# The San Francisco Working Families Credit: Analysis of Program Applicants

A Report to SFWorks and the City of San Francisco

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# Analysis of Program Applicants

This report analyzes the characteristics of applicants to the innovative San Francisco Working Families Credit (WFC) program in 2004. The WFC was first offered in Tax Year 2004 to families living in San Francisco. It augmented the Federal Earned Income Tax Credit for certain families, on average delivering approximately $220 per filer, which was distributed in late summer of 2005. Approximately half of the 11,000 WFC applicants filled out a brief survey questionnaire, which we analyze here to determine the characteristics of these applicants with respect to their ethnicity, income, banking status and tax preparation method. In addition to describing the population of applicants, we make suggestions for future implementations of the WFC, including advice regarding (a) increasing take-up; (b) reaching the unbanked; (c) supporting savings behavior; (d) improving future research on the WFC.

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**1.0 Introduction and Executive Summary:**

The Earned Income Tax Credit (EITC) is one of the largest income support programs provided by the Federal government. Each year, it distributes approximately $35 billion to eligible low income families, who on average receive tax refunds of $1,775 per year from the program (IRS 2003). Some states and communities have chosen to augment the federal program by providing some or all EITC recipients with additional funds. In total, 19 states have their own Earned Income Tax Credits, 15 of which are refundable (Nagel and Johnson 2006). Local credits are far less common: to our knowledge, only Denver, Montgomery County, Washington D.C., and New York City have offered a local EITC, in 2002 (Nevel 2002; Holt 2006).

In 2005, the City of San Francisco, private-sector firms, and non-profit groups collaborated to offer additional EITC funds to San Francisco families, in a program that would become the "Working Families Credit" (WFC). Briefly, of the approximately 21,500 EITC filers with children eligible for the WFC, approximately 11,000 participated in the WFC. Of these, about half filled out surveys that provided limited amounts of information. Applicants received funds equal to 10% of their Federal EITCs, averaging $220.

A companion analysis (Flacke and Wertheim 2006) describes the history and operations of the WFC program. In this piece we analyze the reported characteristics of WFC families, relying exclusively on self-reported information provided by survey participants. Our goal is two-fold. First, our analyses describe WFC applicants and inform a set of recommendations about how to improve the WFC in future years. Second, we use the WFC data as a lens to focus on a population of working poor families in California and to engage with current policy issues of relevance to low-income families. We do not analyze tax return information, information on

non-participants, or follow up survey information, but nevertheless are able to characterize WFC participants and offer findings in five key areas:

- Approximately 50% of eligible filers (about 11,000 of 22,000) claimed the WFC. These filers were more likely to use paid or free tax preparers and to be Asian or Hispanic. Outreach strategies that focused on self-preparers might increase take-up.
- While more than 11,000 individuals claimed the WFC, there is little evidence to suggest that the WFC increased EITC take-up in this first year of the program. Comparing measures of EITC claims in San Francisco, Berkeley, and Oakland over the past several years reveals no appreciable change in trends at the time of WFC implementation.
- 18% of WFC applicants were unbanked. Banking outreach would reach the largest shares of these individuals if undertaken through H&R Block (which served approximately three-quarters of the unbanked) and in certain neighborhoods.
- 10% of WFC applicants planned to save a portion of their credits. These individuals were more likely to be H&R Block clients, suggesting that savings support programs could find a receptive audience at Block offices. However, a majority of clients did not plan to save, and instead had earmarked their WFC funds for bill payment or spending. These purposes should be supported also, perhaps by facilitating the repayment of costly debt or securing discounts on certain products for WFC recipients. Given that nearly half of applicants prepared their taxes with commercial preparers other than H&R Block, the provision of these services could appropriately be focused on those providers.
- In order to offer firmer conclusions about the WFC, additional data collection and analysis would be necessary. Future research on the WFC could be enhanced by (a) augmenting the survey instrument; (b) linking the survey instrument to tax data; (c) collecting data on non-

participants; and (d) collecting post-program data to provide some information on program impact.

## 2.0 Methodology:

In this report we offer a quantitative description of the Working Families Credit (WFC) applicant population. The bulk of our analysis is based on approximately 5,500 surveys collected from WFC applicants. We use this data to characterize WFC applicants as well as to analyze opportunities for WFC outreach and for providing WFC applicants with companion services (such as savings accounts).

We begin, in sections 3.1 and 3.2, by detailing the survey methodology including a basic overview of the survey data and discussion of possible response bias. Next, in section 3.3, we briefly describe our analysis of IRS data on EITC claims in the Bay Area over the past several years. In section 3.4 we use Census data to compare WFC applicants to the total WFC eligible population. In brief, we find that applicants resemble all eligible individuals in terms of income distribution but that Asians and Hispanic/Latinos posted much higher claim rates than Whites or African Americans.

In section 3.5 we describe the banking relationships of WFC applicants and characterize the unbanked demographically and financially. In general, the San Francisco unbanked appear to be similar to the unbanked nationally. They are more likely than the banked to be African American or Hispanic/Latino and to have lower incomes. Next, in section 3.6, we review the data on WFC planned refund uses and compare across tax preparation channels and applicant characteristics. While about 10% planned to save or invest a portion of their refunds, the overwhelming majority planned to spend their funds or pay bills. In section 3.7, we discuss

demographic and financial differences between WFC applicants who used different tax preparation methods. We find that while there was relatively little variation in income, there were pronounced ethnic differences with African American applicants far more likely to use H&R Block and Chinese respondents more likely to use non-Block commercial preparers. Finally, in section 4, we conclude.

## 3.0 Analysis and Findings:

In total, approximately 11,000 individuals applied for the WFC in 2005. All applicants were asked to complete a brief survey which included demographic and financial questions as well as a set of survey items specific to the WFC and tax preparation. The precise question text as well as response rates are described in **Table 3.0.1**. The survey did not contain certain key variables, such as age, gender, marital status, education, and wealth, but we use the available information to sketch a demographic and economic portrait of survey respondents.

### *3.1 Survey Response Bias:*

About 5,500 WFC applicants completed the survey, a response rate of 50%. We do not know if the WFC applicants who responded to the survey are representative of all WFC applicants. It is possible that applicants choosing to complete the survey differed from those not completing the survey. For instance, perhaps lower-income individuals or individuals completing their tax returns without professional assistance were less likely to complete the

survey.[1] Skewed responses of that type would bias the surveys, making them unrepresentative of the general WFC applicant population.

Because by definition we have no information on WFC applicants who chose not to complete the survey, we cannot test for significant response differences (and thus the presence of bias). Thus, we must not draw overly broad inferences from the WFC survey data. The data presented below is best understood to be representative only of the 5,500 individuals completing the survey. It may be representative of all WFC respondents, but we do not know if that is the case nor if the survey respondents are representative of all WFC eligible households or all LMI San Francisco families.[2]

*3.2 Descriptive Statistics:*

The WFC eligibility requirements ensure some similarities between all WFC recipients (presumably the applicants we survey generally resemble recipients). Eligibility for the WFC was pegged to the guidelines for the national Earned Income Tax Credit (EITC) which imposed a maximum income limit of $35,458 in TY 2004 (this ceiling varied depending on marital status and number of dependents). WFC rules further required that applicants had at least one dependent child and resided in San Francisco.

However, survey respondents are a varied group in terms of demographic profile, financial situation, and tax behavior. **Table 3.2.1** presents these results. WFC survey respondents were ethnically diverse. The majority of respondents reported their ethnicity as Chinese (52%) with smaller shares reporting being African American (20%), Hispanic/Latino

[1] There is evidence to suggest that the latter of these did in fact occur. H&R Block reports preparing 2,424 WFC applications in total, representing 22% of all applications. However, 27% of survey respondents report going to Block for tax preparation assistance. This suggests that Block clients are over-represented in the survey data.
[2] We define "low- to moderate-income" families as those with annual household incomes of less than $30,000.

(10%), or another Asian ethnicity (7%). About 10% of respondents reported being White, Filipino, or of another or multiple ethnicities. Nearly all Chinese respondents reported that their first language was Chinese, while only about half of Hispanic/Latino respondents reported their first language as Spanish.

Respondents reported fairly low-incomes, with the large majority of respondent households making less than half of the median San Francisco household income of $60,000 (ACS 2004). About a quarter of households reported less than $10,000 in income and an additional 20% reported incomes of between $10,000 and $15,000. Just 2% reported income of more than $35,000. Two other measures, health insurance status and bank account ownership, also show WFC respondents to be economically disadvantaged. Thirty-four percent of respondents lacked health insurance as did 16% of their dependents. Relatively few had private health insurance with over two thirds of insured respondents and three quarters of insured dependents receiving health insurance through Medi-Cal or another public program. About 18% of respondents lacked both a checking and a savings account, and more than 50% lacked a savings account.

In terms of tax behavior, very few respondents reported completing their own tax returns. Nearly 80% of respondents had their taxes prepared either by H&R Block (33%) or another commercial preparer (47%) while just 12% did their own taxes or had a family member or friend prepare them. Free tax preparation sites claimed about 8% of the market, stable from the prior year. In contrast, H&R Block appeared to increase its market share, from 26% in TY 2003 to 32% in TY 2004. At least a portion of this increase appears to have come from an influx of new filers. Five percent of respondents reported not filing returns in TY 2003 as opposed to just 1% in TY 2004 and about half of these filers went to H&R Block. Many filers reported learning

about the WFC from their tax preparer (44%) or through word of mouth via family and friends (22%). Smaller shares had read about the WFC in the newspaper (9%), heard about it on the radio, (5%) or seen a television advertisement (4%).

Respondents were also asked about how they planned to use their WFC refunds. The majority reported planning to pay bills (57%) and a large share, 37%, planned to devote at least a portion of their refunds to personal or household expenses. About one in ten respondents planned to save or invest some of their refund and about 7% had other uses planned. In the following sections we provide additional context for this survey data and discuss the results in more detail.

*3.3 IRS Data:*

WFC stakeholders identified increased EITC take-up as one goal of the WFC, while City officials in particular report this was the overriding objective for the program from its inception (Flacke and Wertheim 2006). Presumably, program sponsors hoped that by offering an additional monetary incentives and increasingly public awareness, more eligible individuals might be encouraged to claim the EITC. However, it is difficult to accurately assess changes in local-area EITC take-up rates (Berube 2005). It is still more difficult to tie any observed changes to a particular policy change – such as the introduction of the WFC.

The EITC take-up rate is a simple function of a denominator, total EITC-eligible individuals and a numerator, total EITC-eligible recipients. But, there are two significant challenges to estimating EITC take-up rates. First, an accurate denominator is difficult to find. The denominator must include all EITC eligible households, not just those who file taxes. Consequently, analysts must find non-tax data that can effectively proxy for EITC eligibility.

Second, an accurate numerator can also be difficult to find. It might appear that the number of actual EITC claims is the appropriate numerator, but a significant number of EITC claimants are actually ineligible for the credit, skewing the numerator.

Several studies have overcome these two constraints to estimate EITC take-up rates at the national level. Scholz (1990) uses data from the Current Population Survey (CPS), Survey of Income and Program Participation (SIPP), and IRS (adjusting claim rates using tax compliance data) to find take-up rates of 50% - 80%. In a later analysis, of TY 1990 data, Scholz (1994) matches SIPP and IRS data to more precisely estimate take-up and finds participation rates around 81%. Liebman (1996) also uses matched data and finds average take-up rates of 83%, but lower rates for eligible individuals with lower incomes. A 2002 IRS study (IRS 2002) of TY 1996 data found similarly high take-up rates, on the order of 87% using a matched sample method and approximately 82% using survey questions about EITC filing behavior. That study was able to estimate a take-up rate of 83% for the San Francisco/Oakland/San Jose MSA using a one-time survey module in the SIPP.

However, at the local level, the task of estimating EITC take-up is more difficult. Individual-level data on a number of household characteristics, including income, martial status, dependents, citizenship / legal residency status (of household adults and dependents), and age is necessary to proxy for EITC eligibility and estimate the proper denominator of all EITC eligible households. The only publicly available data source that contains all of this information at the local level is the U.S. Census, the most recent of which is more than five years out of date. We also lack any good way of correcting our numerator (total EITC claims) for erroneous claims by non-EITC eligible filers.

For those two reasons, we cannot estimate San Francisco EITC take-up rates and cannot make inferences about the effect that the WFC may have had on claim rates. However, we do have access to simple counts of EITC recipients and total filers in San Francisco and in Oakland and Berkeley. We analyze trends in this data and differences between San Francisco (where the WFC was offered) and Oakland and Berkeley (where it was not) to see if there are any general indications of increased EITC claims during the first year of the WFC.

While we have "full year" (January – December) data for TY 2000 – TY 2003, we only have access to "part-year" data for TY 2004 (January – June). It would be inappropriate to compare "full year" data for previous years with "part year" data for TY 2004. For that reason, we proceed with our analysis in two steps. First, we examine trends in the full year data leading up to the introduction of the WFC. Then, we analyze a shorter panel of part year data (TY 2002 – TY 2004) to see if we observe any changes in these trends with the introduction of the WFC.

The four year trends from TY 2000 – TY 2003 are fairly consistent across San Francisco, Oakland, and Berkeley (see Table 3.3.1). The rate of change in EITC claims was fairly small across all three cities, but in each case was punctuated by a sharp increase in TY 2002. For example, San Francisco's EITC growth rate rose to 13% in TY 2002 from 3% in TY 2001, before settling back to 3% in TY 2003. In all three cities, the number of EITC claimants without dependents grew more rapidly than the number of claimants with dependents – on average between 6 and 10 % points faster. The more rapid growth of childless EITC recipients is reflected in the decreasing share of EITC recipients who had children which fell to 56% in San Francisco, 75% in Oakland, and 47% in Berkeley. But, in all three cities, the total number of EITC recipients relative to all filers increased. Between TY 2000 and TY 2004, the share rose from 7.6% to 9.9% in San Francisco, from 14.9% to 16.2% in Oakland, and from 6.2% to 7.8%

in Berkeley. The number of EITC recipients with children relative to total filers also rose, but did so even more slowly.

