gap between measureable savings and consumer intent to save

The IRS provides choices for filers to designate portions of their refund to be automatically deposited into up to three separate accounts. This is done through IRS Form 8888. Tax filers can designate that funds be sent to their checking account, savings account, an individual retirement account (IRA), a health savings account (HSA), an Archer Medical Savings Account (MSA), other education savings accounts, or Treasury Direct online accounts. Consumers can also purchase up to $5,000 in Series I savings bonds.[30] The IRS will automatically distribute the funds to whatever accounts the consumer chooses while filing their return.

Despite the availability of a variety of saving choices a relatively small number of tax filers take advantage of this opportunity to save. In 2017 only 1.1 % of all consumers who filed returns and received a refund through VITA programs split their refund using Form 8888.[31] The IRS does not track the number of consumers that choose to deposit their entire refund into a savings account or other savings vehicle, so there are limited ways to objectively measure savings rates based on available IRS data.

There are indications from the Center for Social Development (CSD) research that despite the low rates of formal saving while filing a return, consumer intent to save may be considerably

[30] IRS Form 8888 Instructions. https://www.irs.gov/pub/irs-pdf/f8888.pdf

[31] IRS 2017 Tax Filing Season_May_Final.

greater than what is demonstrated by available statistics. The CSD randomized control trial study[32] involves embedding into the Intuit Turbo Tax Freedom edition (TTFE) software several types of savings prompts which appear to the consumer immediately after they find out they are receiving a refund and before they actually file their tax return. Several of the prompts have demonstrated a statistically significant increase in people choosing to save a portion of their tax refund.

As part of that research CSD conducts a survey immediately after the tax return is filed and a follow up survey approximately 6 months after the return is filed. CSD has found that at the time of filing, 7.5% of TTFE filers directly deposited at least some of their refunds into a savings vehicle (saving accounts or bonds). By contrast in the first survey, immediately following the filing of a tax return, 32% of respondents indicated an intention to save some of their refund, and 27% of the second survey respondents reported six months later that they still had at least some portion of the refund saved. These results are consistent with the preference, reported by a portion of savers, to transfer funds to savings accounts outside of the tax-filing process.[33]

The Refund to Savings findings indicate that there is a mismatch between the rate of savings we can easily measure with available IRS data and the intent and behavior of consumers in managing their tax refund.

[32] *REFUND TO SAVINGS 2013: Comprehensive Report on a large-scale tax-time savings program*. Center for Social Development CSD Research Report No. 15-06. https://csd.wustl.edu/Publications/Documents/RR15-06.pdf

[33] Ibid.

6. Setting the context for encouraging saving

Many VITA programs already offer additional services, including targeting efforts to encourage tax filers to consider savings through their tax programs. Some providers have identified and use a combination of communication, focus on specific services and consumer contacts that they have found effective. However, other VITA programs have tried these approaches with less success.

From conversations conducted through our tax time saving project we have made some basic observations about the tax preparation environment that may shed light on why these initiatives demonstrate varying degrees of success.

1. Historically, filers with low incomes who expect refunds generally file their returns early in the tax season typically making the first month an extremely busy time for tax preparers. Volunteer staffed sites frequently have turnover from year to year and new volunteers need some time and repetition to feel fully confident in helping people file their returns. As a result they may find it difficult to have additional conversations with their clients about saving. Overcrowded sites can also make it difficult to offer additional product or service choices without disrupting customer flow. Thus, the primary audience for a saving initiative arrives at a difficult time for providers to talk about saving with their customers. It is possible that this trend of early filing will shift somewhat as a result of the permanent policy change prescribed by the passage of the PATH Act to delay refund payments which include either EITC or ACTC to at least February 15. While the delay may cause some burden for tax filers who are depending on receipt of their refunds it may also smooth out some of the early rush of customers at tax sites that has traditionally occurred in previous tax seasons.

