

Your Money Your Taxes:

Financial Education through Taxpayer Assistance—Penn State Extension's VITA Project

2010 Tax Year Impact

What is VITA

VITA or Volunteer Income Tax Assistance is a program that helps low wage earners complete and file yearly income tax returns at no cost. The program is available in many U. S. communities and military bases. The primary sponsor is the Internal Revenue Service (IRS) and program implementation is highly dependent on local non-profit organizations and community volunteers. VITA programs use the Earned Income Credit (EIC) maximum income limit as the guideline for determining program eligibility. This EIC maximum changes yearly and was \$49,000 for the 2010 tax year.

Why VITA

The U. S. tax code is very complicated and many workers, even those with college degrees throw up their hands in bewilderment when trying to decipher the ever-changing laws with which they must comply. Many will seek assistance from paid tax preparers. As the IRS moves to make e-filing of returns the norm (in 2010 no paper packets were mailed to the one million or so paper filers from 2009), taxpayers with computer skills utilize software packages that essentially asks questions and fills in needed forms based on how questions are answered. However, low wage earners and workers who have a high school diploma or lower educational attainment are more likely to depend on paid preparers or VITA to help them complete tax returns. The IRS provides volunteers access to free online software that assists in the preparation of federal and state income tax returns as well as Pennsylvania's Rent and Property Tax Rebate programs.

The Property Tax/Rent Rebate Program benefits eligible Pennsylvanians age 65 and older, widows and widowers age 50 and older; and people with disabilities age 18 and older. The income limit is \$35,000 a year for homeowners and \$15,000 annually for renters, and half of Social Security income is excluded. The maximum standard rebate is \$650, but supplemental rebates for qualifying homeowners could boost rebates to \$975.

Why Penn State Extension is Involved in VITA Programs

The tax filing process is an opportunity to provide filers with financial education information while helping them comply with federal and state laws. This yearly teachable moment is an ideal opportunity to have a positive impact on individuals and families. Specific program objectives include:

1. Increase taxpayer understanding of federal and state income tax laws.
2. Provide financial education information, as appropriate, for the taxpayers' personal situation to help them maximize income.
3. Provide volunteers with an opportunity to improve their tax knowledge and interaction skills while assisting others (i.e. giving back) in their community.

Who We Reach

The Penn State Extension VITA program was available in five counties. The Elk County based program also provided assistance in Cameron, McKean, and Potter Counties. These counties are located in north central Pennsylvania, bordering the state of New York and have a combined population of 98,800. In short, these are very rural counties. Centre County, population 144,306, is the base for the second program that is on the campus of The Pennsylvania State University. Although in a more heavily populated area, according to the Center for Rural Pennsylvania, Centre County is among the 48 counties classified as rural. Pennsylvania has 67 counties.

VITA Participants at a Glance

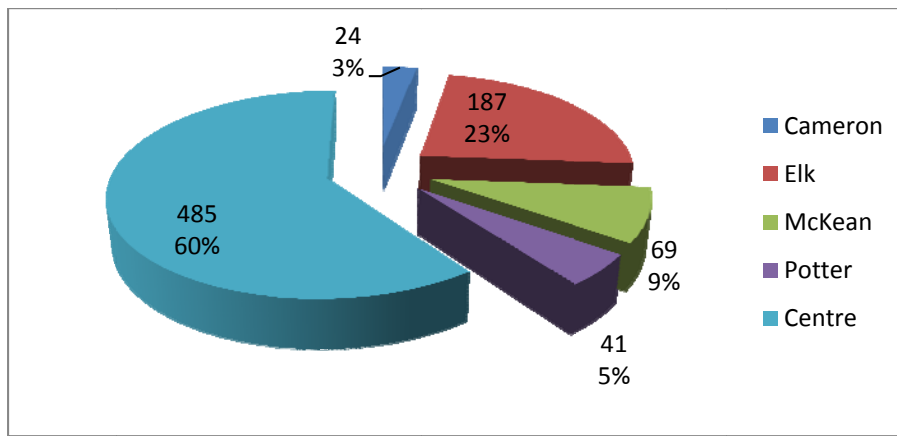


Figure 1. Tax Filers by County—Federal and/or State Only (N=806)

Table 1. Filing Status—Federal Returns Only

	Elk & Others	Centre	TOTALS
Married, filing jointly	82	70	152
Married, filing separately	5	6	11
Single	206	363	569
Head of Household	30	32	62
Totals	323	471	794
Number of primary filers age 60 and over	172	33	205