If the WFC had an impact on EITC claim rates, we might expect to see evidence of it in three areas. Relative to the neighboring cities of Oakland and Berkeley, which lack a WFC, we might find 1) growth in the number of EITC claims with dependents, 2) growth in the proportion of EITC recipients who had dependents, or 3) growth in the proportion of all filers who were EITC recipients with dependents.

However, we do not observe any of these changes. First, the growth in the number of EITC recipients with dependents was essentially flat between TY 2003 and TY 2004 in San Francisco, at about 3.7%. In contrast, Oakland slowed the decrease in this population and Berkeley reversed course, from a 4.1% drop in TY 2003 to a 2.1% increase in TY 2004. Second, all three cities posted similar declines in the proportion of EITC filers who had dependents, averaging a decrease of about 5% between TY 2002 and TY 2004 and a 3% decrease between TY 2003 and TY 2004. Third, the proportion of all filers who received the EITC and had dependents was essentially flat across all three cities between TY 2003 and TY 2004, in-line with the full-year trends between TY 200 and TY 2003. Either taken on its own, or relative to Oakland and Berkeley, the trends in EITC filings for San Francisco do not suggest a large WFC impact in the first year.

*3.4 Demographic Comparison of Respondents and the Estimated Total Eligible Population*

In section 3.1 we provided a general overview of the characteristics of the individuals who actually claimed the WFC. Here, we compare these individuals to the total WFC-eligible population, including individuals who did not claim the WFC and even individuals who did not

file taxes. Do claimants differ, demographically and financially, from the pool of all WFC-eligible individuals?

This question mirrors an ongoing area of research on the federal Earned Income Tax Credit (EITC). Studies of the EITC generally indicate that a relatively high percentage of eligible individuals claim and receive the credit, around 80% (Scholz 1994; Liebman 1996; GAO 2001; Blumenthal, Erard, and Ho 2005; see also Holt 2006 for a recent review). But, in comparing claimants with eligible non-claimants, these studies find that lower-income individuals, those who can expect smaller refunds and those not legally required to file taxes are all less likely to claim the EITC (Blumenthal, Erard, and Ho 2005).

In order to apply this type of analysis to the WFC case, we require information about the total eligible WFC population. This population includes all individuals in San Francisco who were WFC eligible, filers and non-filers alike. However, it is difficult to accurately identify this population and measure its size and characteristics. The most detailed data available to us is from the 2000 Census. However, the Census data is about five years out of date. The alternative, the American Community Survey (ACS), includes data collected through 2004, but is not publicly released at the county level and the special tabulations we have obtained from the Census Bureau do not contain all of the variables we would need to precisely proxy for WFC eligibility. Consequently, we present analysis of both Census data and ACS data, acknowledging the limitations of each.

*Comparison with the 2000 Census and 2004 ACS:* We use Census data on income, residence, and dependents to proxy for WFC eligibility and find that in 1999 there were

approximately 17,000 EITC eligible households with at least one dependent.[3] This estimate is likely an undercount (see footnote 3), but roughly corresponds to the 20,000 filers with dependents claiming the EITC in TY 2001 (IRS SPEC, 2004). We use a similar methodology (including income, residence, and dependents) to proxy for WFC eligibility using 2004 ACS data. That data suggest that there were approximately 13,000 WFC-eligible households in 2004.

By comparing the income distribution and ethnic make-up of the Census sample and ACS sample which proxy for total eligible WFC households, with our data on actual WFC applicants, we can offer some general analysis about how individuals who actually claimed the WFC differed from the total WFC eligible population.

Among EITC-eligible individuals with dependents, the distribution of incomes in the Census data (inflation adjusted to 2004 dollars) and the ACS data was fairly similar to that reported by WFC survey respondents. **Table 3.4.1** presents these comparisons, and shows that about a quarter of respondents in the Census, ACS, and WFC survey samples had incomes of less than $10,000 and that about 15% had incomes in the second lowest, and about 30% in the middle income group. Another quarter had incomes of $25,000 to $35,000 and 6% of the Census sample and 2% of the WFC sample reported income of greater than $35,000. The largest

[3] We use the Census 2000 1% Public Use Microdata Sample files for the Public Use Microdata Area (PUMA) encompassing San Francisco County. We proxy for EITC eligibility using the variables household income, number of related children, and marital status. This method likely underestimates the true size of the EITC eligible population for TY 2000 for two reasons. First, household income calculated as the sum of the incomes of all adults over age 15 in the household. But, in using household income, we assume that there is only one filer in the household who could be eligible for the EITC. In analyzing the data, we find many cases where household income is above EITC thresholds. We interpret this to mean that there is a single filer in the household who is EITC ineligible. It is possible though that there are in fact multiple adult filers in the household each of whose income individually is low enough to be EITC eligible, but whose aggregate income is above EITC thresholds. Thus by using household income it is possible that we undercount the number of filers and overestimate counted fliers' incomes. Second, we only consider data on the number of related children in the household. Such a measure overlooks children who were full-time students and children who were present in the household for more than 6 months of the year, but not at the time of the Census. See Berube, "Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities," Brookings Institution Metropolitan Policy Program, Survey Series, April 2005, for further discussion of using Census data to estimate EITC eligibility. However, because we do not examine immigration status or distinguish wage and salary income from investment income, we also likely inflate our estimates in some ways.

differences were in the $10,000 to $14,999 range where the margin between the Census/ACS and WFC groups was 6%/7%. Also, 37% of the ACS sample reported income in the next highest range ($15,000 - $24,999) while just 33% of the WFC group did so. In part, the larger differences between the ACS sample and the WFC sample can be explained by data limitations. We were unable to identify WFC-eligible families making more than $35,000 in the ACS data, thus slightly skewing the percentages.

There were more substantial differences by ethnicity with Asians over-represented, Whites and perhaps African-Americans under-represented within the WFC, and a lack of certainty around the representation of Hispanic/Latinos. Only 44% of the Census sample and 31% if the ACS sample reported being Asian as opposed to 59% of the WFC respondents (+15% & +28). Whites made up just 5% of WFC respondents but 25% of the Census sample (-19%) and 16% of the ACS sample (-11%). The discrepancy was less pronounced for African Americans who made up 21% of the WFC group but 23% of the Census (-2%) and 27% of the ACS sample (-6%). The data do not clearly portray the representation of Hispanics in the WFC applicant population. Eleven percent of the WFC group reported being Hispanic. That was 7% points more than the Census sample, but 16% points less than the ACS sample. Unfortunately, we are unable to resolve this inconsistency and the discussion below of ethnic group by income casts doubt on the reliability of our comparison data.

Taking income and ethnicity together, it appears that about 40% of white, Asian, and Hispanic/Latino applicants had incomes of less than $15,000 and that about a third of applicants in each of those ethnic groups had incomes of $15,000 - $24,999 and between a quarter and a third had incomes above $25,000. African American applicants were the exception and tended

to be lower income. Fifty-six percent made less than $15,000 while only a quarter and fifth made $15,000 - $24,999 and above $25,000 respectively. (see **Table 3.4.2**).

Compared with ACS and Census data, it appears that low income African-Americans were not particularly over-represented in the WFC-applicant population relative to the income distribution of the African American WFC-eligible population. In contrast, low-income white applicants appear under-represented while white applicants in the middle of the income range ($15,000 - $24,999) were over-represented. The income distribution of Asian applicants was fairly close to that of the total WFC-eligible Asian population. Though, in all cases, the income distribution of the total-eligible population varied, in some instances substantially, between the Census and ACS samples.

Hispanic/Latino applicants also differed from the total eligible pool of Hispanic/Latino individuals – but in ways that cast doubt on the reliability of our data. Comparison with the ACS data suggests that low-income Hispanic/Latino applicants were over-represented and that those in the middle-income range were under-represented. However, based on the Census estimate, WFC-eligible Hispanic/Latinos were overwhelmingly low-income. Sixty-one percent made less than $10,000. But, 38% reported having incomes at the top of the range, suggesting that just 1% of eligible Hispanic/Latinos made between $10,000 and $25,000. This very slight representation in the middle of the income range is problematic given that among WFC applicants 49% reported incomes in that range and in the ACS sample 51% of Hispanic/Latinos fell into this range. This discrepancy raises questions about the validity of reported incomes on the WFC survey and the comparability of the WFC survey and Census income and ethnicity measures.

*Conclusions and implications:* There are several points of comparison between the WFC eligible and WFC applicant populations. First, by income, these two groups were broadly similar. It does not appear that the WFC drew disproportionately from the top or bottom of the eligible income range. Individuals with incomes in the phase-in range of the EITC (up to roughly $10,000) and the phase-out range (more than $25,000) generally receive smaller credits. The EITC literature suggests that individuals with smaller expected credits are less likely to claim the EITC. But, here, it appears that WFC applicants (who must claim the EITC to receive the WFC) have similar incomes to the total eligible population. To the extent that income proxies for anticipated credit size, this would seem to belie a relationship between anticipated EITC/WFC credit size and decision to claim.

Second, Asians appear to claim the WFC at higher rates than did Whites and African Americans. Third, there are income differences within ethnic groups between the applicant and eligible populations. Lower-income African Americans and middle-income Whites posted higher claim rates than other individuals of the same ethnicity.

Finally, further investigation in future years is necessary to understand the representation of Hispanic/Latinos in the WFC applicant population and to work through apparent data problems. If the same comparative patterns between the ACS and WFC data appear in year-two, that may be evidence that the Census is not the best source of proxy data for this population.

### *3.5 Who is Unbanked?*

Over the last decade academics, policy makers, and social service providers have devoted increasing attention to the unbanked – those individuals who do not hold a checking or savings account with a financial institution. Researchers and advocates worry that in order to cash

checks, pay bills, secure loans, and remit money abroad unbanked households must turn to costly alternative financial services providers. Often, those non-bank providers charge high fees and many unbanked households spend hundreds of dollars each year just paying for financial services (Barr 2005). In this section we review the literature on the unbanked and then investigate what share of WFC applicants and which applicants lacked bank accounts.

*National Trends:* Between 10% and 20% of U.S. households are unbanked.[4] Based on data released by the Federal Reserve Board, the share of households that were unbanked has fluctuated over the past thirty years, rising from 9% in 1977, to a high of 15% in 1989 before declining during the 1990s to 9.5% in 1998 and finally to 8.7% in 2004 (Hogarth and O'Donell 1999; Kennickell, Starr-McCluer, and Sunden 1997; Kennickell, Starr-McCluer, and Surette 2000; Bucks, Kennickell, and Moore 2006). However, over a similar period, analysts using data from the Panel Survey of Income Dynamics (PSID) estimated that the share unbanked went from 19.2% in 1984 to 18.8% in 1989, to 22.2% in 1994, not only much larger percentages, but also a more erratic trajectory (Hurst, Louh, and Stafford 1998).

The twenty or more studies of the unbanked undertaken over the past 10 years are generally in agreement on the characteristics of this population. The unbanked appear more likely to have low incomes, to be African American or Hispanic, to have lower educational attainment, to be younger, to rent (rather than own) their home, to be unmarried, and to have lower levels of assets (Caskey 1994; Hogarth and O'Donnell 1998; Hungerford 2000; Dunham

[4] For instance, Kennickell, Azicorbe, and Moore (2004) use data from the 2001 Survey of Consumer Finances and find that 9% of households were unbanked. Using slightly earlier data from the Survey of Income and Program Participation, the GAO (2002) reports that 22% of households were unbanked. Analysts have suggested that the disparity is due to differences in the sampling methods of the two surveys (the SCF oversamples wealthy households while the SIPP oversamples low-income households) as well as the unit of observation (the SIPP polls unrelated adults in the household separately, while the SCF does not).

2001; GAO 2002; Vermilyea and Wilcox 2002; Berry 2004; Seidman, Habadou, and Kramer 2005). Even controlling for household demographic, social, and economic characteristics, these relationships generally persist (Stegman and Farris 2001; Vermilyea and Wilcox 2002; Berry 2004; Hogarth, Anguleov, and Lee 2005). In short, the unbanked are among the most disadvantaged members of the U.S. population.

*Local Area Studies:* While scholars have amassed a significant amount of information on the national unbanked population, less is known about the unbanked in specific geographic areas. In general, we might expect to find substantial differences between urban and rural populations, and between the residents of certain cities. For instance, differences between cities in the size of immigrant populations, ethnic composition, homeownership rates, and general affluence, will likely drive differences in the size of the unbanked population. If state and local policy makers are to effectively address the issue of the unbanked, reliable and geographically specific information is necessary.

To date, small-area studies have been conducted in Los Angles, Chicago, New York, Washington, D.C., North Carolina, Atlanta, Oklahoma City, and rural Pennsylvania. These studies, like the WFC survey, generally focus on the LMI population and for that reason find that much larger shares of respondents are unbanked than of the population as a whole. For instance, the recent MetroEdge survey (Seidman, Habadou, and Kramer 2005) of LMI households in Los Angeles, Chicago, and Washington D.C., reported that 30% of households were unbanked. Dunham's (2001) survey of low-income households in Los Angeles and New York found that 37% were unbanked. These studies have the advantage of providing data to policy-makers that is specific to their communities. That data can serve to galvanize local support for policy and to

shape effective intervention. However, to our knowledge, no such similar work has been undertaken in San Francisco.

