

Leveraging Earned Income Tax Credits to Reach New Bank Customers

The Earned Income Tax Credit (EITC) is an important source of non-wage income for eligible low- and moderate-income working individuals and families. National banks and federal savings associations (collectively, banks) recognize the importance of the EITC refunds to their existing customers and to potential consumers who may be unbanked or underbanked.¹

This fact sheet discusses examples of bank EITC activities, programs, and partnerships that can help increase EITC awareness and, under certain circumstances, may receive Community Reinvestment Act (CRA) consideration. Resources for more information are also provided.

Background

Created in 1975, the EITC is the federal government's largest program benefiting lower-income working families. The EITC is unique in that it is a refundable tax credit. An eligible taxpayer who files for the EITC will receive a refund check from the Internal Revenue Service (IRS) for the difference between the amount of taxes owed and the EITC amount. The EITC is calculated on the taxpayer's earned income and the number of qualifying children in their household.

In 2017, more than 25.8 million eligible workers and families received about \$63 billion in EITC refunds. The average EITC received in 2017 was \$2,470.

The IRS estimates that one in five eligible low- and moderate-income workers fails every year to claim their EITC refunds. Eligible taxpayers and the communities in which they live and work are harmed when billions of dollars in unclaimed EITC proceeds do not flow into the households, businesses, and neighborhoods that stimulate local economic activity.

EITCs Provide Opportunities for Both Consumers and Banks

For many low- and moderate-income families, the federal income tax refund represents the largest infusion of non-wage funds received each year. IRS rules allow taxpayers to split their refunds between deposit accounts, giving them more options for saving and spending.

Individuals and families can use EITC refunds to pay bills and set up, or add to, savings accounts as financial cushions for unexpected expenses. They also can leverage

¹ ["A Guide to Building Products and Strategies for Unbanked Markets."](#) National Community Investment Fund, Retail Financial Services Initiative.

their savings for new homes, college educations, small businesses, and retirement.

Banks can benefit from the EITC refunds from customers who want their savings to grow. These consumers can become new bank customers who likely will use a broad range of deposit, credit, and mortgage loan products and services. Banks also report that EITC programs provide them with opportunities to offer products and services in new markets and neighborhoods.

Starting a Successful EITC Program

Banks creating successful EITC programs often bring together the support of various community leaders, such as members of the local chamber of commerce, financial literacy and education representatives, community development corporations, and consumer credit counseling agencies. Further, these banks report that they explore opportunities to become involved well before the start of each tax season.

Generally, successful bank EITC programs include

- focusing on customer acquisition.
- having a mix of complementary products because customers have different needs.
- using community partners strategically.
- creating a smooth transition from tax preparation into opening a bank account.
- having dedicated staff to coordinate and administer the site infrastructure.

Including EITCs in Financial Literacy Education Discussions about Bank Accounts and Related Services

The EITC provides banks with opportunities to broaden their financial literacy education programs. Banks can educate and introduce existing and potential customers to EITCs

and the financial services offered by depository institutions, including the following:

- Access to savings instruments
- Relatively inexpensive transaction services
- Consumer protections
- Safeguards against theft

Specifically, bank education efforts can highlight the products and services offered that allow a customer's EITC refunds to be directly deposited into his or her existing or newly created bank accounts, thereby attaining new customers and building core deposits.

Bank education efforts can also highlight that EITC refunds enable consumers to participate in a growing economy and to build a financial cushion in the event of an economic downturn. The development of assets, large or small, helps a household eventually leverage those dollars into a home, college education, small business, or retirement fund.

Linking EITC Refunds to Individual Development Accounts

Many banks have developed or supported Individual Development Account (IDA) programs in partnership with nonprofit organizations. The EITC provides banks with opportunities to educate and introduce IDA holders that their EITC refunds can be directly deposited into new or existing IDAs.

An IDA is a matched savings account, similar to a 401(k), which can be used for a specifically defined purpose, such as purchasing a home, seeking postsecondary education, or capitalizing a small business.

Consumers make regular savings deposits in their IDAs that are then matched by funds from the sponsoring bank, a foundation, charitable organization, or local government agency that seeks to promote a specific wealth-building initiative. IDA income eligibility requirements vary, but generally limit participation to low- and moderate-income households.

