



Community Affairs
Department

Fact Sheet

Leveraging Earned Income Tax Credits to Reach New Bank Customers

The Earned Income Tax Credit (EITC) is an important source of income for working families that every eligible taxpayer should claim. National banks have come to appreciate the ability of EITC benefits to help stimulate economic activity and attract new customers within their communities.

Created in 1975, the EITC is the federal government's largest program benefiting working families. It is a refundable tax credit for people who work but do not earn high incomes. When the EITC exceeds the amount of taxes owed, it creates a tax refund to those who claim and qualify for the credit.

Approximately 22 million taxpayers receive \$43 billion in EITC refunds yearly on their federal income tax returns. ¹ According to the national taxpayer advocate's 2007 report to Congress, taxpayers who claim the EITC receive an average refund equal to 20 percent of their annual income. ²

However, the Internal Revenue Service (IRS) estimates that as many as 25 percent of eligible taxpayers left their EITC refunds unclaimed. Therefore, local economies did not garner the indirect benefits from billions of dollars in unclaimed EITC proceeds that would otherwise flow to their local businesses and neighborhoods.

EXAMPLES OF BANK ACTIVITIES INVOLVING EITC PROGRAMS

For many low- and moderate-income families, federal tax refunds (especially EITC refunds) represent the largest infusion of cash they will receive all year. IRS rules allow taxpayers to split their refunds between deposit accounts, giving them more options for saving and spending. Banks have reported that EITC programs can provide opportunities to offer products and services in new markets and neighborhoods, as the following examples demonstrate.

EITC Refunds and Newly Created Bank Accounts

The EITC provides a good avenue for introducing consumers to basic financial services. Banks use this opportunity to educate persons whose broader needs may be better served by depository institutions that provide:

- Access to savings instruments,
- Relatively inexpensive transaction services,
- Secure banking transactions,
- Consumer protections, and
- Safeguards against theft.

In the context of those education efforts, banks offer products and services that allow EITC funds to be directly deposited into newly created bank accounts, thereby attaining

¹Internal Revenue Service, *EITC Partner Invitation Letter*, November 20, 2008, http://www.irs.gov/pub/irs-utl/2009commissioner_letter.pdf (March 3, 2009).

²See 2008 *TNT* 7-12.