*WFC Survey Data:* The WFC survey data provides an estimate of the size of the unbanked population in San Francisco. We find that 18% of this sample of LMI respondents were unbanked – lacking both a savings account and checking account (**Table 3.5.1**) - in-line with studies of LMI families in other places. Stegman and Farris (2001) find that 17% of their low-income North Carolina sample was unbanked and Caskey (1997) found that 22% of low-income families in Atlanta, Oklahoma City, and Pennsylvania were unbanked. Dunham (2001) and Siedman, Habadou, and Cramer (2005) uncovered higher rates, in the 30% range.

Of those WFC respondents who had bank accounts, 75% had a checking account and 48% had a savings account – in the same range as the 61% and 50%, respectively, documented by Seidman, Habadou, and Kramer (2005). Just 7% had only a savings account and 33% had only a checking account, while 42% had both. These shares are quite similar to those documented by Stegman and Farris (2001) who found percentages of 7%, 31%, and 46% respectively.

We find that unbanked San Franciscans are more likely to have low incomes and to be African American or Hispanic/Latino, relationships that are well established in the literature. Thirty-six percent of respondents making less than $10,000 annually were unbanked, more than nine times as many as those making more than $35,000. Forty-nine percent of African Americans were unbanked as were 26% of Hispanic/Latinos and 36% of Native Americans (though very few respondents identified with this ethnicity). In contrast, just 13% of Whites and just 4% of Chinese were unbanked. (**Table 3.5.2** presents this data.) These differences are

statistically significant. But, the survey data lack the richness that would enable us to delve into why these ethnic differences are so pronounced, particularly the small percentage of Chinese lacking bank accounts. Unfortunately, the literature provides little guidance on this matter as nearly all studies to-date have lacked large enough Asian samples (let alone Chinese samples) to allow specific analysis. Further research in this area should be a priority, particularly in San Francisco.

Our bivariate analysis suggests that respondents receiving public health insurance are significantly more likely to be unbanked (24%) than those who have private insurance (13%) or are uninsured (15%), though it seems possible that this relationship is due to close co-linearity between public health insurance eligibility and income. Additionally, advocates have long wondered if some neighborhoods are underserved by financial institutions and if that could affect households' decisions to have a bank account. Our analysis of respondents' neighborhoods of residence (by zip code) shows some differences in the share of unbanked households. Of the eight most commonly reported residence zip-codes (accounting for 70% of respondents in total and at least 5% each), four had very few unbanked households (around 6% unbanked) and one had quite a lot (around 40% unbanked). The neighborhoods with very few unbanked households, Forest Hill, Sunset, North Beach/Chinatown, and Polk/Russian Hill (Nob Hill) are overwhelmingly Asian or white, whereas Bayview/Hunter's Point, with 40% unbanked, is nearly 50% African American (ACS 2004). That is not to say that that location of residence is unrelated to banking status, just that it appears to be closely intertwined with ethnicity.

In order to assess the effect of each of these variables on being unbanked, while controlling for other characteristics, we first run a logistic regression model with whether the respondent had a bank account or not as the binomial dependent variable and ethnicity, income,

health insurance status, and zip-code of residence as independent variables (**Table 3.5.3**). Relative to Chinese respondents, individuals of all other ethnicities were less likely to be banked. The odds of being banked were just 16% of those of Chinese for African Americans and just 26% for Hispanics and 31% for Native Americans - these effects are significant at the 99% confidence level. Though less pronounced, Filipinos, Whites, Other Asians, and respondents of other ethnicities or more than one ethnicity were, relative to Chinese respondents, all less likely to own a bank account.

Compared with the lowest income group (less than $10,000), higher income respondents were much more likely to be banked with the odds of being banked were six times greater for respondents in the highest group ($35,000 or more) than for those in the lowest. The odds of having a bank account were 2.53 times greater for individuals with private health insurance than those with public health insurance, controlling for income. This may suggest that private health insurance proxies for other characteristics such as steady employment that might be associated with being banked.

Location also mattered. Compared with the 94109 zip code, residents of the 94124 zip code were less likely to be banked, even after controlling for ethnicity and income. Similarly, residents in several other zip codes with relatively large African American populations (94103, 94107, and 94134) were also all less likely to be banked.

Finally, we also control for tax preparation method. Relative to self-preparers, applicants seeking tax preparation services through H&R Block and through family, friends, or others were less likely to be banked. There are no statistically significant differences in the odds of being banked between self-preparers and those using other commercial preparers or free tax preparation sites. Switching the base case, we find that relative to clients at free tax preparation

sites, H&R Block clients were less likely to be banked and clients of other commercial preparers were more likely to be banked.

We also run logistic regressions with savings account ownership and with checking account ownership as our binomial independent variables (**Table 3.5.3**). These models do not show substantively different results from the first model. Previous research (Vermilyea and Wilcox 2003) has found that African Americans and Hispanics were less likely to hold checking accounts, but more likely to hold savings accounts. We do not detect that type of reversal, though African Americans and Hispanics are not so overwhelmingly less likely to hold savings accounts as in the unbanked model.

*Conclusions and Implications:* Based on the WFC survey data we find that a little less than 20% of respondents lacked both a savings account and a checking account. The unbanked were disproportionately African American and Hispanic - very few were Chinese or white. In general, lower-income respondents were more likely to be unbanked. While we have been able to document these characteristics of the unbanked, we lack adequate information to begin to explain why these households are unbanked. However, based on the data we do have, we can begin to make some policy recommendations for how the WFC program could work to "bank the unbanked"'

- Target account opening outreach to specific neighborhoods. **While about 13% of respondents live in the 94124 zip-code, fully 27% of unbanked respondents reside there**. Outreach, such as neighborhood meetings, mailings, and posters, conducted before tax season might encourage residents to open accounts at the time of tax preparation.

- Help WFC respondents to open savings accounts. While checking account ownership is relatively prevalent (at 75%), **only 48% of respondents held a savings account**. Though not definitive, research to-date suggests that having a safe place to save is closely related to successful savings behavior.

- Target account opening at tax preparation outlets that draw the unbanked, in particular H&R Block.

*3.6 Planned Refund Uses:*

In TY 2003, the IRS disbursed approximately $35 billion in EITC refunds and sent almost $80 billion in total refunds to low-income families (IRS 2003). As the EITC has grown over the past ten years, researchers have begun to investigate how these billions of dollars are used. Low-income families appear to devote their tax refunds to a wide range of purposes, from paying rent and buying food to investing in education and adding to savings. In the following section, we begin by discussing the current research on refund use. We then use the WFC survey data to investigate the planned refund uses of applicants and describe variations in planned use by tax preparation channel and applicant characteristics.

*National and Local Studies:* Research on refund use has been conducted in Chicago, New York, Milwaukee, Tulsa, and the South West. While this research has produced generally consistent findings, there is some variation between studies. Barrow and McGranahan (2000) analyze data from the Survey of Consumer Expenditures and find that EITC recipients increased their spending on durable goods from 4% less than other households to 5% more in the month when most refunds are received. Smeeding, Ross-Phillips, and O'Connor (2000) survey 1,121 EITC claimants at a free tax preparation site in Chicago about their planned refund uses and find that 13% of respondents planned to use their refunds to purchase durable goods. But, Romich and Weisner's (2000) findings in a qualitative study of likely EITC claimants in Milwaukee suggest that far more planned to purchase durables. About 60%, of the respondents surveyed planned to purchase furniture, 29% planned to purchase TVs, VCRs, or videos and a fairly large

share planned to purchase appliances. A more recent study by Robles (2005) of filers at free tax sites in the southwest finds that only 7% of filers had ever used their refunds to purchase furniture, 4% to purchase a computer, and 4% an appliance.

Car purchase also appears to be fairly common among EITC recipients, but again, there is variation between studies. Smeeding, Ross-Phillips, and O'Conner (2000) find that 16% of respondents planned to purchase or repair a car, Romich and Weisner (2000) find that 25% planned to purchase a car, and Robles (2005) finds that 12% had used their refund on car-related purchases. Smeeding, Ross-Phillips, and O'Conner (2000) included car purchase, along with moving costs, education, and savings as an "economic/social mobility" use – that is one that might help refund recipients to improve their economic situation. They find that 33% of EITC recipients in their study intended to save and 10% planned to spend on education. Robles (2005) finds that 14% of claimants had used their refund on education. Rhine, Su, Osaki, and Lee (2005) survey more than 18,000 free tax preparation site clients in New York and find that a smaller share, 11%, planned to save a portion of their refunds. Over the last five years, advocates and researchers have attempted to leverage this disposition towards savings and the lump-sum structure of the EITC to further encourage asset building. These efforts include offering savings accounts and IRAs and allowing refund recipients to "split" their refunds and allocate a portion to saving (Beverly, Romich, and Tescher (2003); Beverly, Schneider, and Tufano (2006); Duflo et al (2005); and Rhine, Su, Osaki, and Lee (2005)).

EITC claimants most frequently reported using their refunds to repay debt, pay bills, and purchase necessities – what Smeeding, Ross-Phillips, and O'Connor (2000) call "getting by." Sixty-five percent of respondents in that study reported planning to spend their refund or pay bills and named specific uses such as utilities (37%), rent (34%), food (21%), and clothing

(22%). Similarly, Rhine et al (2005) find that about 70% of respondents planned to use their refund to pay bills, debt, or rent. Robles (2005) reports that 55% of respondents had used their refunds to pay bills or for medical care and that 40% had dedicated refund dollars to "personal" expenditures.

These five studies suggest that recipients generally divided their refunds between several uses. The largest shares of recipients reported planning to pay bills and purchase necessities, though refund dollars also appear to fund saving, education, and durable good purchases. But, the relative value of these expenditures is unclear. While some uses, such as car purchase, likely demand a relatively large share of any tax refund, it is harder to evaluate the value of others, such as savings or food purchase, without specific data.

There may also be limitations to the representativeness of the data that is available. The work by Smeeding, Ross-Phillips, and O'Conner (2000), Rhine, Su, Osaki, and Lee (2005), and Robles (2005) account for all of the large sample-size surveys of EITC recipients. However, in each case, respondents were drawn exclusively from free or volunteer tax preparation sites. Nationally, such sites appear to account for a relatively small share of EITC returns. In TY 2003, volunteer sites reported preparing 1.3 million returns. If approximately 40% of those returns claimed the EITC (based on the experience of the National Tax Assistance Campaign for Working Families (Siriki and Holt 2005), then free sites prepared just 7% of EITC returns in that year.[5] A far larger share of EITC claimants seeks tax preparation from commercial preparers; in TY 2001, 68% of EITC filers used paid preparers (Berube, Kim, Foreman, and Burns 2002).

Filers seeking free tax preparation might plan to use their refunds differently than those preparing their returns via other channels. For instance, free tax preparation sites do not

[5] That estimate is likely at the high end. Data from the IRS's SPEC database indicates that VITA sites prepared just 1% of EITC returns in TY 2004.

generally offer refund anticipation loans (RALs) and filers who demand these products must go to paid preparers. These filers, who are willing to pay heavily for early access to their funds, might be expected to be less likely to save and more likely to spend their refunds on necessities than filers at free tax preparation sites. It is possible then that many of the studies of EITC use to date have not accurately captured the intentions of the large majority of EITC claimants. Further, these studies have focused on planned, rather than actual refund uses, so we know relatively little about the ultimate disposition of funds.

*The WFC Survey Data*: In addition to providing useful information about the planned uses of WFC refunds, the survey data present an opportunity to expand our general knowledge of how tax refund recipients plan to use their credits. However, there are clear constraints on the application of the data. The survey is specific to planned use of the WFC, not the EITC. The WFC is smaller than the EITC and the credit is received later, though applicants may not have understood the schedule of the credit's disbursal at the time of application or the likely size of their ultimate WFC payment, the formula for which was set after tax season ended. These differences seem likely to influence how recipients allocate the funds. However, even given those limitations, the survey data does provide the opportunity to see if there are differences in planned uses by method of tax preparation. Further, the data also allow us to compare intended use across the demographic and financial characteristics of respondents.

Overall, bill payment accounted for about 50% of planned refund uses while personal and household spending made up 35% of anticipated uses (**Table 3.6.1**). Savings and investments comprised a much smaller proportion - just 10% of reported planned refund uses. Parsing the data by return preparation method, it appears that there were significant differences in planned

refund use across the different tax preparation channels. Respondents who prepared their tax returns with H&R Block were most likely to report planning to save a portion of their refunds (15% of responses) and, correspondingly, were least likely to report planning to spend a portion of their refunds (24% of responses). Clients of other commercial tax preparers, including Jackson Hewitt, Liberty Tax, and other paid-preparers, were among the least likely to list a planned savings use of the WFC – just 6% of planned uses, the same share as those respondents whose family or friends prepared their tax returns. Respondents who had their taxes prepared by free tax sites or by family/friends were more likely than others to report a planned spending use, but less likely to report planning bill payment. Unfortunately, the survey data lack the detail that would allow us to understand if bill payment refers to debt or current bills and to detail the specific spending uses of WFC recipients. Nevertheless, the WFC data imply that planned refund uses do differ by tax preparation method, suggesting that research on free tax preparation sites may not be representative of all low-income refund recipients.