Table 2. Total Economic Impact by Type of Refund , Tax Credits and State Tax Programs

	Elk & Other	Centre	Grand Total
Total Federal Tax Refund ¹	\$284,359	\$606,161	\$890,520
PA State Refund	\$18,795	\$31,614	\$50,409
PA Rent/Property Rebate	140 = \$58,516	3—\$ not recorded	\$58,516
Total of NON PA State Refunds	N/A	\$8,337	\$8,337
Estimated filing fee VITA saved filers ²	323 @ \$190.00= \$61,370	471 @ \$190.00= \$89,490	\$150,860
Earned Income Credit ³	(\$87,044)	(\$132,000)	\$219,044
Child Tax Credit ³	(\$8,285)	(\$17,495)	\$25,780
Education Credits ³	(\$13,820)	(\$62,200)	\$76,020

Table 3. Selected State Return Data

	Elk & Other	Centre	Grand Total
Number of NON PA returns completed	3	100	103
Number of different state returns	2 ⁴	34 ⁵	34

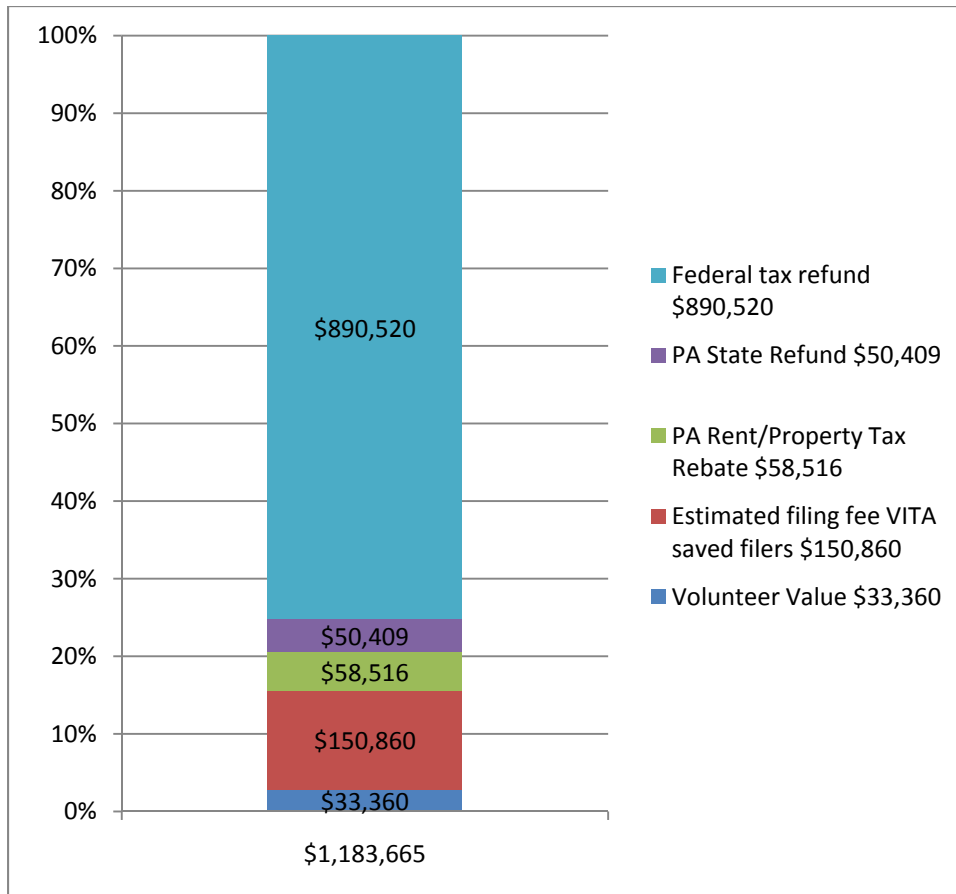


Figure 2. VITA Economic Impact by Key Areas

Table 4. Data Related to Returns Not Filed Electronically

	Elk & Other	Centre	Total
Number of Paper Returns	n/a	10	103
Paper Return Federal Refund Amount	n/a	\$32,906	\$32,806
Paper Return PA Refund Amount	n/a	\$380	\$380
Filers assisted with phone filing	6	n/a	

Community Collaborators and Volunteers.

