MONEY UP

# MAKING ENDS MEET: POLICY AND RESEARCH HIGHLIGHTS FROM THE MONEYUP INITIATIVE

One of a series of field reports from United Way of New York City's MoneyUP Initiative
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## What can MoneyUP offer policy makers and researchers? What opportunities exist for promoting financial development security at scale?

Income-smoothing, peer-led savings, and accessing tax credits are all strategies that improve working poor families' financial stability and facilitate financial mobility. Tools exist, but are not nearly widely known enough, or understood. Connecting what we are learning on the ground to policy and research efforts has the capacity to create impact, not only for the over 3,000 people who filed their taxes, but also at a systems level.

## INCOME-SMOOTHING & THE AEITC

The Advance Earned Income Tax Credit (AEITC) is an IRS program that allows tax filers to receive part of their Earned Income Tax Credit (EITC) in their paychecks throughout the year. For example, a parent with children earning $11.00/hour brings home about $1,665 every month. With the AEITC, that parent could bring home over $1,700, giving her a better shot at making ends meet. That same parent would still receive approximately $3,600 when she filed her taxes. The AEITC can help correct routine, small budget shortfalls that drive working-poor people to fringe credit services like short-term payday-type loans, pawnshop loans, and cash advances on credit cards. Most critically, the AEITC acknowledges that poverty is a year-round condition, and not simply alleviated on a once-a-year balance sheet.

However, despite its promise to smooth income by paying for necessities at the time of the demand rather than once a year, not one MoneyUP filer was currently using the AEITC and only 14 percent of the tax filers we served said they had ever heard of it. This data reflects national uptake rates in the single digits—making the AEITC one of the most underutilized work supports.

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Our experiences with our customers struggling to make ends meet suggests that there is a major opportunity for a wide-scale marketing and educational campaign that could inform EITC-eligible filers about the AEITC with the goal of increasing usage. Moreover, as the nation weighs strategies to help working poor families cope with the recession, it is likely that additional tax credits will be among them. We strongly suggest policy makers consider an automatic AEITC—with an opt-out feature for families who have already successfully claimed the EITC—thereby providing tens of thousands of low-income families an immediate boost to their paycheck.

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## PEER-LED SAVINGS

In serving thousands of New Yorkers since the Clinic's start, we have learned that amassing savings is critical to working poor families' ability to weather financial stressors. Banks and credit unions play an essential role in savings, but we have found that many people do not use banks for a variety of reasons, including fear, insufficient documentation, and lack of transparent services and products that meet our customers' needs.

In the communities we serve, there is an alternative method of savings common among different cultural groups but referenced by many different naming conventions. "Susu," "sociedad," "kye," and "djanggis," all refer to the same cultural practice: peer lending and savings circles.

Of MoneyUP's 1,560 tax filers during the 2009 tax season, 31 people (about 2%) said they were currently in a peer lending or savings circle. This group of tax filers are more financially secure as our research demonstrated that they were more likely to have bank accounts (16%, and 18% more likely to have both a checking and savings accounts). In addition, 23 percent of peer savers reported saving a portion of their last year's refund compared to 13 percent of the total surveyed. Not surprising, peer savers were more interested in using exploring savings strategies: they were more likely to want to learn more about splitting their refund into checking and savings accounts (42% against 24% of all other tax filers), more likely to purchase savings bonds with their tax refunds (39% against 24% of all other tax filers) and more likely to want to learn more about the retirement savers tax credit (42% against 29% of all other tax filers).

Despite these promising data, we don't know whether peer savers are more financially secure because they are members of such a circle, or do they join a circle because they are more financially secure. So much more needs to be understood about peer lending and savings practices if we are to support their efforts.

## ACCESSING TAX CREDITS FOR CASH EARNERS

Many working poor people's earnings are cash-based, representing a wide-spectrum of employment situations, from self-employed micro-entrepreneurs to involuntary cash earners. Cash earners are often involuntary by circumstance: they are employed "off the books" and in the "underground" economy, or their employers refuse to document their earnings with a W-2 or 1099-Misc IRS forms.

Meanwhile, the EITC plays a critical role in helping these families make meet: In 2002, members of 4.4 million self-employed households qualified for the Earned Income Tax Credit (EITC). Of those, 2.4 million taxpaying households have no W-2 income and are dependent on cash income.

Unfortunately, a growing number of cash earners in New York are not able to access the state and city versions of the EITC. New York State's Department of Taxation and Finance (NYSDTF) regularly demands that low-income tax filers with cash income—many of them child care providers, house cleaners, restaurant wait staff, and home health aides—to document their "business income" with "books, records and ledgers." However, due to the informal or involuntary nature of the cash-earning work, many do not keep "business records," and bank records are often not possible or practical. NYSDTF's policy has dramatically reduced the intended impact of the EITC by preventing many workers from being able to access the tax credit.

We recommend that NYSDTF suspend these audits in light of their impact on working poor New Yorkers. At the very least, NYSDFT should implement a one-time pass, similar to the IRS's policy of allowing tax filers who have mistakenly under-reported their income a one-time pass by not assessing penalties or interest, giving tax filers an opportunity to start documenting their income. Dovetailing this effort, NYSDTF should lead an educational campaign that helps cash earners understand their record-keeping responsibilities. These efforts would go a long way to ameliorate the wealth-draining impact of state's stepped-up review process.

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