Planned refund uses also varied by respondent characteristics (**Table 3.6.2**). Saving and investment made up the smallest proportion of Chinese respondents' planned uses (6%), while African Americans (14%), Latinos (18%), Filipinos (21%), and respondents of "Other" ethnicities or more than one ethnicity (19%) were disproportionately likely to plan to save or invest their WFC funds. Members of those ethnic groups were less likely than others to report planning to spend a portion of their WFC funds, but equally likely to plan to pay bills. Savings and investing made up one in ten of the planned refund uses cited by Whites, the study-wide average. However, Whites were less likely to report planning to spend their refunds and far more likely (66% of responses) to plan to use their funds for bill payment.

Notably, there are no significant differences between respondents of different incomes. Though savings is strongly correlated with income in the general population, the lowest income WFC applicants appear as likely to plan to save their WFC funds as higher income respondents. This uniformity may be due to the limited range of incomes of WFC applicants or to the ways WFC applicants "mentally account" for the funds: perhaps the relatively small amount of the funds and the relatively long delay between application and receipt smoothes what would be income-related differences. Alternatively, while refund-use *aspirations* (measured by the WFC survey) are similar across income groups, it may be that if we conducted follow-up surveys of WFC recipients we would observe income-based differences in *actual* refund use as real-life economic constraints came into play. However, the data on health insurance status does seem to suggest that respondents who were more financially secure, as implied by being privately insured, were more likely to plan to save their refunds. These respondents were also less likely to plan to spend their WFC funds, but were more likely to plan to pay bills. Conversely, respondents who were uninsured, and who might conceivably carry the most medical debt, were least likely to list bill payment (49% of listed refund uses). As noted earlier, more detailed data on planned refund use might help to solve this puzzle. If we could parse out the particular spending and bill payment uses (such as rent or medical or food), then we might be better able to understand the patterns of use by health insurance status and the lack of differences by income.

The results by banked status are similarly curious. Though researchers have been unable to definitively establish the direction of the relationship between having a bank account and engaging in savings behavior (it is not clear if having an account encourages savings or if those who save tend to have an account), generally bank account ownership is correlated with the decision to save. Not so here. In this case, unbanked respondents were actually slightly more

inclined to save (12% of planned uses) than those who reported having a checking or savings account.

We also specify a multinomial logistic regression model with planned refund use (in three categories: save/invest, spend, and pay bills/other[6]) as the dependent variable and ethnicity, income, banking status, and health insurance coverage as independent variables (see **Table 3.6.3**). As in the cross-tabs, we observe few significant effects associated with income. It does appear however, that the odds of respondents in the middle of the income range ($15,000 - $35,000) of planning to save relative to spending or bill payment were less than those of respondents in the lowest income range.

There are more robust results for ethnicity. Even after controlling for income, health insurance status, tax preparation method, and banked status, ethnicity still has a statistically significant effect on planned refund use. Compared with Chinese respondents, respondents of all other ethnicities (except for Native Americans) were significantly less likely to report planning to spend their refunds relative to paying bills (odds: 31% - 52%). The odds of planning to invest the refund rather than spend it were much greater for African American, Latino/Hispanic, Filipino, White, "Other Asian," and respondents of other or multiple ethnicities than for Chinese respondents. Specifically, the odds were approximately 2.5 times greater for African Americans, 3.5 times greater Latino/Hispanics, more than 4 times greater for Filipinos and around twice as large for Other Asians and Whites. Similarly, the odds of planning to save rather than use the refund dollars for bill payment were 1.7 times greater for Latino/Hispanics and 2.2 times greater for Filipinos than for Chinese respondents.

[6] In order to simplify the model, we combine the "Other" and "Pay Bills" categories after using a Wald test to confirm that the categories do not differ given the independent variables included in the model.

Controlling for other factors, the puzzling result (observed in the cross-tab) that the unbanked were more likely to plan to save than the banked disappears and in fact the odds of planning to save relative to paying bills are greater for the banked than for the unbanked. However, the associations with health insurance coverage remain. The odds of privately insured respondents planning to spend their refunds relative to paying bills were 70% of publicly insured individuals. Privately insured individuals were more likely though to plan to save (rather than spend or pay bills) than publicly insured individuals. The same patterns are apparent for uninsured individuals relative to privately insured individuals.

There are few statistically significant results when planned refund use is examined by tax preparation channel after controlling for ethnicity, income, banking status, and health insurance. However, it appears that the odds of spending relative to paying bills were about 1.7 times greater for clients at free tax sites and for those preparing taxes with family, friends, or others than for respondents who self-prepared.

*Conclusions and Recommendations:* The WFC survey data on planned refund use are in broad accord with what we know about use of the EITC. The most common planned use was bill payment, followed by spending, and then by savings or investment. The data suggest that there are some significant differences in refund use by tax preparation method with simple bi-variate tabulations showing that H&R Block clients were more likely to plan to save than others, while other commercial tax clients were among the least likely to plan to save. However, after controlling for demographic and financial factors, we find fewer differences in our regression results. These findings on planned refund use by tax preparation channel are by no means definitive, but instead point to the need for future research, not confined to VITA sites, on the

disposition of EITC and state and local credit funds using multi-nomial logistic regression models. The WFC data also show differences in planned refund use by ethnicity and banking status. While the data lack desirable detail on particular refund uses, it is sufficient to provide fodder for several recommendations.

- **Support savings and investment.** Of the roughly 10% of respondents who planned to save, about 25% were unbanked and 45% lacked a savings account. Although these individuals likely represent just 300 to 500 WFC claimants, they would seem a natural group for banking outreach.

- **Enhance spending and bill payment.** Working Family Credit advocates and planners have focused on helping applicants to save a portion of their refund. However, overwhelmingly, respondents reported planning to spend these funds or use them to pay bills. While we lack data on the specific spending and bill payment purposes, data from the EITC suggests that respondents will likely use these funds to pay rent, purchase food, and buy other necessities. The City and not-for-profit partners could support these goals – seeing them not in tension with savings, but as a necessary step on the path to asset building. To that end, WFC stakeholders could form partnerships with city retailers, utility companies, and other agencies to promote useful spending of WFC funds. For instance
    - Secure discounts for WFC recipients who use their funds at grocery stores, school supply outlets, and other merchants.
    - Partner with phone, electric, and gas companies to forgive portions of WFC recipients' overdue utility bills when recipients apply a portion of their credit to debt repayment.
    - Offer BART and/or MUNI passes at substantial discounts to WFC recipient families.

- **Study the disposition of WFC funds**. The year one survey collected general information on planned refund use and the year two survey goes further to collect slightly more detailed data. However, evaluation of the WFC would be greatly strengthened by collecting data on the actual use of WFC funds. This could be accomplished through follow-up surveys, tracking the purchases of debit card recipients, or even targeted focus groups. In short, some research seems necessary to determine how WFC recipients actually spent the roughly $5 million dollars invested in the two-year pilot program.

*3.7 Tax Preparation Channel:*

Over the past several years, policymakers and service-providers have become increasingly interested in using tax preparation sites to deliver non-tax related services such as bank accounts and benefits screening (such as for health insurance and food stamps) (Brown

2005; Beverly, Romich, and Tescher 2003; Stuhldreher 2004). In general, these supplemental services have been provided at free tax preparation sites or H&R Block offices. However, many LMI filers self-prepare their taxes, seek assistance from family or friends, or purchase tax preparation services through commercial preparers other than H&R Block.

If policymakers and service providers aim to continue to reach LMI families through tax preparation channels, it is important to understand the demographic and financial differences between families using these various tax preparation methods and the implications of focusing on particular channels. For instance, are the unbanked most effectively reached through free tax preparation sites (where a majority of such efforts have been focused)? Do H&R Block offices disproportionately reach lower-income families or an ethnic sub-group of LMI fliers? We use WFC survey data to describe and compare the characteristics of individuals across five different categories of tax preparation method: H&R Block, other commercial preparers, free tax sites, self-preparers, and family/friends or others.

*Studies-to-Date:* We know relatively little about what demographic and financial characteristics distinguish the users of different tax preparation channels. At the most general level, Berube, Kim, Forman, and Burns (2002) use IRS data to show that EITC filers are more likely than other filers to use paid preparers. Berube (2005) adds to this observation, and by combining IRS and Census data, finds that 69% of returns in zip codes with large immigrant populations were completed by a paid preparer as compared to 65% of returns in other zip codes. Together, these two observations suggest that lower income and immigrant filers are more likely to use paid preparers.

We add to these findings with recent data from the IRS on EITC returns filed in tax year 2004(IRS SPEC 2005). Among all returns receiving the EITC by June 30th, 2005 (about 21.4 million), 27% were self-prepared, 71% were by paid preparers, 1% were through VITA (free tax preparation) sites, and 1% were through Tax Counseling for the Elderly (TCE) programs. Filers without children, with incomes in the lower ($0 - $10,000) and upper ($25,000 - $40,000) ranges, and those filing as single were all more likely to self-prepare and less likely to use paid preparers than filers with qualifying children, filers in the middle of the income range ($10,000 - $25,000), and those filing married or head of household. The share of VITA returns was consistently low, at about 1%, though it was slightly higher (about 2%) for those filers without children, those in the lowest income group, and those filing single.

Analysis of channel differences using IRS data is constrained by the lack of demographic variables in the tax return data. Maag (2005) uses data from the National Survey of American Families (NSAF) to provide a more detailed characterization, using ethnicity and educational attainment. Maag (2005) finds that Hispanic and Black filers were more likely to use preparers as were filers who had not graduated from high school or those with only a high school diploma. However, the NSAF data does not distinguish between using free tax preparation and using a paid preparer – both are classified as receiving "help" preparing the return and so its application is somewhat limited (NSAF 2005).

There appears to be little survey data that both makes fine distinctions between tax preparation methods and contains detailed demographic information. The 2006 Detroit Area Study (DAS) is an exception. Barr and Dokko (2006) report preliminary results from the survey based on approximately 900 respondents in Detroit neighborhoods with incomes of up to 80% of the City's median. The DAS data suggest that approximately 65% of LMI filers, 79% of EITC

filers, and 56% of non-EITC filers used a paid preparer. Banked and unbanked filers were equally likely to pay for tax preparation. However, it appears that the unbanked were more likely to patronize a large chain such as H&R Block while the banked turned to local offices. Roughly equal shares of banked (3%) and unbanked (5%) filers used free tax preparation sites.

In sum, we know relatively little about which filers use paid preparers, free tax sites, or self-prepare. It appears that filers with lower incomes, more children, and EITC refunds are more likely to use paid preparers and that those with lower educational attainment and minority status are more likely to seek some kind of help with their taxes. But, beyond these general characterizations, we do not have a detailed portrait of tax filers by preparation channel.

*The WFC Survey Data:* The WFC data includes a cross-section of filers by tax preparation method and so provides the opportunity to compare the characteristics of respondents across tax channels. A large majority of WFC applicants reported using a paid tax preparer (80%), either H&R Block (33%) or some other commercial preparer (47%), to prepare their taxes in 2005. About 8% had their tax return done at a free tax preparation site, a bit more than the 6% who prepared their own taxes or the 6% who turned to family, friends, or others for preparation assistance (who may receive compensation or may assist for free).

Comparison of the WFC data with IRS data reveals that the return preparation methods of WFC applicants differed from those of all San Francisco EITC recipients and from those of all San Francisco EITC recipients with children (a fairly close proxy for WFC eligibility). WFC applicants were more likely to use a paid preparer than all EITC recipients in San Francisco (80% vs. 65%), were less likely to self-prepare (12% vs. 30%), and more likely to use VITA (8% vs. 3%). There were smaller differences between WFC applicants and San Francisco EITC

recipients with children – amounting to a 5% point gap on the use of paid preparers (80% vs. 75%), an 8% point gap on self-preparing (12% vs. 20%), and a 5% point gap on the use of VITA (8% vs. 3%). We do not know the reasons behind these differences, but it is possible that information about the WFC may have been more effectively disseminated to filers using paid preparers and VITA sites than to self-preparers.

The IRS data on tax preparation method among San Francisco EITC recipients follows the general pattern of the national data discussed above. Filers with children were more likely to use paid preparers, as were those filing as married or head of household. Channel choice by income is somewhat different. Instead of following the "U-shaped" curve apparent in the national data, it appears that San Francisco EITC recipients with higher incomes (capped at $40,000) were more likely to use paid preparers and less likely to self-prepare than those with lower incomes – adhering closer to a linear relationship.

Crossing tax preparation method with respondents' income ranges reveals few substantial differences in channel preferences (Table 3.7.1). It does appear that respondents in the lowest income group were more likely to use H&R Block and less likely to use other commercial preparers. But otherwise, respondents of different incomes appear broadly similar in their tax preparation preferences.

Much larger differences are evident between ethnic groups. The smallest of these are among self-preparers and users of free tax preparation sites. Specifically, Whites (25%) and those of "other" or multiple ethnicities (14%) were more likely to self prepare than the general respondent population (6%) and African Americans were least likely to use free tax preparation sites. Far larger differences appear in the ethnic make-up of users of different kinds of paid preparers. Though Block had a market-share of 33%, only 2% of Chinese used the company while 85% of

African Americans patronized Block. The opposite was true of the demographic make-up of customers of other commercial preparers. These companies held a 47% market-share, but captured 74% of Chinese filers and just 5% of African American filers. Members of other ethnic groups, including Hispanic/Latinos, Whites, Filipinos, and Native Americans appeared more likely to go to Block than to other commercial preparers, while "other Asians" were more likely to use other commercial preparers.

Though the differences are less pronounced, a similar pattern is evident in health insurance coverage between H&R Block users and patrons of other commercial preparers. The uninsured appear more likely to go to other commercial preparers while privately insured respondents disproportionately use H&R Block. Block's large share of privately insured clients (48%) might suggest a relatively financially secure clientele. However, Block's very large share of the unbanked population seems to belie that impression. Block served 76% of unbanked WFC applicants, far out of proportion to its 33% market-share, a result which generally supports Barr and Dokko's (2005) finding that the unbanked favor large chains. Compared with Block's share of unbanked filers, other tax channels had relatively few. Just 16% of the unbanked turned to other commercial preparers and just 3% to free tax preparation sites.