The Elk County based program partners with CareerLinks in Cameron, Potter and McKean Counties, the Johnsonburg Senior Center and the Community Education Council of Elk and Cameron Counties. These agencies serve as host sites across the four-county area. CareerLink is Pennsylvanian’s one stop service for job skill development, job search services, unemployment information and social services.

The Centre County program is sighted on the campus of Penn State University. VITA volunteers participate in training on tax law and must pass a series of three levels of competency exams to meet IRS certification requirements. Of note, this is the first year the IRS mandated certification of paid preparers who previously had no certification requirements. Elk County based volunteers included a stay-at-home mom and three retirees while the Centre County program relies heavily on student volunteers from the Smeal College of Business accounting program and law students from the Dickinson School of Law. In addition to providing a community service, student volunteers hone their professional skills and get experience applying or practicing concepts discussed in their classes. A few comments from volunteers are below.

“Thank you for allowing me to participate in this program. It has been a rewarding and educational experience for me and I look forward to volunteering next year.”

“I’m so glad you opened it up to the accounting students this year. I wish I could have worked at the VITA site during more filing seasons. Thank you very much for the opportunity to work here. I learned a lot and had a great time helping out members of our community.”

“This was a great experience for me and reaffirmed my decision to want to practice law in a setting where I work with people and not papers.”

“I truly enjoyed my three year experience with the VITA program as a volunteer. It has been very fulfilling as both a preparer and supervisor. I look forward to working with other sites in the future. Also as 3rd Cir. Lt. Gov. of VITA our model has been used to help others start up and improve their own sites - I thought you should know.”

Table 5. VITA Volunteers

	Elk & Others	Centre	Total
Number of volunteers	4	46	50
Number of hours donated	500	1100	1600
Value of each donated hours ⁶	\$20.85	\$20.85	
Total value of donated time	\$10,425	\$22,935	\$33,360

Teaching Opportunities Created During Income Tax Assistance

Due to the complexity of the tax code, each taxpayer’s situation provides unique opportunities to provide education regarding their specific situation. Following are examples of information provided:

- Does taxpayer have a filing requirement?
- How filing status and number of exemptions impact amount of taxable income
- Marginal income tax brackets
- Various tax credits such as child, additional child, earned income, education, child and dependent care, adoption, and retirement savers.
- Pennsylvania income tax forgiveness and rent and property tax eligibility requirements.
- How changes in marital status, types and sources of income, advancing age of children and taxpayers will impact their next year's tax liability
- Suggested best uses of income tax refunds
- Explanation of how refunds are calculated and how overwithholding contributes to reduced income throughout the year and creates a windfall at tax filing time.
- Benefits of using direct deposit for refunds
- Obtaining a free credit report annual and checking it for accuracy.

Additional Facts from the 2010 and 2009 Centre County Filers

The following details are based on filers who completed an optional survey at the Centre County Penn State Cooperative Extension VITA site.

Table 6. Additional Centre County VITA Facts

	2009 TY (N=267)	2010 TY N=473)
Item	%	%
Filers using PSU VITA previous tax year.	41.2	31.7
Plan to pay current bills with refund	46.0	43.5
Plan to save money for general use	23.0	27.8
No relationship with Penn State (student, employee, alumni)	43.3	23.5
First time using a Penn State Extension Program	54.5	62.9%
Rated ability to manage money as excellent	16.9	16.3
Rated ability to manage money as good	49.8	56.6
Financial topic interested in learning more-1 st choice Investing Basics	26.0	32.9
Financial topic interested in learning more-2 nd choice Budgeting/Spending Plans	25.2	25.9

Notes

¹Data from IRS Summary of Accepted Returns—e-filed returns only

²<http://taxes.about.com/od/findataxpreparer/a/prices.htm> (Avg. for chain H&R Block in 2010. Low income earners will likely use a nationally advertised chain vs. a private accountant they have to do additional searching to identify.)

(<http://www.fivecentnickel.com/2010/04/13/how-much-does-tax-preparation-cost-2/>)

³Included in the Total Federal Tax Refund

⁴States=NY and VA

⁵States =AZ, CA, CO, CT, DC, GA, HI, IA, ID, IL, IN, KY, LA, MA, MD, ME, MI, MN, MO, MS, NC, NH, NJ, NM, NY, OH, OK, OR, RI, SC, UT, VA, VT WI

⁶Source: 2009 figures http://w.independentsector.org/volunteer_time