2. For a variety of reasons consumers can find tax time stressful. Filing taxes is a once per year event. It's complex because the tax code is a complicated body of laws and regulations. It is often high stakes because the consumer may be anticipating a refund of an unknown amount

which can change from year to year, or in some cases may be worried about how much they may owe in additional taxes. As a result many tax filers may be focused exclusively on getting their return completed and finding out whether they will get a refund. Approaching filers about additional services, including saving, may result in rejection even if at a less stressful time they might appreciate the information and assistance offered.

7. Promising practices

Despite the challenges, what we have learned from our pilots and conversations is that many tax preparation assistance providers have successfully adopted strategies to engage consumers about additional opportunities and services during the tax event, including saving. Through our feedback from the 2017 tax season we learned that many VITA programs adopt a combination of these practices, sometimes to experiment which are the most effective, and often because of the nature of their relationships with their customers, funders and community make certain practices a natural fit within their VITA programs. This list of practices is by no means exhaustive, and there are many variations on how they are implemented. However through our inquiries we have found that these are among the most common practices that have shown the most promise of helping programs dedicated to assisting clients to meet their savings goals.

Helping Tax Filers to Choose to Save

1. Communicate with consumers about saving before they come to the tax site

Early engagement can contribute to an increased interest and an increased readiness to save. The most common refrain we hear from tax assistance providers, both volunteer and commercial, is that consumers are already mentally preparing how to spend their refund in advance of filing. There are a variety of opinions about when that planning starts, some providers say that it is an ongoing and annual planning process, while others believe that tax filers really start focusing on how to distribute their refund prior to the end of year holidays as they consider other major expenses that often occur during that season. Suffice it to say that each consumer has their own set of circumstances, including income spikes and dips, debt incurred, and other financial obligations that may focus them on the tax refund as a means to escape from a negative financial situation or to advance their financial goals through the receipt of their tax refund.

Providing a saving option for customers to consider while making that calculation about how to distribute their refund may be helpful. In many circumstances, "plan-making helps people to both remember their intentions at appropriate times and to activate pre-determined strategies for overcoming challenges they anticipate facing while acting on their intentions."[34] This "planfulness" may also make it more likely that consumers will take the additional steps necessary to follow through including predetermining which savings vehicle to use and to bring their account information with them when they come to a tax site to have their return prepared and filed.

A number of VITA programs in the 2017 cohort implemented this practice. The most comprehensive approach used was to include savings messaging in pre-tax season communication which a number of programs did through email and / or text messages to previous year customers. Programs that make appointments with customers were able to incorporate saving information and reminders into the appointment conversation.

These types of pre-season communications allow for at least several consumer touches to offer saving choices so that the program is effectively "setting the table" for on-site communications through educational materials and through conversations with staff and volunteers at key stages during the time that the consumer is at the tax site.

2. Offer the saving option more than once at the tax site

People may be more likely to follow through and save if the offer is made more than once. A common marketing principle is that it takes seven distinct communications or "touches" before someone will internalize and/or act upon a call to action. In this age of social media, with significantly higher rates of messaging input, that principle may mean an even larger number of

[34] Rogers, T., Milkman, K. L., John, L. K., & Norton, M. I. *Making the Best Laid Plans Better: How Plan-Making Prompts Increase Follow-Through*. Behavioral Science and Policy; 2016.

touches might be required. While executing multiple touches may not be practical for many VITA providers, attempting to reach consumers at least a few times before tax season and varying the means of communicating about the benefits and ease of saving may be beneficial.

Some of the most successful VITA programs make sure their customers hear about their saving choices multiple times. Sometimes they provide advance information as described above in Promising Practice #1, and often staff and volunteers give each customer more than one opportunity to hear about their saving choices at key moments while at the tax site. Dedicated staff, discussed in more detail below in Promising Practice #10, also provided several VITA programs in the 2017 cohort with additional capacity to have multiple conversations with customers.

Multiple touches may help overcome consumer unfamiliarity with savings choices which would lead to indecision. Sites and staff are reluctant to "pepper" tax filers with information, especially if they are resistant, but successful savings initiatives have found that the right level of "soft sales" of the saving opportunity may increase uptake while maintaining customer satisfaction.

