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LIVE UNITED United Way

United Way of Metropolitan Atlanta

Tax & public policy reform in Georgia: ***Individual Development Accounts, Asset Development and Earned Income Tax Credits***

About Individual Development Accounts

Individual Development Accounts (IDAs) are matched saving plans for low income individuals and families. Like 401(k) plans in which an employer matches an employee's contributions, IDAs encourage savings by offering a match on deposits. These savings can be used only for a home purchase, a post-secondary education, a small business or similar investment such as a vehicle or assistive technologies that allow people with disabilities to remain in the community. IDAs promote financial literacy, savings and assets and help low income families enter the financial mainstream.

The concept of IDAs was pioneered in the late 1980s by Washington University (St. Louis) Professor Michael Sherraden,[i] recognized by *Time* magazine in 2010 among the world's 100 most influential people for his work.[ii] Although the notion of an "ownership society" as national policy had not yet been articulated, the trend towards consumer driven initiatives was well underway with 401 (k)s, 403 (b)s, IRAs and individual educational, training and medical savings accounts. While the nation debated welfare reform, Sherraden reasoned that the same consumerist approach could be effective in lifting low income Americans out of poverty too.

Sherraden found receptive ears in the administrations of President George H.W. Bush and of President Bill Clinton.[iii] As HUD Secretary, Jack Kemp implemented a Family Self Sufficiency program in federally subsidized housing that allowed residents to invest the difference in rental increases required when their income grew. The entire escrow account became available upon "graduating" from assisted housing. President George H. W. Bush proposed lifting the asset limitation required for welfare assistance from $1,000 to $10,000 in order to promote savings.

Other tools soon fell into place. However, it remains to states in collaboration with community based agencies and financial institutions to leverage these for maximum impact.

The **Community Development Financial Institutions** (CDFI) **fund** was established by the Community Development and Regulatory Improvement Act of 1994. Administered by the U.S. Dept. of Treasury, tax credits and grants are made available to qualifying financial institutions and intermediary agencies. These underwrite a range of initiatives aimed at building the capacity of low income communities, including IDA accounts.[iv] Financial institutions subject to review under the **Community Reinvestment Act** can also get credit for offering or participating in IDA programs.[v]

IDAs were a featured component of the Personal Responsibility and Work Opportunity Act of 1996 which replaced the entitlement-based Aid to Families with Dependent Children program with time limited **Temporary Assistance for Needy Families** (TANF). States are authorized to use TANF block grants as matching dollars for IDA accounts, IDAs do not count against TANF time limits and assets held in an IDA account are not counted in determining families' eligibility for other federal means-tested programs.[vi]

The federal **Assets for Independence Act of 1998** further strengthened IDAs. The U.S. Dept. of Health & Human Services awards grants to nonprofit, faith based and public agencies to match contributions to IDA account as well as for financial literacy, credit repair and tax preparation. Individuals and families with income up to 200 percent of the federal poverty guideline, eligible for TANF or eligible for the federal **Earned Income Tax Credit** (EITC) can participate.[vii]

The EITC is central to families' ability to invest in an IDAs since most receive the refundable credit in a lump sum. Up to 57 percent plan to save at least some of their refund, but follow through often depends on financial education.[viii] Without robust **IRS Volunteer Income Tax Assistance**[ix] programs and accessible IDA plans, many filers succumb to the lure of Refund Anticipation Loans (RALS) often marketed by tax preparers. The Federal Reserve Bank of Minneapolis estimates that RALs cost each EITC filer over $300 in fees, about 12 percent the average refund in that metro area.[x]

