

Family Living Programs

Free Tax Service Nets Refunds for Low-wage Workers

Situation

Financial management is challenging for many families and individuals across all income levels. The need for financial education is well documented by researchers, educators and employers. In Dane County, observations of the University of Wisconsin-Extension Family Living Advisory Committee reinforced this research. Many Dane County households have more than one worker bringing home a paycheck but their wages are not enough to meet basic needs. Census data for South Madison indicate that 37 percent of families spend more than 35 percent of their income for housing. Housing expenses may take as much as 60 percent of household income, leaving little to cover other essential expenses. It is critical that these families are connected to the resources for which they are eligible such as Earned Income Tax Credit, Food Stamps and Badger Care.

Many families, no matter the income level, live from paycheck to paycheck. Uncertain income, high debt levels and lack of financial literacy contribute to financial vulnerability. Bankruptcy rates continue to rise as many families and individuals lack a basic understanding of how to build a good credit record or develop a spending and savings plan. Preparing income taxes can be frustrating, and for low-income families and individuals it can pose a significant obstacle. In fact, many taxpayers who are entitled to refunds don't even file for the tax credits due to them. And, many families simply cannot afford professional tax preparation services.

Response

There are several Volunteer Income Tax Assistance (VITA) sites in Wisconsin, located in schools, community centers or public libraries. Volunteers trained by the Internal Revenue Service (IRS) and the Wisconsin Department of Revenue prepare basic income-tax returns, and many sites offer free electronic filing. This free, confidential tax assistance makes tax time easier for low-wage workers, older adults and persons with disabilities. Many who seek help discover that they are eligible for federal or state tax credits, such as the Earned Income Tax Credit (EITC) or the Homestead Credit.

In 2006, the VITA Partnership Project in South Madison, a UW-Extension partnership, completed the fifth year of providing free income tax preparation assistance. Dane County Cooperative Extension educators work closely on this initiative with a diverse team of partners that includes the IRS, Wisconsin Department of Revenue, AARP Tax Counseling for the Elderly Program (TCE), UW-Madison, Centro Hispano and the United Refugee Service.

Pat Ludeman, UW-Extension Dane County Family Living Educator was instrumental in establishing the South Madison VITA partnership and site in 2002. The project's success depends on trained community volunteers, including Department of Revenue staff, retired Certified Public Accountants and UW-Madison students. About a third of the volunteers are accounting, law and consumer science students at UW-Madison, where the Morgridge Center for Public Service plays a key role, as well as the Financial Occupations Club for University Students (FOCUS) in the School of Human Ecology. The partnership is unique in its strong university service-learning component. In 2005, volunteers also connected people to food stamps and other services through Access, the state pre-screening tool.

UW-Extension Dane County established a new Financial Education Center at the Villager Mall in Madison to provide low- to moderate-income families with a one-stop shop for financial information, classes and services. The Villager Mall also houses several community agencies that provide services to families, including the Campus Community Partnership, which brings together resources from UW-Madison, UW-Extension Dane County, Edgewood College and Madison Area Technical College. The Center hosts the VITA project and serves as a resource/referral for other services and programs.

The VITA project's goal is to empower all low-income working families to get the credits and deductions for which they are eligible, which in turn promotes their ability to save and manage their money. At VITA sites throughout Wisconsin, these efforts are paying off in very real terms for individuals, families and communities.

Outcomes

Each year, volunteers at the South Madison VITA Partnership Project assist thousands of low-income taxpayers with free tax preparation. The tax returns are filed electronically, so refunds are returned quickly, therefore providing an alternative to costly predatory practices. Collectively, an estimated \$20 million in federal and state tax refunds has been received in Dane County in the five years since the project began. The refunds bring money into low-income households and create a boost to the Dane County economy. A tax refund also provides the potential to start a savings account and a relationship with a financial institution.

Each year of the Dane County VITA project has resulted in increasing numbers of tax returns filed. In the five years of the project, a total of 16,500 returns were filed from the VITA site. Of the South Madison taxpayers who participated:

- 55% reported income under \$20,000; only 6% reported an income of more than \$40,000
- 63.4% said they plan to use their tax refund to keep up on bills
- 33.8% said they are currently saving money in some sort of account, including retirement accounts

The Financial Education Center opened in fall of 2005 when Debra Neubauer was hired as the Center Administrator. The center has served over 500 people since opening, through classes, individual appointments and off-site instruction. Neubauer and Ludeman are strengthening partnerships with several agencies, including The Wisconsin Women's Business Initiative (WWBIC), United Way and other partners to provide educational programs at the center. The Financial Educator Network was established to complement the Center in a referral capacity. Network meetings provide for information sharing and updates among local professionals, increased referrals and cooperation between programs, and opportunities to work together on projects. Ludeman and Neubauer facilitate and provide support for the VITA Partnership, the Financial Educator Network and the Advisory Committee as well as leadership for the Financial Education Center.

All clients who participate in classes and workshops at the Financial Education Center are asked to give feedback about their experience. Over 90 percent rated the class content and presentation as excellent. Clients highlighted the benefits in their comments:

"I like hearing what other folks do to save money. The resources provided are very useful."

“My biggest need is budgeting and getting my bills in order. I really feel I got a lot out of the class...it opened my eyes to a lot.”

“I feel more knowledgeable, more confident and capable of taking charge of my financial future.”

“Before, I thought my money situation was hopeless. Now, I can see that small changes can make a big difference.”

Contact

Pat Ludeman
Dane County Family Living Educator
Family Living Programs, University of Wisconsin Extension
608-224-3708
pat.ludeman@ces.uwex.edu