3. Provide multiple product choices for saving

Many tax filers who want to direct deposit their refunds know to bring their checkbook or their account and routing numbers to the tax site. But few of them remember to bring savings account information. Some tax filers do not have a savings account. Tax filers who want to save, but do not have a savings account, can purchase Series I savings bonds easily and quickly through IRS Form 8888, yet the uptake rate for savings bonds is extremely low . Only about .1% of tax filers receiving a refund at VITA sites purchased savings bonds through Form 8888 in 2017.[35] A relatively small number of VITA programs host staff from financial institutions on site to open accounts (checking and/or savings) on the spot for those consumers who want these accounts. This strategy has worked in some instances but many programs have abandoned this approach. Reasons include low demand relative to the time on site spent by financial institution staff, the cumbersome nature of opening an account; and the time and space that some

[35] IRS 2017 Tax Filing Season_May_Final.

programs cannot afford to spare. A number of programs have found success in signing people up for prepaid products, allowing unbanked tax filers to receive refunds electronically.

Fundamentally it is important to recognize that programs dedicated to encouraging saving have at least a few different saving choices for customers that may want to save but may not already have access to the saving product that is satisfactory prior to coming to file their tax return By offering a few alternative product options, programs may be more successful at "meeting some customers where they are" and helping them to fulfill their savings goals.

4. Use "anchoring" and motivational prompts to help to focus the consumer on a saving goal.

Anchoring is a "particular form of priming effect whereby initial exposure to a number serves as a reference point and influences subsequent judgments about value."[36] Anchoring is used very commonly in all sorts of communications and marketing, such as suggested list prices for particular products. For people who are considering saving, providing a concrete recommendation of the amount, combined with a suggested purpose for saving, has been shown to be effective at increasing saving activity. This may be especially valuable for tax filers who have not considered saving previously and who may be inclined to forego the opportunity because they don't know what the "right amount" is for them to save.

Findings from the CSD *Refund to Savings* research have demonstrated that when tax filers were given a suggestion to save 25% or 50% of their refunds, and in some cases also offered suggested purposes such as for family or for an emergency, they were more likely to save.[37] While this research was performed in an online environment using the Turbo Tax Freedom product, the approach may translate to in-person consumer engagements as well.

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[36] Behavioral Economics.com. *Anchoring (heuristic)*. https://www.behavioraleconomics.com/mini-encyclopedia-of-be/anchoring-heuristic/

[37] Washington University in St. Louis. REFUND TO SAVINGS 2013: Comprehensive Report on a large-scale tax-time savings program 2015. http://csd.wustl.edu/Publications/Documents/RR15-06.pdf

5. Don’t overwhelm consumers by offering too many different types of services

Preparing and filing a tax return is often a stressful activity for any consumer. The high stakes of trying to anticipate whether you will receive a refund, how much the refund will be, or alternately whether you will end up owing money, can make it difficult to focus on any other information, even if it that other information could be beneficial. That is why our experience from working with VITA programs and with commercial preparers has led to the conclusion that overwhelming the tax filer with multiple offers of various types of services and opportunities can be counterproductive.

Some programs in the 2017 cohort attempted to get a better understanding of consumer interest through short surveys or interviews conducted at intake. They used the intake information to tailor their conversation with clients and to direct them to the additional services in which they were most interested. In some cases, customers indicated that they only wanted to have their returns prepared and that sent a signal to the program staff and volunteers not to approach them about other services. Other programs made the up-front decision to only focus on one or two services in addition to tax preparation such as encouragement to save.

The primary lesson from this targeted approach is that discerning each customer’s level of stress and interest in other services helps programs be more effective and efficient in encouraging savings.

6. Provide incentives, including non-financial rewards, to encourage saving

A number of programs around the country have adopted a practice of providing incentives to tax filers who choose to save. Some are monetary and some are prized based. One example is

SaveYourRefund,[38] a sweepstakes where the consumer can enter without any fee, to win cash prizes throughout tax season and a grand prize at the end of tax season. Even small financial incentives appear to increase the number of people who save. And, once they make the decision to save, tax filers often set aside more than the minimum to qualify for the incentive.