Partnering with Employers on EITCs

Bank partnerships with employers provide another venue for banks to educate potential customers about the benefits of EITCs. Banks can work and partner with employers to offer bank-sponsored payroll and stored-value cards, retirement services, college savings funds, and other depository products and services to educate employees about and incorporate the EITC in financial literacy education programs.

In addition, employers can host or adopt an IRS Volunteer Income Tax Assistance (VITA) site staffed with company and bank volunteers. Employers also can launch internal EITC public awareness campaigns through seminars, notes included with paychecks, company newsletters, and other forms of communication.

Supporting IRS VITA Sites

Many banks support IRS VITA sites by providing staff or other resources. VITA sites employ volunteers who offer free tax help and prepare and electronically file tax returns for lower-income taxpayers, including persons with disabilities, non-English-speakers, and others on limited incomes who may find it difficult to pay for commercial tax preparation assistance.

² [Interagency Questions and Answers Regarding Community Reinvestment](#), (Q&A) 81 FR 48506, (July 25, 2016).

Generally, VITA sites are located at community and neighborhood centers, libraries, school, shopping malls, and other convenient community locations.

Community Reinvestment Act

Through the Interagency Questions and Answers (Q&A)², the OCC and other financial institution regulatory agencies have interpreted the CRA and its implementing regulations³ as recognizing the importance of financial literacy programs in serving the credit needs of low- and moderate-income individuals and families. Generally, such programs must have a community development purpose, which is defined to include community services targeted to low- and moderate-income individuals. Under CRA, large banks are reviewed under the lending, investment, and service tests, as described more fully below. Intermediate small banks also may receive consideration under CRA for lending to financial literacy providers under either the lending test or the community development test. Small banks are eligible to receive consideration for investments and services if their lending performance exceeds satisfactory standards.

Lending Test

Loans to not-for-profit organizations serving community development needs, such as by providing financial counseling or financial literacy programs targeted to low- and moderate-income individuals, are considered as community development loans.⁴

Investment Test

Investments in, or grants to, a program, activity, or organization that provides

³ 12 CFR 25 and 12 CFR 195.

⁴ See *Q&A*__12(h)-1.

financial literacy or credit counseling which primarily serve low- and moderate-income individuals will be considered as community development qualified investments.⁵

Service Test

Community development services include activities such as providing bank staff to serve as educators in financial literacy programs targeted to low- and moderate-income individuals.

Examples of community development services also include “providing technical assistance on financial matters to small businesses” and “providing credit counseling, home buyer and home maintenance counseling, financial planning or other financial services education to promote community development,” and “establishing school savings programs or developing or teaching financial education or literacy curricula for low- or moderate-income individuals.”⁶

Additional Information

The following resources have more EITC educational program information:

- The Office of the Comptroller’s (OCC) [Financial Literacy Resource Directory](#) can assist banks in developing EITC programs. This web resource also has information on other financial literacy and education opportunities for banks.

- [Individual Development Accounts: An Asset Building Product for Lower-Income Consumers](#). This edition of the OCC’s Community Development *Insights* examines IDAs as a tool for banks to help lower-income individuals and families save for and achieve their financial goals. It describes why banks offer IDAs, how they are involved with IDAs, and addresses barriers to the growth of IDA products.
- The IRS’s [EITC & Other Refundable Credits](#) resource web page has information by tax topic, including on how to promote the EITC and volunteer.
- The FDIC’s [Volunteer Income Tax Assistance \(VITA\)](#) web page explains that banks supporting VITA programs may be eligible for CRA consideration, and ways they can educate and provide financial-related services to underserved individuals.

Disclaimer

Community Developments Fact Sheets are designed to share information about programs and initiatives of bankers and community development practitioners. These fact sheets differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered regulatory or supervisory guidance. Some of the information used in the preparation of this fact sheet was obtained from publicly available sources. These sources are considered reliable, but the use of this information does not constitute an endorsement of its accuracy by the OCC.

⁵ See *Q&A* __.12(t)-4.

⁶ See *Q&A* __.12(i)-3.