As we did for banked status and planned refund use, we also specify a logistic regression model with tax preparation method as a categorical dependent variable, coded as: either self-prepare (own), H&R Block, other commercial, free tax preparation, or family, friends, or others. Table 3.7.2 presents the results of our model, including odds ratios and z-values for ten paired comparisons of tax preparation methods. In brief, after controlling for ethnicity, health insurance, and banking status, income has little association with tax preparation method. However, large and statistically significant ethnic differences persist, as do differences by

insurance and banking status. With five dependent variable groups, interpreting the regression results can be confusing. For that reason, we focus specifically on the differences between H&R Block and other commercial preparers and on differences between free tax preparation sites and other channels.

In general, differences between Block and other commercial preparers that were evident in the cross-tabs persist in the results of the multinomial logit. The odds of going to H&R Block relative to another commercial preparer were much greater for African Americans, Hispanic/Latinos, Whites, Filipinos, "Other Asians," and individuals of "other" or multiple ethnicities than for Chinese respondents. The odds ratios range from 315, for African Americans to 20, for "Other Asians," implying large differences. There were also some income-related effects. The odds of going to Block relative to another commercial preparer were smaller, 66% - 55%, for individuals in the middle income ranges than for the lowest-income respondents. Block clients were also more likely to be unbanked and to have private health insurance.

There are few statistically significant differences between individuals filing at free tax preparation sites and individuals who self-prepared or those who had help from family, friends, or others. But, the odds of going to a free tax preparation site relative to a non-Block commercial preparer were about 2.5 – 5 times greater for all other ethnic groups (besides "other Asians") than for Chinese. The odds were smaller for respondents in the middle of the income range and for uninsured respondents than for the lowest income and privately insured respondents respectively. On the other hand, the odds of going to H&R Block relative to a free site were much greater (ranging from 61 to 23) for all other ethnic groups than for Chinese respondents and the odds were smaller for banked (than the unbanked) and greater for privately insured respondents (than for publicly insured ones).

*Conclusions and Recommendations:* There appear to be substantial differences between the users of different tax preparation channels. For the most part, these differences are not along income lines, but are rather more closely associated with ethnic affiliations, and, to a lesser extent, health insurance and banking status. Specifically, Chinese respondents, banked respondents, and the uninsured were much more likely than others to use non-Block commercial preparers, while African Americans and the unbanked turned to H&R Block in large numbers. We also observe substantial ethnic differences between individuals who use free tax preparation sites, and those who use commercial preparers, though the effects are not the same for H&R Block and for other commercial preparers. All of these differences are robust to controls for other independent variables. But, our sample, with its very large Chinese population and strong associations between ethnicity and banking status is unique to San Francisco and we would be hesitant to try to apply these findings much more broadly. Given the city-specific nature of our results we can, however, propose several policy-oriented ideas that stem from the data.

- Leverage H&R Block to reach the unbanked and open accounts. Though H&R Block prepared only 33% of all WFC returns (according to respondents), **more than 75% of unbanked respondents had their tax return prepared at Block.** H&R Block's reach into the unbanked population is far deeper than that of any other tax preparer. Other paid commercial preparers reached just 16% of the unbanked and VITA sites reached just 3%.

- Comparing the IRS and WFC data on tax preparation method, it appears that the WFC achieved an overall claim rate among filers of about 50%. However, this rate was just 30% among self-preparers. **Reaching out to filers who prepare their own taxes, through locations where tax forms are available (such as libraries or post offices), via free-file alliance websites, or through tax preparation software vendors, could increase their take-up rate.**

- There are substantial demographic differences between clients of free tax preparation sites, H&R Block, and other commercial preparers. Future efforts to provide companion services, such as benefits screening, could attempt to achieve broader coverage by **establishing partnerships with non-Block commercial preparers.**

## 4. Conclusions

The San Francisco Working Families Credit is an ambitious public-private effort to encourage EITC take-up, connect families to the financial sector, and support families. Our analysis cannot determine how well the program has accomplished its goals, but can be useful in diagnosing how the program has reached various populations, and how various tax preparation channels can be exploited to provide families with banking services and health benefits. In brief, our findings suggest that :

- Approximately 50% of eligible filers (about 11,000 of 22,000) claimed the WFC. These filers were more likely to use paid or free tax preparers and to be Asian or Hispanic. Outreach strategies that focused on self-preparers might increase take-up.
- While more than 11,000 individuals claimed the WFC, there is little evidence to suggest that the WFC increased EITC take-up. Comparing measures of EITC claims in San Francisco, Berkeley, and Oakland over the past several years reveals no appreciable change in trends at the time of WFC implementation.
- 18% of WFC applicants were unbanked. Banking outreach would reach the largest shares of these individuals if undertaken through H&R Block (which served approximately three-quarters of the unbanked) and in certain neighborhoods.
- 10% of WFC applicants planned to save a portion of their credits. These individuals were more likely to be H&R Block clients, suggesting that savings support programs could find a receptive audience at Block offices. However, a majority of clients did not plan to save, and instead had earmarked their WFC funds for bill payment or spending. These purposes should be supported also, perhaps by facilitating the repayment of costly debt or securing discounts on certain products for WFC recipients. Given that nearly half of applicants prepared their

taxes with commercial preparers other than H&R Block, the provision of these services could appropriately be focused on those providers.

- In order to offer firmer conclusions about the WFC, additional data collection and analysis would be necessary. Future research on the WFC could be enhanced by (a) augmenting the survey instrument; (b) linking the survey instrument to tax data; (c) collecting data on non-participants; and (d) collecting post-program data to provide some information on program impact.

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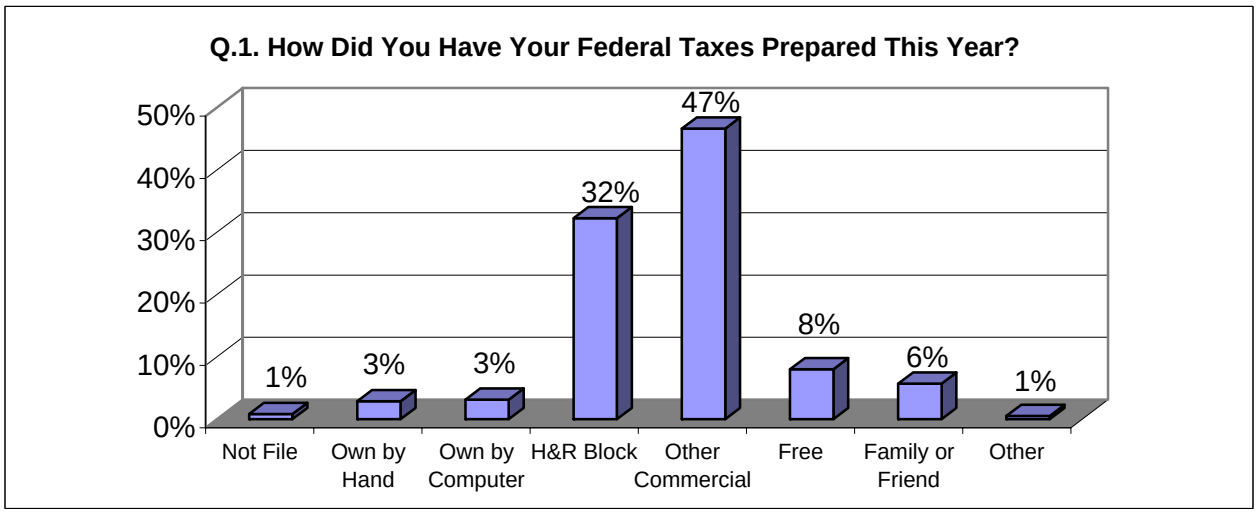
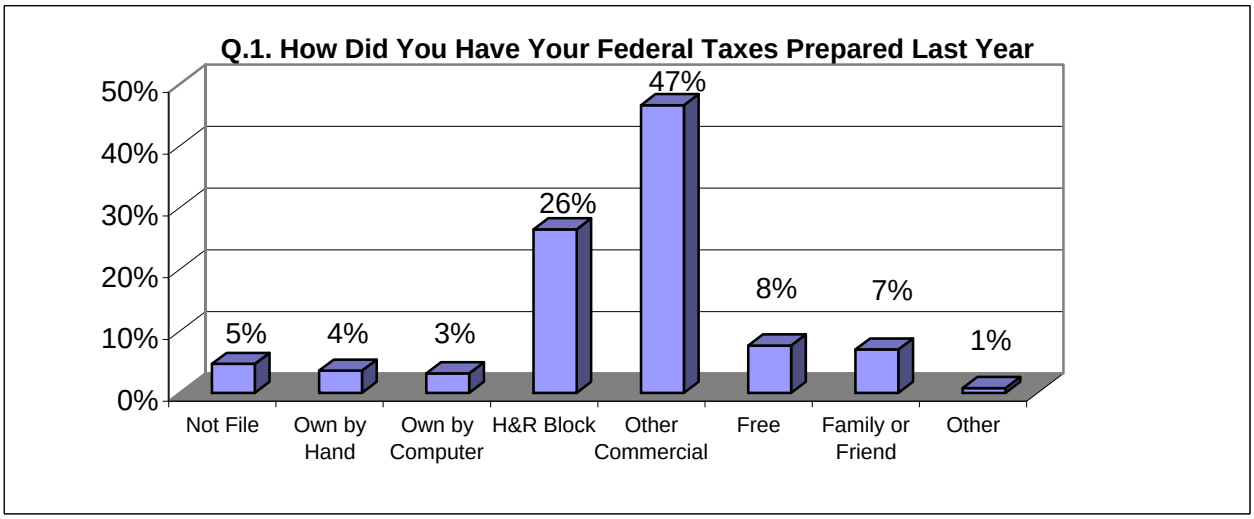
**Table 3.0.1 Response Rates to Survey Items**

| Question | Response Rate |
|---|---|
| Question 1a: How did you have your federal taxes prepared (this year) | 88% |
| Question 1b: How did you have your federal taxes prepared (last year) | 83% |
| Question 2: How did you hear about the WFC? | 98% |
| Question 3: What do you think you will do with your WFC? | 97% |
| Question 4: Do you currently have a bank account? | 96% |
| Question 5: Do you have health insurance? | 95% |
| Question 6: Do your children have health insurance? | 96% |
| Question 7: What is your ethnicity? | 98% |
| Question 8: What is your first language? | 98% |
| Question 9: What was your household income in 2004? | 95% |