In the 2017 cohort, programs utilized several incentive-based strategies to encourage saving. Some programs partnered with local businesses to give low denomination gift cards to savers. Others utilized straight cash incentives while one program collaborated with a corporate partner to give a scratch off card to anyone who split their refund. In this instance all the cards were winners but the cash value varied from $5 to $50. Some programs find non-cash merchandise rewards (such as a coffee mug or water bottle) are enough to increase saving take-up.

7. Make saving fun and exciting

Many VITA programs have found ways to make saving fun for both tax filers and for their volunteers and staff. Sharing success stories and celebrating saving can provide inspiration to staff. Some VITA programs offer incentives like recognition and celebration at the tax site to acknowledge tax filers who follow through and save a portion of their refund. VITA programs with multiple sites or volunteer teams have set savings goals for each site or team, with friendly competitions to see which one generates the most savings. The good natured competition is not just a way to score points—it increases enthusiasm on the part of front line service providers and in turn it offers volunteers a positive way to promote increased financial stability for customers.

Successful programs that try to build some fun activities into their savings program are careful to underscore the importance of recognizing the very real economic challenges faced by the taxpayers they serve. "Fun" can backfire if tax filers see it as minimizing the challenges of savings and judging them for not saving. The excitement should come from overcoming the challenges to saving and celebrating that personal achievement.

[38] SaveYourRefund is a program of Doorways to Dreams (D2D) Fund. https://saveyourrefund.com/home/. The CFPB believes that these kinds of incentives programs can benefit consumers, but it does not officially endorse any particular incentives program.

Programs in the 2017 cohort utilized several approaches to make saving fun and exciting. For example some programs gave out stickers to each person who saved similar to the "I voted" stickers that people receive in many jurisdictions when they participate in elections. Others gave the stickers to the tax preparers or savings specialists who facilitated the savings as a gentle way of making progress visible and creating a sense of friendly competition among staff. A number of programs incorporated *SaveYourRefund* in their fun promotional efforts, while others used devices like a spinning wheel to award small prizes to people who saved.

Training and Motivating Staff and Volunteers to Help Tax Filers to Save

8. Build commitment among staff and volunteers to encourage saving

Saving initiatives may be more successful if everyone—from leadership to volunteers—makes a commitment to the initiative. The business of running a tax site, or a full program with many sites, is technical, demanding, and fraught with challenges, especially early in tax season when volunteers have the least experience and the flow of customers is at its peak. Often, understandably, activities other than tax preparation are not added. To encourage saving and limit distraction, all staff and volunteers need to be committed to encouraging saving and coordinated in their efforts. A Saving Specialist can be helpful, but it is difficult for that person to succeed alone. When a customer walks into a tax assistance site, they are typically met by a receptionist or greeter who checks them in and gathers any required intake information. When a tax preparer is available, they work with the customer to fill out the tax return. Finally, a quality control person likely will review the return for accuracy and gather any final information, signatures, or authorizations before completing the return. The tax preparer and the quality reviewer are in a position to help tax filers complete their requests to direct a portion of their refund to savings. When all of these key personnel believe in the savings goal, and understand their role in helping people consider and use savings choices, they will be more willing to take the time to explain choices, have tax customers fill out the necessary forms, and help the tax filer direct money to savings.

VITA programs in the 2017 cohort implemented this practice in several ways. Some started with recruiting volunteers who show a commitment to providing financial education or other financial empowerment strategies. That is an ideal approach but it is not always practical for

VITA programs that struggle to find a sufficient number of volunteers. Other programs appealed to volunteers by noting the additional benefit that providing opportunities for clients to save can enhance the benefit they derive from quality free tax service. Still other programs used terminology that resonated with volunteers' desire to offer savings choices, which acknowledges that the decision lies with the individual tax filer.