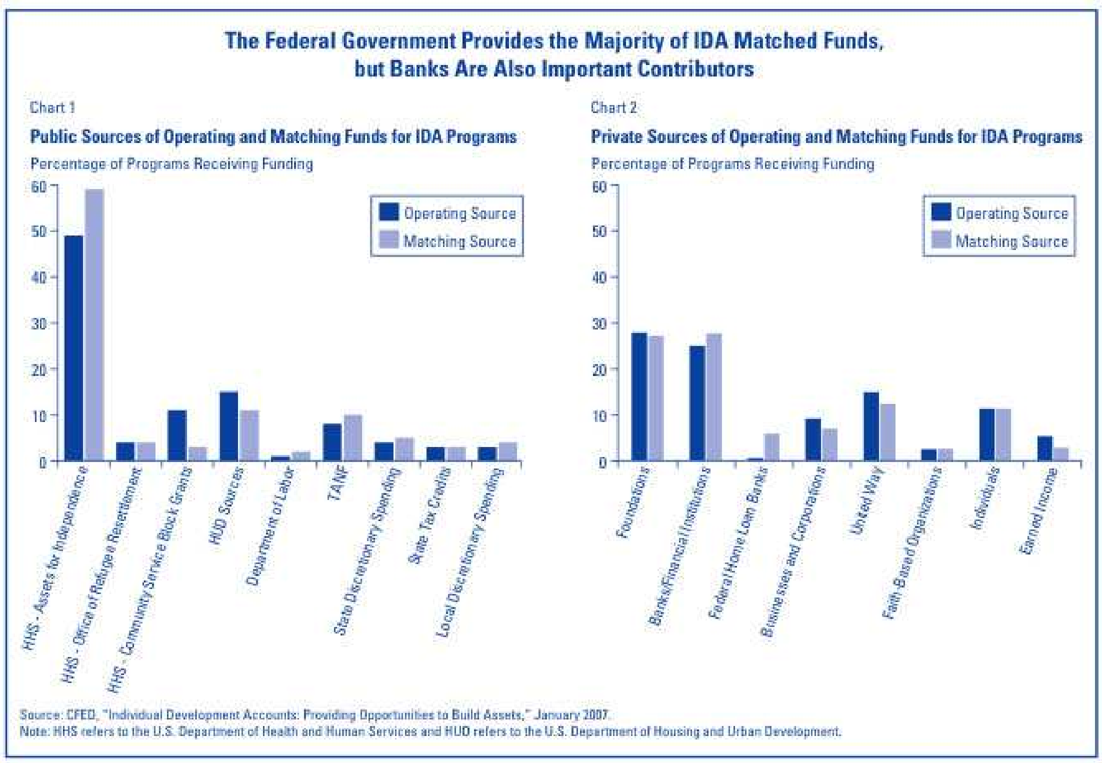
Individual Development Accounts: Do they work?

While smaller and more recent studies confirm a stronger relationship between IDAs and asset development, [xi] the **American Dream Demonstration,** is the largest. Conducted by the Center for Social Development and CFED, it documents findings across multiple dimensions among very low income families (about 130 percent of poverty) from 1997-2002. [xii] For example:

- One in five IDA participants was unbanked when joining the program.
- About 50 percent of participants were "savers"; that is, they not only opened accounts but made periodic deposits of at least $100.
- The average time of participation in IDAs was 24.5 months.
- With matched funds, the average participant had accumulated a total of $2,755.
- Approximately one-third of the participants had made a matched withdrawal for a home purchase or repair, post-secondary education or to start a small business.

Factors contributing to successful IDA Initiatives:

Strong state leadership: a state level "steward" able to forge collaborations with community based agencies and financial institutions as well as to leverage a diversity of public and private fund sources to make IDAs and Volunteer Income Tax Assistance (VITA) partnerships more widely available is essential. The chart below demonstrates why this is important.



Electronic filing and fund transfers make it easier for EITC filers to become savers. The IRS offers filers an option to "split" refundable credits and other tax refunds. Electronic fund transfers of such refunds open opportunities to engage financial institutions with VITA partnerships for IDA savings plans. VITA programs can also offer the opportunity for on-line filing of tax returns at sites such as libraries, colleges and schools, and One-Stop career centers. Doing so increases filers' financial management skill and mitigates the appeal of costly Refund Anticipation Loans.

Individual Development Accounts in the States

To date, 41 states have enacted or administratively created state IDA programs, although not all of these are currently active. In fiscal year 2009, some 21 states funded an IDA program through a budget appropriation. However, only 14 utilize state general funds and/or state tax credits to contributors of IDA matching dollars. [xiii] Most states rely upon federal dollars with which private resources may be leveraged.

Georgia is not among the states with a comprehensive asset building initiative and it could benefit by adapting from others'. In a comparison of the states and the District of Columbia, Georgia ranks as follows for 2009-2010: [xiv]

- **Asset poverty**, **35th lowest** One fourth of Georgia households do not have sufficient net worth to subsist at poverty level for three months in the absence of income**.**
- **Extreme asset poverty, 34th lowest** Over 15 percent of Georgia households have zero to negative net worth.
- **Unbanked households, 47th lowest** Nearly half of Georgia households do not have a checking, savings or money market account.
- **Consumer bankruptcy, 50th lowest** More than 5 per thousand Georgians file for bankruptcy.

United Way Metropolitan Atlanta has offered IDAs since 2000. Among those using their investment for a home purchase, there have been no foreclosures. One hundred families become new homeowners this year alone. Since 2007, United Way Metropolitan Atlanta has worked in partnership with the Atlanta Prosperity Campaign[xv] to offer VITA sites in collaboration with the IRS. United Way's corporate partners like IBM and Dell have provided laptops and printers to meet increased demand for help.

Local VITA volunteers have added benefit screenings along with financial literacy to their suite of services and local financial institutions have stepped up to offer clients their first checking or savings accounts. As a result of this work, more than 80,000 working families leveraged an estimated $17 million in Earned Income Tax Credit refunds.