**Table 3.2.1 Overview of Survey Response**



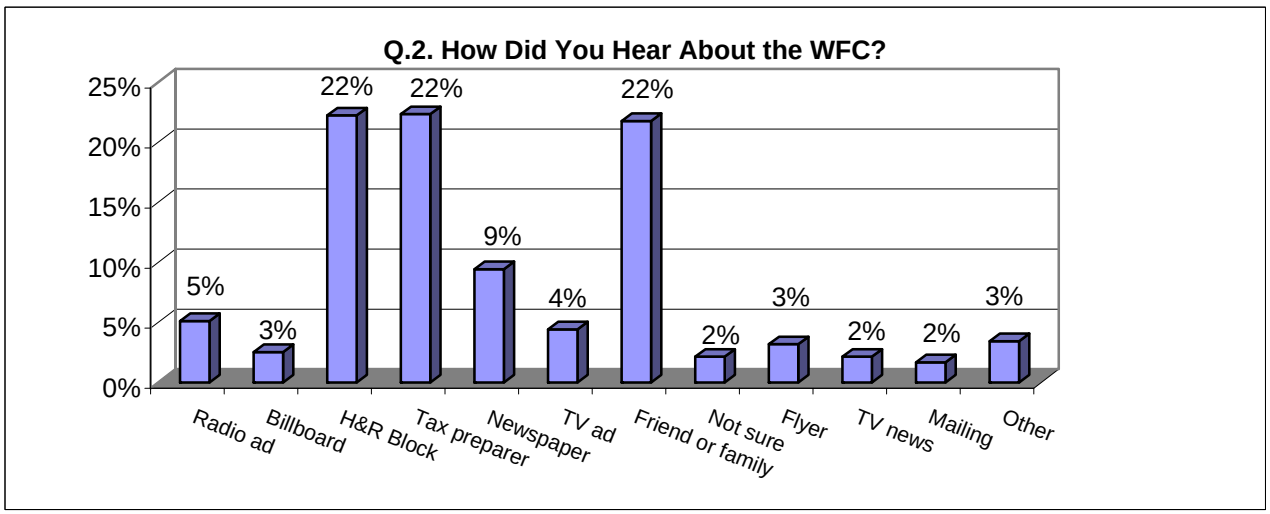
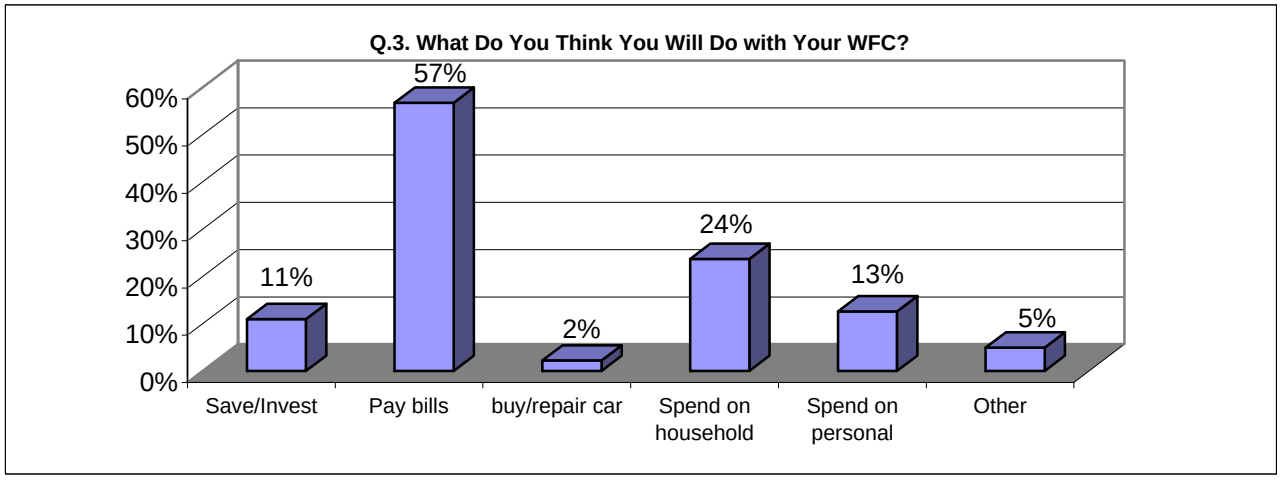
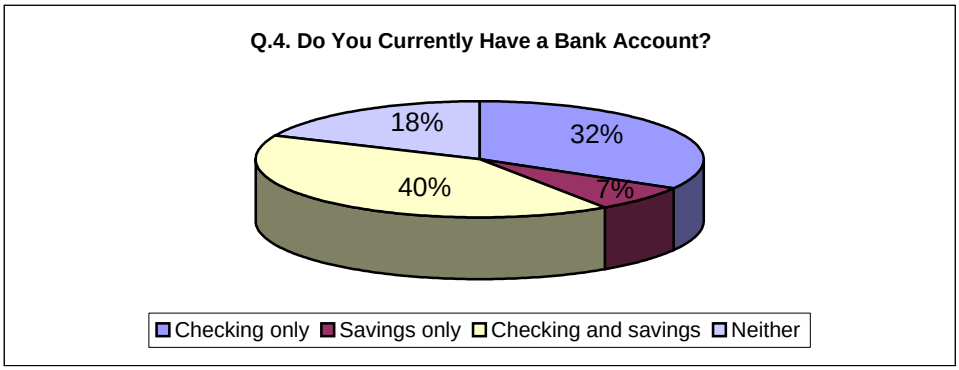
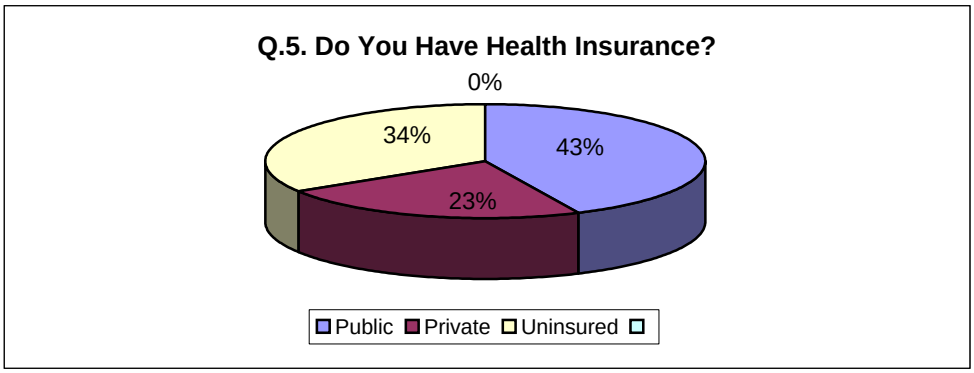
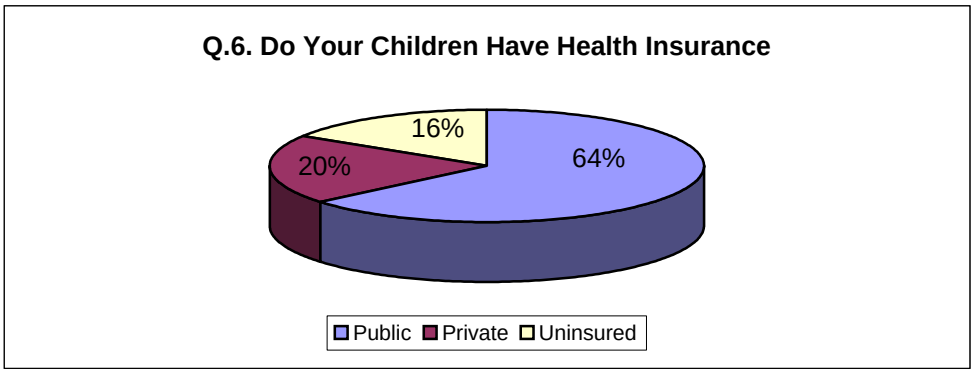



**Table 3.2.1 Overview of Survey Response**



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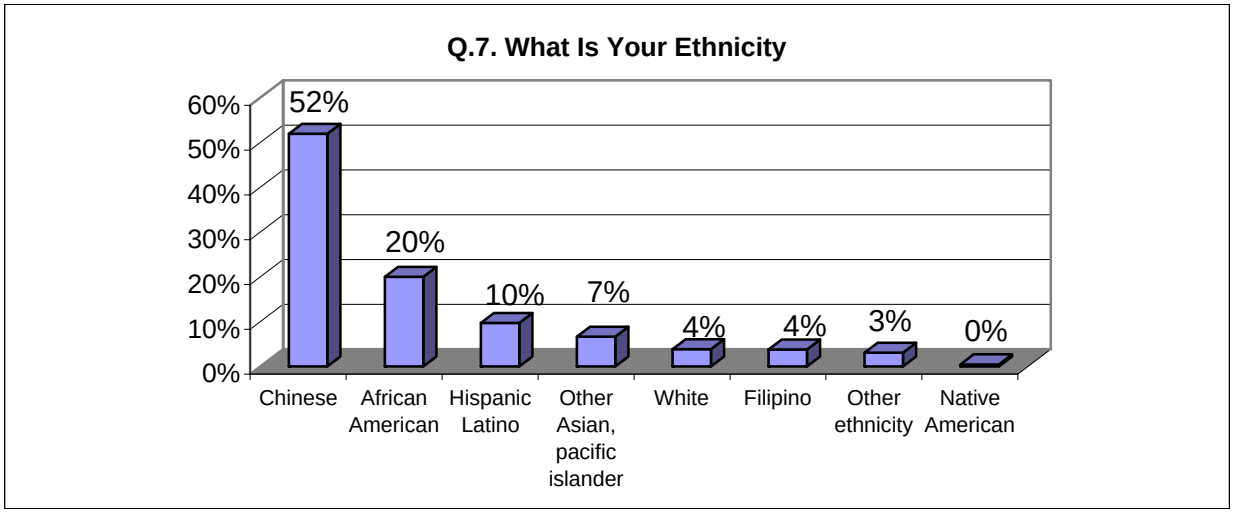


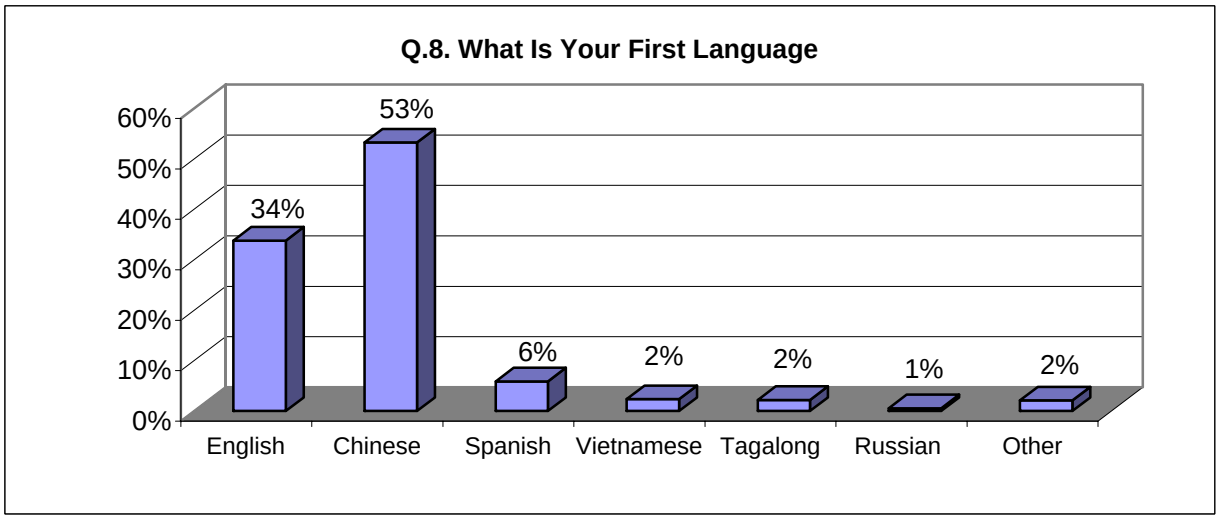


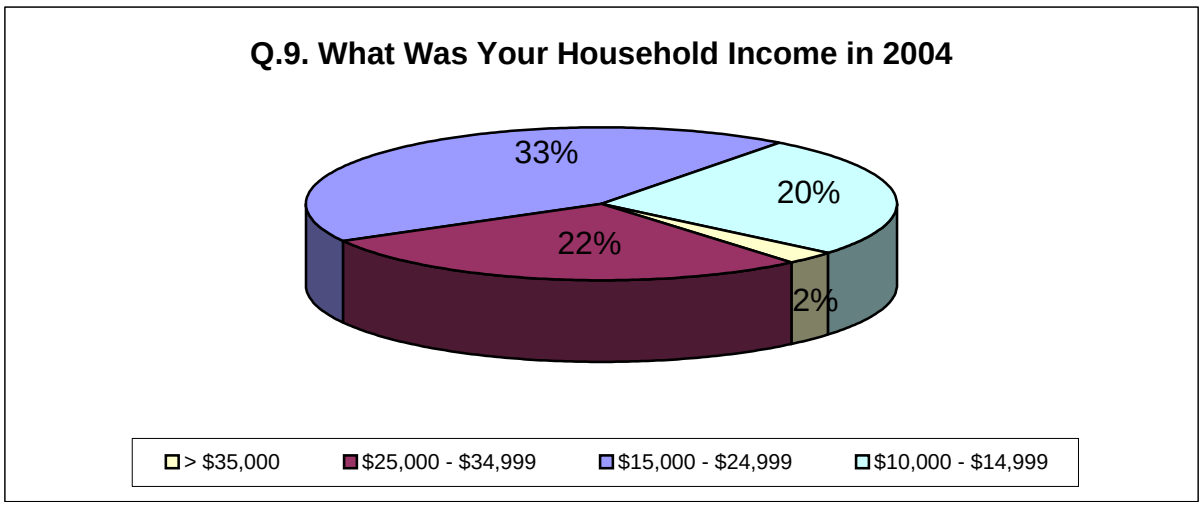

**Table 3.3.1 EITC Trends in San Francisco, Oakland, and Berkeley (2000 - 2004)**

| | Full Year (January - December) | | | | Part Year (January - June) | | |
|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2002 | 2003 | 2004 |
| *San Francisco* | | | | | | | |
| Change in Number of EITC Recipients | | 3.0% | 12.9% | 3.0% | | 3.6% | 3.9% |
| Change in Number of EITC Recipients (With Dependents) | | 0.6% | 9.6% | 0.6% | | 1.0% | 1.1% |
| Change in Number of EITC Recipients (Without Dependents) | | 6.8% | 17.8% | 6.2% | | 7.4% | 7.7% |
| Share of EITC Recipients with Dependents | 60.6% | 59.2% | 57.4% | 56.1% | 59.8% | 58.3% | 56.8% |
| Share of Total Returns with EITC | 7.6% | 7.9% | 9.3% | 9.9% | | 10.3% | 10.7% |
| Share of Total Returns with EITC and Dependents | 4.6% | 4.7% | 5.3% | 5.6% | | 6.0% | 6.1% |
| *Oakland* | | | | | | | |
| Change in Number of EITC Recipients | | -1.9% | 2.9% | -1.1% | | -0.4% | 0.0% |
| Change in Number of EITC Recipients (With Dependents) | | -2.8% | 1.8% | -3.2% | | -3.4% | -2.2% |
| Change in Number of EITC Recipients (Without Dependents) | | 1.2% | 6.7% | 5.7% | | 11.6% | 7.2% |
| Share of EITC Recipients with Dependents | 77.6% | 76.9% | 76.1% | 74.5% | 79.8% | 77.4% | 75.7% |
| Share of Total Returns with EITC | 14.9% | 14.7% | 15.7% | 16.2% | | 17.1% | 17.3% |
| Share of Total Returns with EITC and Dependents | 11.6% | 11.3% | 12.0% | 12.1% | | 13.2% | 13.1% |
| *Berkeley* | | | | | | | |
| Change in Number of EITC Recipients | | 2.1% | 11.0% | 2.4% | | 1.9% | 3.7% |
| Change in Number of EITC Recipients (With Dependents) | | -1.1% | 5.3% | -2.7% | | -4.1% | 2.1% |
| Change in Number of EITC Recipients (Without Dependents) | | 6.0% | 17.2% | 7.5% | | 8.5% | 5.3% |
| Share of EITC Recipients with Dependents | 54.1% | 52.4% | 49.7% | 47.2% | 52.3% | 49.2% | 48.4% |
| Share of Total Returns with EITC | 6.2% | 6.4% | 7.3% | 7.8% | | 8.0% | 8.4% |
| Share of Total Returns with EITC and Dependents | 3.4% | 3.3% | 3.6% | 3.7% | | 4.0% | 4.1% |