9. Make sure tax preparers know how to help consumers save while filing

Volunteers and staff should be trained on the steps for completing a tax return with saving. In post-tax season interviews, lack of training on how to help a person make savings choices emerged as a specific challenge. In 2017 this challenge was exacerbated because the large majority of VITA programs and their volunteers had to learn how to prepare taxes using an entirely new software platform provided by the IRS. Under normal circumstances volunteer training time is limited and it is understandably filled with information associated with completing an accurate return. Because of the software change in 2017 more of that limited time was dedicated to training on basic operations and less time was available for additional training on other services the programs might have wanted to provide to their clients such as encouraging saving.

Programs in the 2017 cohort attempted to overcome this challenge in a variety of ways. Some programs depended on the additional capability of a limited number of trained financial educators and coaches to serve as tax preparers so that at least one tax preparer on site had the additional training and the requisite knowledge and experience to help tax filers follow through on their savings goals. Other programs that did not have the additional expert level staff available to serve as tax preparers relied more heavily on site coordinators who receive additional training to take the steps necessary to complete savings transactions.

Under normal circumstances after basic training, most volunteers need an opportunity to completely work through mock returns or scenarios to understand the complicated process of using the tax preparation software. Training should introduce the process for how to help a consumer save while filing. Training should include at least one, and hopefully several, scenarios or mock returns that includes splitting refunds and/or purchasing a bond to help the preparer feel more confident when a real consumer asks to save.

10. Dedicate staff or volunteers to encourage saving

Having dedicated staff or volunteers that focus on encouraging saving can make a difference in saving activity, as shown by several participants in the 2017 cohort. Many VITA programs have limited capacity to keep up with tax preparation demands and also devote attention to other related services offered at the tax site. Some successful programs have dedicated staff or volunteers as Savings Specialists to focus on saving outreach, without having the additional responsibility of preparing returns. The dedicated staff can engage with people when they check in to the site or in the waiting room to provide basic information about saving choices and to gauge consumer interest. Then, they can talk to tax filers again as the returns are being prepared or as they are reviewed before filing. This multiple-touch approach lets the staff member or volunteer develop a relationship, build trust, and provide information at key points.

A number of approaches were employed to implement this practice in the 2017 cohort. Several programs positioned trained financial coaches at each tax preparation session so that they would be available to help tax filers identify and follow through on their savings goals. Because of their work as financial coaches, these staffers drew on their training and experience helping consumers set personal financial goals and then commit to taking action toward those goals. [39]

Other programs that may have not had financial coaches or counselors available provided special training on savings outreach to their greeter or intake specialist to engage the people when they entered the site or when they are filling out paperwork in the waiting room prior to having their tax return prepared.

[39] Financial coaching draws from solution-focused therapy, an approach grounded in the idea that clients want to change their financial behaviors, are able to direct the changes they most want to achieve, and can actively work to practice and sustain their achievements. Financial coaches view clients as being self-directed, resourceful, and creative problem solvers. The coach is not there to fix problems for the client, but rather to support clients in making their own decisions about their goals and actions. Consumer Financial Protection Bureau. *Implementing financial coaching: Implications for practitioners* October 2016. https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/102016_cfpb_Implementing_Financial_Coaching_Implications_for_Practitioners.pdf

8. Conclusion

The benefits of having even a small amount of savings include increased resiliency (the ability to bounce back financially), reduced use of high-cost financial services in response to a financial emergency, and reduced household stress. However, many consumers have no savings whatsoever and nearly half of all consumers could not easily come up with even $400 to fund an emergency expense. Tax time represents a unique opportunity for many consumers, particularly consumers with low incomes, to make that important decision by saving all or some of their tax refund.

Given this opportune moment, it is important that VITA programs and other tax assistance providers that target communications for saving utilize effective strategies to help tax filers understand their choices and set and reach savings goals. Our work over the past five years suggests that some high level approaches, which have been empirically tested, include delivering a consistent message about the benefits of saving, encouraging consumers to commit to save before they receive the funds, and using an automated method to have their funds deposited into an account.[40] A number of the practices we have identified in this paper reinforce those approaches. Taking advantage of the tax-time moment to encourage saving for financial goals, and assisting tax filers in following through, can help millions of consumers who may be asset-poor to begin to build wealth and to increase their financial security and resiliency.