North Carolina's IDA and Asset Building Collaborative [xvi]

One of the states to which Georgia is often compared is North Carolina. Rather than administer a statewide IDA program via a single state agency as some states have done, the North Carolina effort is a broad-based collaboration among leading institutions in the state's community and economic development network as well as state government, affordable housing groups and community development financial institutions. In addition, North Carolina offers a modest state Earned Income Tax Credit.

Today, the North Carolina IDA Collaborative is one of the nation's largest and most successful statewide IDA initiatives. Formed as working group in 1996, the North Carolina IDA Collaborative secured a $600,000 appropriation the following year from the General Assembly through the state Dept. of Labor for a demonstration project. In addition, the Division of Community Assistance allocated funds from the Small Cities Community Development Block Grant for a homeownership IDA demonstration. Operating support was also secured through foundations.

The North Carolina IDA Collaborative expanded through federal Assets for Independence Act grants, TANF funds for IDA match, as well as dollars from the North Carolina Housing Finance agency and in-kind support from other partners. In 2002, as a state network with almost 700 active accounts and 25 program sites, the North Carolina IDA Collaborative established itself as a formal, non-profit organization. Between 1999 and 2008, graduates of the North Carolina IDA program made an estimated $44,012,079 investment in 483 homes, 34 businesses and 31 educational pursuits.

The IDA Collaborative of North Carolina, the Office of the State Treasurer, the North Carolina Cooperative Extension, the North Carolina Bankers Association, and the United Way of North Carolina are also working together to promote a ***North Carolina Saves*** campaign that encourages residents to establish a savings goal and open a savings account at a financial institution as a means to reach it. Through the *North Carolina Saves* web portal, users can enroll in free or low cost financial products, receive financial counseling and develop plans to pay off debt and build savings. [xvii]

State	State EITC (as % of Federal)	State EITC Refundable?	State IDA program
Arkansas	No	n/a	Yes
Colorado	10%	Yes	No
Connecticut	No	n/a	Yes
Delaware	20%	No	No
Hawaii	No	n/a	Yes
Illinois	5%	Yes	Yes
Indiana	9%	Yes	Yes
Iowa	7%	Yes	Yes
Kansas	17%	Yes	Yes
Louisiana	3.5%	Yes	Yes
Maine	5%	No	Yes
Maryland	25% or 50%	Yes for 25% credit	No
Massachusetts	15%	Yes	Yes
Michigan	20%	Yes	Yes
Minnesota	Up to 45% for families; 25% for childless workers	Yes	Yes
Missouri	No	n/a	Yes
Nebraska	10%	Yes	No
New Jersey	25%	Yes	No
New Mexico	10%	Yes	Yes
New York	30%	Yes	No
North Carolina	5%	Yes	Yes
North Dakota	No	n/a	Yes
Ohio	No	n/a	Yes
Oklahoma	5%	Yes	No
Oregon	6%	Yes	Yes
Rhode Island	25%	Yes	No
Utah	No	n/a	Yes
Vermont	32%	Yes	Yes
Virginia	20%	No	Yes
Washington	The greater of 10% or $50	Yes	No
Wisconsin	Up to 43%	Yes	No

[i] Assets and the Poor: A New American Welfare Policy, Sherraden, published by M.E. Sharpe Inc., copyright 1991
[ii] Time Magazine Annual list of 100 that most influence our world, April 29, 2010
[iii] From Research to Policy: Lessons from Individual Development Accounts, Sherraden, Journal of Consumer Affairs, Winter 2000
[iv] Community Development Financial Institutions Fund, U.S. Dept of Treasury
[v] Reaching New Bank Customers through the Earned Income Tax Credit, Comptroller of the Currency, Administrator of National Banks, U.S. Dept of Treasury, March 2009
[vi] TANF FAQs, Administration for Children & Families, U.S. Dept. of Health & Human Services
[vii] Assets for Independence, Administration for Children & Families, U.S. Dept of Health & Human Services
[viii] The Role of Earned Income Tax Credit in the Budgets of Low-income Families, National Poverty Center Working Paper Series, June 2010
[ix] VITA Fact Sheet, National Community Tax Coalition 2010
[x] Strengthening the Earned Income Tax Credit, Alternatives to refund anticipation loans, Federal Reserve Bank of Minneapolis, 2009
[xi] Individual Development Accounts and Banks: A Solid "Match", FDIC Quarterly, last updated 9/13/2010
[xii] IDAs and Asset-Building Policy: Lessons and Directions, Washington University, St. Louis 2008
[xiii] State IDA Program Support, 2009-2010 Assets & Opportunities Scorecard, CFED and Center for Social Development, Washington University St. Louis,
[xiv] 2009-2010 Assets & Opportunities Scorecard, Georgia CFED (formerly Corporation for Enterprise Development)
[xv] Atlanta Prosperity Campaign
[xvi] IDA and Asset Building Collaborative of North Carolina and State IDA Program Support, 2009-2010 Assets & Opportunities Scorecard, CFED
[xvii] North Carolina Saves