Source: IRS SPEC Database, IRS e-file Demographics Study, IRS Special Request by Authors

**Table 3.4.1 Demographic Comparison of WFC Applicants and Census/ACS Proxies for Total Eligible Population**

| | WFC | Census 2000 | ACS 2004 Estimate | ACS 2004 Lower | ACS 2004 Upper |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Less than $10,000 | 23% | 25% | 50% | 49% | 53% |
| $10,000 - $14,999 | 19% | 13% | 50% | 51% | 47% |
| $15,000 - $24,999 | 33% | 29% | 62% | 58% | 75% |
| $25,000 - $34,999 | 22% | 26% | 268% | 248% | 286% |
| More than $35,000 | 2% | 6% | -- | -- | -- |
| **Ethnicity** | | | | | |
| African American | 21% | 23% | 23% | 25% | 21% |
| Hispanic Latino | 11% | 4% | 77% | 75% | 79% |
| White | 5% | 25% | 21% | 20% | 20% |
| Asian | 59% | 44% | 0% | 0% | 0% |
| Filipino, other asian, pacific islander, chinese | 7% | 0% | | | |
| Chinese | 52% | - | | | |
| Other | 3% | 16% | | | |
| other, native american | 1% | 1% | | | |
| Other | 2% | - | | | |

Note: Generally, throughout the report, individuals listing more than one ethnicity are group together under the heading "Other, and one or more ethnicities." For example, a respondent checking the box for "African American" and the box for "Filipino" would be listed as "One or more ethnicity." In this table, in order to match the Census data, the ethnicity variable is constructed to allow respondents to list multiple ethnicities. For example, in this table a respondent checking the box for "African American" and the box for "Filipino" would be counted as both "African American" and "Filipino"
Note: The ACS data tabulations include an estimate as well as upper and lower bounds estimates. All three are presented here.
Source: U.S. Census 2000, 1% PUMS; 2004 ACS

**Table 3.4.2 Demographic Comparison of WFC Applicants and Census/ACS Proxies for Total Eligible Population by Income**

| | Asian | | | Black/African-American | | | White | | | Hispanic/Latino | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Panel A: Total WFC Population (Census estimate)** | | | | | | | | | | | | |
| All | | 44% | | | 23% | | | 25% | | | 4% | |
| < $10,000 | | 14% | | | 47% | | | 34% | | | 61% | |
| $10,000 - $14,999 | | 19% | | | 12% | | | 10% | | | 0% | |
| $15,000 - $24,999 | | 28% | | | 34% | | | 20% | | | 0% | |
| $25,000 - $34,999 | | 32% | | | 5% | | | 31% | | | 22% | |
| > $35,000 | | 7% | | | 3% | | | 6% | | | 16% | |
| **Panel B: Total WFC Population (ACS estimate)** | Estimate | Lower | Upper | Estimate | Lower | Upper | Estimate | Lower | Upper | Estimate | Lower | Upper |
| All | 31% | 33% | 26% | 27% | 33% | 26% | 16% | 8% | 22% | 27% | 26% | 26% |
| Less than $10,000 | 12% | 4% | 16% | 43% | 59% | 21% | 43% | 71% | 15% | 9% | 0% | 16% |
| $10,000 - $14,999 | 19% | 24% | 18% | 0% | 0% | 17% | 16% | 2% | 21% | 7% | 0% | 12% |
| $15,000 - $24,999 | 48% | 59% | 35% | 21% | 29% | 30% | 11% | 3% | 30% | 44% | 66% | 38% |
| $25,000 - $34,999 | 21% | 13% | 30% | 36% | 12% | 32% | 30% | 25% | 34% | 39% | 34% | 34% |
| $35,000 or more | | | | | | | | | | | | |
| **Panel C: WFC Survey Respondents** | | | | | | | | | | | | |
| All | | 63% | | | 21% | | | 5% | | | 11% | |
| < $10,000 | | 19% | | | 39% | | | 18% | | | 19% | |
| $10,000 - $14,999 | | 21% | | | 17% | | | 21% | | | 16% | |
| $15,000 - $24,999 | | 36% | | | 26% | | | 35% | | | 33% | |
| $25,000 - $34,999 | | 22% | | | 18% | | | 23% | | | 29% | |
| > $35,000 | | 3% | | | 1% | | | 2% | | | 3% | |

Note: Generally, throughout the report, individuals listing more than one ethnicity are group together under the heading "Other, and one or more ethnicities." For example, a respondent checking the box for "African American" and the box for "Filipino" would be listed as "One or more ethnicity." In this table, in order to match the Census data, the ethnicity variable is constructed to allow respondents to list multiple ethnicities. For example, in this table a respondent checking the box for "African American" and the box for "Filipino" would be counted as both "African American" and "Filipino"
Source: U.S. Census 2000, 1% PUMS; 2004 ACS

**Table 3.5.1 Banking Status of WFC Applicants**

| | Percent | N |
|---|---|---|
| Banked | 82% | 4,315 |
| Unbanked | 18% | 963 |
| | | |
| Just savings | 7% | 376 |
| Just checking | 33% | 1,758 |
| Both | 42% | 2,202 |
| | | |
| No savings | 52% | 2,721 |
| No checking | 25% | 1,339 |

**Table 3.5.2 Demographic Characteristics of WFC Applicants by Banking Status**

| | Percent of Respondents | Percent Banked | Percent Unbanked | $\chi 2$ |
|---|---|---|---|---|
| **All** | 100% | 82% | 18% | |
| | | | | |
| **Income** | | | | |
| Less than $10,000 | 23% | 64% | 36% | 0.000 |
| $10,000 - $14,999 | 19% | 83% | 17% | |
| $15,000 - $24,999 | 33% | 86% | 14% | |
| $25,000 - $34,999 | 22% | 91% | 9% | |
| More than $35,000 | 2% | 96% | 4% | |
| | | | | |
| **Ethnicity** | | | | 0.000 |
| Chinese | 52% | 96% | 4% | |
| African American | 21% | 51% | 49% | |
| Hispanic Latino | 11% | 74% | 26% | |
| Other Asian, Pacific Islander | 7% | 79% | 21% | |
| White | 5% | 88% | 13% | |
| Filipino | 4% | 83% | 18% | |
| Other ethnicity or multiple ethnicity | 2% | 81% | 19% | |
| Native American | 1% | 64% | 36% | |
| | | | | |
| **Respondent Health Insurance** | | | | 0.000 |
| Public Health Insurance | 43% | 76% | 24% | |
| Private Health Insurance | 23% | 87% | 13% | |
| Uninsured | 34% | 85% | 15% | |
| | | | | |
| **Zip** | | | | |
| 94101 | 0% | 0% | 100% | |
| 94102 | 4% | 75% | 25% | |
| 94103 | 2% | 74% | 26% | |
| 94104 | 0% | 93% | 7% | |
| 94105 | 0% | 77% | 23% | |
| 94106 | 0% | 100% | 0% | |
| 94107 | 2% | 50% | 50% | |
| 94108 | 4% | 96% | 4% | |
| 94109 | 5% | 93% | 7% | |
| 94110 | 6% | 76% | 24% | |
| 94111 | 0% | 86% | 14% | |
| 94112 | 14% | 89% | 11% | |
| 94114 | 0% | 72% | 28% | |
| 94115 | 3% | 69% | 31% | |
| 94116 | 5% | 94% | 6% | |
| 94117 | 2% | 72% | 28% | |
| 94118 | 3% | 91% | 9% | |
| 94119 | 0% | 0% | 100% | |
| 94121 | 4% | 92% | 8% | |
| 94122 | 6% | 94% | 6% | |
| 94123 | 0% | 100% | 0% | |
| 94124 | 13% | 61% | 39% | |
| 94126 | 0% | 40% | 60% | |
| 94127 | 0% | 75% | 25% | |
| 94129 | 0% | 100% | 0% | |
| 94130 | 1% | 63% | 38% | |
| 94131 | 1% | 83% | 18% | |
| 94132 | 2% | 85% | 15% | |
| 94133 | 9% | 95% | 5% | |
| 94134 | 12% | 79% | 21% | |
| 94135 | 0% | 100% | 0% | |
| 94136 | 0% | 100% | 0% | |
| 94137 | 0% | 0% | 100% | |
| 94140 | 0% | 100% | 0% | |
| 94141 | 0% | 100% | 0% | |
| 94142 | 0% | 50% | 50% | |
| 94152 | | 100% | 0% | |
| 94159 | 0% | 100% | 0% | |
| 94188 | 0% | 67% | 33% | |
| **N** | 5,525 | 4,315 | 963 | |

**Table 3.5.3 Binomial Logistic Regression Model of WFC Applicant Banking Status**

| | Banked | | Savings | | Checking | |
|---|---|---|---|---|---|---|
| | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic |
| **Income** | | | | | | |
| Income $10,000 - $14,999 | 1.93 | (4.67)** | 1.27 | (2.29)* | 1.78 | (4.70)** |
| Income $15,000 - $24,999 | 1.98 | (5.35)** | 1.29 | (2.66)** | 1.91 | (5.81)** |
| Income $25,000 - $34,999 | 3.49 | (7.47)** | 1.27 | (2.23)* | 2.96 | (7.79)** |
| Income $35,000 or more | 6.32 | (3.37)** | 1.7 | (2.18)* | 4.33 | (3.64)** |
| **Ethnicity** | | | | | | |
| African American | 0.16 | (9.26)** | 0.73 | (2.31)* | 0.27 | (8.11)** |
| Latino/Hispanic | 0.26 | (6.22)** | 0.7 | (2.48)* | 0.47 | (4.31)** |
| Filipino | 0.44 | (2.88)** | 1.03 | 0.16 | 0.76 | -1.11 |
| White | 0.47 | (2.63)** | 1.05 | 0.27 | 0.98 | -0.1 |
| Other Asian | 0.34 | (5.18)** | 0.88 | -0.93 | 0.69 | (2.08)* |
| Native American | 0.31 | (2.08)* | 1.17 | 0.32 | 0.73 | -0.58 |
| Other, Multiple Ethnicities | 0.47 | (2.41)* | 0.85 | -0.77 | 0.77 | -0.97 |
| **Health Insurance** | | | | | | |
| Private Health Insurance | 2.53 | (6.62)** | 2.16 | (8.17)** | 2.08 | (6.01)** |
| Uninsured | 1.11 | 0.95 | 1.64 | (6.50)** | 1.17 | 1.54 |
| **Tax Preparation Method** | | | | | | |
| H&R Block | 0.21 | (5.46)** | 0.46 | (4.95)** | 0.33 | (5.16)** |
| Other Commercial Preparer | 0.71 | -1.15 | 0.88 | -0.85 | 0.97 | -0.15 |
| Free Tax Site | 1.00 | 0.00 | 0.65 | (2.41)* | 0.97 | -0.11 |
| Family/Friends or Other | 0.50 | (1.97)* | 0.73 | -1.71 | 0.49 | (2.81)** |
| **Zip Code of Residence** | | | | | | |
| 94102 | 0.55 | -1.58 | 0.83 | -0.86 | 0.72 | -1.12 |
| 94103 | 0.33 | (-2.75)** | 1.12 | 0.44 | 0.40 | (2.77)** |
| 94104 | 1.03 | 0.03 | 2.30 | 1.34 | 0.98 | -0.02 |
| 94105 | 0.35 | -1.23 | 1.65 | 0.73 | 0.66 | -0.52 |
| 94106 | | | | | 1.91 | -0.44 |
| 94107 | 0.34 | (-2.74)** | 0.66 | -1.47 | 0.46 | (2.37)* |
| 94108 | 0.96 | -0.07 | 1.22 | 0.96 | 0.90 | -0.31 |
| 94110 | 0.54 | -1.80 | 0.93 | -0.35 | 0.74 | -1.12 |
| 94111 | 0.36 | -0.88 | 2.34 | 0.99 | 0.42 | -0.97 |
| 94112 | 0.68 | -1.14 | 1.03 | 0.19 | 0.78 | -0.99 |
| 94114 | 0.61 | -0.64 | 0.34 | -1.54 | 1.17 | 0.21 |
| 94115 | 0.52 | -1.77 | 1.29 | 1.02 | 0.53 | (2.09)* |
| 94116 | 0.77 | -0.63 | 0.82 | -1.01 | 0.93 | -0.25 |
| 94117 | 0.72 | -0.75 | 0.89 | -0.39 | 1.05 | 0.13 |
| 94118 | 0.54 | -1.43 | 0.84 | -0.81 | 0.80 | -0.66 |
| 94121 | 0.67 | -0.91 | 0.78 | -1.14 | 0.71 | -1.04 |
| 94122 | 0.96 | -0.10 | 0.97 | -0.14 | 1.11 | 0.35 |
| 94123 | | | 0.54 | -0.66 | | |
| 94124 | 0.43 | (2.63)** | 0.86 | -0.87 | 0.54 | (2.52)* |
| 94126 | 0.48 | -0.57 | 1.23 | 0.16 | | |
| 94127 | 0.54 | -0.93 | 0.31 | (1.99)* | 1.01 | 0.02 |
| 94130 | 0.89 | -0.21 | 1.88 | 1.40 | 0.96 | -0.08 |
| 94131 | 1.17 | 0.26 | 1.33 | 0.74 | 1.40 | 0.66 |
| 94132 | 0.65 | -0.97 | 0.82 | -0.77 | 0.99 | -0.03 |
| 94133 | 0.75 | -0.73 | 1.09 | 0.51 | 0.84 | -0.06 |
| 94134 | 0.42 | (-2.66)** | 0.79 | -1.37 | 0.51 | (2.75)** |
| 94142 | 0.13 | -1.58 | | | 0.35 | -0.83 |
| 94188 | 0.09 | -1.60 | 0.80 | -0.16 | 0.24 | -0.99 |