To advance toward our long term goal of making savings outreach and education to consumers at tax time available to all and to test and refine promising practices for achieving that goal, the CFPB will continue to collaborate with both VITA programs and commercial tax preparers, as appropriate, in the coming years. We will also work with other government agencies, nonprofit intermediaries and experts in the field to provide tools, resources and training to tax assistance

[40] Sondra Beverly, Daniel Schneider and Peter Tufano; Splitting Tax Refunds and Building Savings: An Empirical Test. 2005. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=814007

providers to help them with their savings initiatives. Finally, we will collaborate with researchers to better understand consumer intent to save and the downstream effects of saving on consumer financial wellbeing.

Appendix I: Participating Organizations

Organization	City	State
Athens-Limestone County RSVP, Incorporated	Athens	AL
Southern Bancorp Community Partners	Little Rock	AR
Pio Decimo Center	Tucson	AZ
Los Angeles County Department of Consumer and Business Affairs	Los Angeles	CA
Tax Aid	San Francisco	CA
United Way California, Capital Region	Sacramento	CA
United Way of the Bay Area	Oakland	CA
United Way of the Wine Country	Santa Rosa	CA
Community Renewal Team	Hartford	CT
Connecticut Association for Human Services (CAHS)	Hartford	CT
LifeBridge Community Services	Bridgeport	CT
Nehemiah Gateway CDC	Wilmington	DE
Catalyst Miami	Miami	FL
Florida Prosperity Partnership	Sanford	FL
Hispanic Unity of Florida	Hollywood	FL
United Way Suncoast	Tampa	FL
Ladder Up	Chicago	IL
Community Action Program, Inc. (CAP) of Western Indiana	Covington	IN
Indiana Association of United Ways	Indianapolis	IN
John Boner Neighborhood Centers	Indianapolis	IN
Capital Area United Way	Baton Rouge	LA
Boston Tax Help Coalition	Boston	MA
Cambridge Economic Opportunity Committee (CEOC)	Cambridge	MA
The Neighborhood Developers - CONNECT	Chelsea	MA
Prince George's Community College	Largo	MD
Prosperity Center of Frederick County	Fredrick	MD
Unity Economic Development Corporation	Suitland	MD
Accounting Aid Society	Detroit	MI
Asset Independence Coalition	Lansing	MI
United Way of Bay County	Bay City	MI
United Way of Washtenaw County (UWWC)	Ann Arbor	MI
Wayne Metropolitan Community Action	Detroit	MI
RDI – Rural Dynamics, Inc.	Great Falls	MT
The Human Resource Development Council District 9	Bozeman	MT
RSVP of Durham County VITA	Durham	NC
United Way of Greater Greensboro	Greensboro	NC

Organization	City	State
Granite United Way	Manchester	NH
Citizen Action of New Jersey (aka New Jersey Citizen Action)	Newark	NJ
United Way of Central Jersey (UWCJ)	Milltown	NJ
United Way of Northern New Jersey	Bridgewater	NJ
Ariva, Inc.	New York	NY
The Upstate Institute	Hamilton	NY
Urban Upbound	Long Island City	NY
Potter's House	Sciotoville	OH
CASH Oregon	Portland	OR
Campaign for Working Families, Inc.	Philadelphia	PA
United Way of Lackawanna & Wayne Counties	Scranton	PA
The Cooperative Ministry	Columbia	SC
United Way of Greenville County	Greenville	SC
Texoma Council of Governments (TCOG)	Sherman	TX
United Way of Greater Houston	Houston	TX
United Way of Metropolitan Dallas	Dallas	TX
United Way of Tarrant County	Fort Worth	TX
United Way of the Coastal Bend	Corpus Cristi	TX
Rappahannock United Way	Fredericksburg	VA
United Way of King County	Seattle	WA
United Way of Kenosha County	Kenosha	WI
West Virginia Alliance for Sustainable Families	Charleston	WV