Absolute value of z statistics in parentheses * significant at 5%; ** significant at 1%

**Table 3.6.1 Planned Refund Use of WFC Applicants**

| | Percent | N |
|---|---|---|
| Save or invest | 11% | 605 |
| Spend on household items | 24% | 1276 |
| Spend on personal items | 13% | 675 |
| Pay bills | 57% | 3042 |
| Buy or repair car | 2% | 119 |

**Table 3.6.2 Demographic Characteristics of WFC Applicants by Planned Refund Use**

| | Save or invest | Spend | Pay bills | Other | $\chi 2$ |
|---|---|---|---|---|---|
| **All** | 10% | 35% | 51% | 4% | |
| | | | | | |
| **Income** | | | | | 0.346 |
| Less than $10,000 | 12% | 33% | 51% | 4% | |
| $10,000 - $14,999 | 9% | 37% | 50% | 4% | |
| $15,000 - $24,999 | 10% | 37% | 50% | 3% | |
| $25,000 - $34,999 | 10% | 36% | 50% | 4% | |
| More than $35,000 | 11% | 34% | 50% | 5% | |
| | | | | | |
| **Ethnicity** | | | | | 0.000 |
| Chinese | 6% | 45% | 46% | 3% | |
| African American | 14% | 26% | 57% | 4% | |
| Hispanic Latino | 18% | 25% | 51% | 7% | |
| Other Asian, Pacific Islander | 8% | 30% | 58% | 3% | |
| White | 10% | 20% | 66% | 4% | |
| Filipino | 21% | 25% | 53% | 2% | |
| Other ethnicity | 19% | 26% | 52% | 4% | |
| Native American | 11% | 30% | 48% | 11% | |
| | | | | | |
| **Respondent Health Insurance** | | | | | 0.000 |
| Public Health Insurance | 9% | 38% | 50% | 4% | |
| Private Health Insurance | 14% | 28% | 55% | 4% | |
| Uninsured | 10% | 37% | 49% | 3% | |
| | | | | | |
| **Banked** | | | | | 0.000 |
| Banked | 10% | 27% | 57% | 4% | |
| Un-Banked | 12% | 37% | 50% | 4% | |
| | | | | | |
| **Tax Preparation Method** | | | | | 0.000 |
| Not file taxes | 15% | 26% | 46% | 13% | |
| Own by hand | 9% | 35% | 50% | 6% | |
| | 11% | 26% | 58% | 4% | |
| H&R Block | 15% | 24% | 56% | 4% | |
| Other commercial preparer | 6% | 40% | 52% | 2% | |
| Free tax preparation site | 11% | 45% | 40% | 4% | |
| Family or friends | 6% | 53% | 36% | 5% | |
| Other | 9% | 34% | 34% | 22% | |
| **N** | 507 | 1,845 | 2,668 | 173 | |

Note: Percentages are out of total responses. Clients were permitted to list multiple refund uses. This table reports the percentage of total refund uses listed for each particular refund use

**Table 3.6.3 Multinomial Logistic Regression Model of WFC Applicant Planned Refund Uses**

| | Spending - Bill Payment | | Saving to Spending | | Saving - Bill Payment | |
|---|---|---|---|---|---|---|
| | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic |
| **Income** | | | | | | |
| Income $10,000 - $14,999 | 1.05 | 0.50 | 0.77 | -1.54 | 0.81 | -1.34 |
| Income $15,000 - $24,999 | 1.17 | 1.76 | 0.71 | (2.30)* | 0.83 | -1.34 |
| Income $25,000 - $34,999 | 1.14 | 1.27 | 0.57 | (3.07)** | 0.65 | (2.51)* |
| Income $35,000 or more | 1.29 | 0.93 | 0.66 | -1.05 | 0.85 | -0.45 |
| **Ethnicity** | | | | | | |
| African American | 0.47 | (6.24)** | 2.55 | (4.60)** | 1.18 | 0.91 |
| Latino/Hispanic | 0.50 | (5.10)** | 3.36 | (5.82)** | 1.68 | (2.74)** |
| Filipino | 0.52 | (3.35)** | 4.20 | (5.36)** | 2.18 | (3.23)** |
| White | 0.31 | (5.78)** | 2.25 | (2.47)* | 0.69 | -1.33 |
| Other Asian | 0.47 | (5.42)** | 1.92 | (2.90)** | 0.9 | -0.47 |
| Native American | 0.41 | -1.8 | 1.61 | 0.541 | 0.66 | -0.54 |
| Other, Multiple Ethnicities | 0.44 | (3.86)** | 3.41 | (4.08)** | 1.5 | 1.54 |
| **Health Insurance** | | | | | | |
| Private Health Insurance | 0.70 | (3.83)** | 2.25 | (5.28)** | 1.58 | (3.19)** |
| Uninsured | 0.88 | -1.77 | 1.71 | (4.14)** | 1.5 | (3.33)** |
| **Tax Preparation Method** | | | | | | |
| H&R Block | 1.04 | 0.26 | 1.29 | 1.03 | 1.35 | 1.28 |
| Other Commercial Preparer | 1.06 | 0.4 | 0.68 | -1.57 | 0.72 | -1.38 |
| Free Tax Site | 1.63 | (2.91)** | 0.86 | -0.54 | 1.41 | 1.29 |
| Family/Friends or Other | 1.77 | (3.22)** | 0.48 | (2.27)* | 0.84 | -0.54 |
| Banked | 1.12 | 1.21 | 1.17 | 1.01 | 1.31 | (1.96)* |

Absolute value of z statistics in parentheses * significant at 5%; ** significant at 1%

**Table 3.7.1 Demographic Characteristics of WFC Applicants by Tax Preparation Method**

| | Self-Prepare | H&R Block | Other Commercial | Free | Family, Friends, or Other | $\chi 2$ |
|---|---|---|---|---|---|---|
| **All** | 6% | 33% | 47% | 8% | 6% | |
| | | | | | | |
| **Income** | | | | | | 0.00 |
| Less than $10,000 | 6% | 45% | 35% | 9% | 5% | |
| $10,000 - $14,999 | 6% | 30% | 47% | 10% | 7% | |
| $15,000 - $24,999 | 5% | 28% | 52% | 8% | 7% | |
| $25,000 - $34,999 | 8% | 30% | 48% | 7% | 7% | |
| More than $35,000 | 6% | 28% | 51% | 4% | 10% | |
| | | | | | | |
| **Ethnicity** | | | | | | 0.00 |
| Chinese | 5% | 2% | 74% | 10% | 8% | |
| African American | 3% | 85% | 5% | 4% | 3% | |
| Hispanic Latino | 5% | 65% | 18% | 9% | 3% | |
| Filipino | 7% | 68% | 14% | 5% | 6% | |
| White | 25% | 54% | 11% | 6% | 4% | |
| Other Asian, Pacific Islander | 7% | 37% | 46% | 5% | 6% | |
| Native American | 0% | 78% | 9% | 9% | 4% | |
| Other ethnicity | 14% | 53% | 19% | 9% | 6% | |
| | | | | | | |
| **Respondent Health Insurance** | | | | | | 0.00 |
| Public Health Insurance | 6% | 34% | 45% | 9% | 6% | |
| Private Health Insurance | 8% | 48% | 31% | 7% | 6% | |
| Uninsured | 5% | 21% | 59% | 8% | 7% | |
| | | | | | | |
| **Banked** | | | | | | 0.00 |
| Banked | 7% | 24% | 53% | 9% | 7% | |
| Un-Banked | 2% | 76% | 16% | 3% | 4% | |
| **N** | 275 | 1508 | 2153 | 371 | 297 | |

**Table 3.7.2 Multinomial Logistic Regression Model of WFC Applicant Tax Preparation Method**

| | Own to H&R Block | | Own to Free | | Own to Family, Friend, Other | | Own to Other Commercial | | H&R Block to Free | |
|---|---|---|---|---|---|---|---|---|---|---|
| | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic |
| **Income** | | | | | | | | | | |
| Income $10,000 - $14,999 | 0.69 | -1.56 | 0.7 | -1.41 | 0.61 | -1.77 | 0.65 | -1.95 | 1.01 | 0.04 |
| Income $15,000 - $24,999 | 0.87 | -0.65 | 0.84 | 0.73 | 0.56 | (2.27)* | 0.53 | (3.17)** | 0.97 | -0.18 |
| Income $25,000 - $34,999 | 1.18 | 0.69 | 1.35 | 1.12 | 0.75 | -1.04 | 0.76 | -1.23 | 1.15 | 0.6 |
| Income $35,000 or more | 0.78 | -0.49 | 1.66 | 0.74 | 0.43 | -1.43 | 0.64 | -0.91 | 2.14 | 1.27 |
| **Ethnicity** | | | | | | | | | | |
| African American | 0.02 | (13.88)** | 1.5 | 1.39 | 1.89 | (2.03)* | 7.74 | (7.49)** | 61.35 | (16.85)** |
| Latino/Hispanic | 0.04 | (11.08)** | 0.95 | -0.18 | 3.12 | (2.87)** | 3.74 | (4.79)** | 23.74 | (13.28)** |
| Filipino | 0.04 | (8.31)** | 2.14 | 1.54 | 1.63 | 1.04 | 5.28 | (4.18)** | 49.26 | (9.67)** |
| White | 0.21 | (6.08)** | 7.44 | (5.57)** | 9.28 | (5.49)** | 26.32 | (11.44)** | 34.77 | (9.91)** |
| Other Asian | 0.09 | (7.90)** | 2.28 | (2.29)* | 1.76 | 1.63 | 1.83 | (2.29)* | 24.89 | (10.31)** |
| Other, Multiple Ethnicities | 0.11 | (7.07)** | 3.36 | (3.04)** | 3.55 | (2.99)** | 8.89 | (6.88)** | 30.05 | (9.45)** |
| **Health Insurance** | | | | | | | | | | |
| Private Health Insurance | 0.87 | -0.69 | 1.35 | 1.29 | 1.21 | 0.79 | 1.47 | (2.01)* | 1.55 | (2.30)* |
| Uninsured | 0.95 | -0.28 | 1.04 | 0.22 | 0.94 | -0.29 | 0.77 | -1.53 | 1.1 | 0.58 |
| **Banked** | 5.2 | (5.92)** | 1.08 | 0.21 | 2.17 | (2.28)* | 1.45 | 1.26 | 0.21 | (6.56)** |

| | H&R Block to Family, Friends, Others | | H&R Block to Other Commercial | | Free to Family, Friends, Others | | Free to Other Commercial | | Family, Friends, Others to Other Commercial | |
|---|---|---|---|---|---|---|---|---|---|---|
| | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic | odds ratio | z - statistic |
| **Income** | | | | | | | | | | |
| Income $10,000 - $14,999 | 0.88 | -0.55 | 0.94 | -0.37 | 0.87 | -0.56 | 0.93 | -0.41 | 1.07 | 0.33 |
| Income $15,000 - $24,999 | 0.64 | (2.04)* | 0.61 | (3.16)** | 0.66 | -1.76 | 0.63 | (2.78)** | 0.95 | -0.25 |
| Income $25,000 - $34,999 | 0.63 | -1.83 | 0.65 | (2.37)* | 0.55 | (2.19)* | 0.57 | (2.88)** | 1.03 | 0.12 |
| Income $35,000 or more | 0.55 | -1.21 | 0.82 | -0.52 | 0.26 | (2.10)* | 0.38 | -1.74 | 1.48 | 0.96 |
| **Ethnicity** | | | | | | | | | | |
| | 77.01 | (16.28)** | 315.4 | (26.49)** | 1.26 | 0.77 | 5.14 | (6.53)** | 4.1 | (5.17)** |
| Latino/Hispanic | 78.21 | (12.51)** | 93.81 | (22.67)** | 3.3 | (3.31)** | 3.95 | (6.26)** | 1.2 | 0.54 |
| Filipino | 37.49 | (9.76** | 121.55 | (17.22)** | 0.76 | -0.56 | 2.47 | (2.14)* | 3.24 | (3.00)** |
| White | 43.42 | (9.35)** | 123.08 | (17.00)** | 1.25 | 0.46 | 3.54 | (3.31)** | 2.83 | (2.45)* |
| Other Asian | 19.3 | (9.98)** | 20.05 | (15.37)** | 0.78 | -0.72 | 0.81 | -0.79 | 1.04 | 0.15 |
| Other, Multiple Ethnicities | 31.78 | (8.93)** | 79.65 | (16.36)** | 1.06 | 0.12 | 2.65 | (2.66)** | 2.51 | (2.33)* |
| **Health Insurance** | | | | | | | | | | |
| Private Health Insurance | 1.39 | 1.6 | 1.68 | (3.54)** | 0.9 | -0.47 | 1.09 | 0.47 | 1.21 | 1.04 |
| Uninsured | 0.99 | -0.05 | 0.82 | -1.51 | 0.9 | -0.57 | 0.74 | (2.26)* | 0.82 | -1.34 |
| **Banked** | 0.42 | (3.82)** | 0.28 | (8.01)** | 2.02 | (2.31)* | 1.35 | 1.2 | 0.67 | -1.77 |

Absolute value of z statistics in parentheses * significant at 5%; ** significant at 1%