

**VITA** A STEP-BY-STEP GUIDE TO  
INCREASE YOUR IMPACT

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## CENTER FOR ADVANCED HINDSIGHT



## ABOUT COMMON CENTS LAB

The Common Cents Lab is a behavioral science research group within the Center for Advanced Hindsight at Duke University. We study financial decision-making with a focus on using social science to promote financial well-being for low- to moderate-income individuals. Through our partnerships, we have tested several behaviorally-informed interventions to increase savings and improve outcomes of tax-time programs.

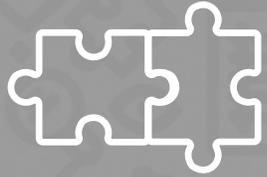
### Questions?

Reach out to us at [info@commoncentslab.org](mailto:info@commoncentslab.org).

## ABOUT METLIFE FOUNDATION

MetLife Foundation was created in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. Since its founding through the end of 2016, MetLife Foundation has provided more than \$744 million in grants and \$70 million in program-related investments to organizations addressing issues that have a positive impact in their communities. Today, the Foundation is dedicated to advancing financial inclusion, committing \$200 million to help build a secure future for individuals and communities around the world.

To learn more about MetLife Foundation, visit [www.metlife.org](http://www.metlife.org).



## OUR PARTNERS

The Common Cents Lab and our research is generously funded by MetLife Foundation. These projects were supported and implemented by our organizational partners: Robin Hood, Urban Upbound, Ariva, Reinvestment Partners, and The United Way of Tucson and Southern Arizona.



## USING THIS GUIDE

In this guide, we share findings from the experiments we have run over the past several years with VITA providers to improve tax-related outcomes. We encourage you to consider implementing these ideas and engaging in additional conversations about how to use behavioral science to increase financial capability for all taxpayers. Let us know how these solutions work at your VITA site and reach out to us if you are interested in testing future iterations of these and other interventions.

# MOVING BEYOND FILING: THE CASE FOR GETTING MORE FROM TAX-TIME

Tax-time is a particularly important opportunity for many people to improve their financial well-being.<sup>1</sup> Tax refunds and credits can provide a little extra breathing room in household budgets, especially for those living paycheck to paycheck. Many people use the money they receive to pay down debt or to get caught up on bills that may have fallen behind. Others put their refund towards important and productive expenses, like investing in assets, paying for education, or putting aside some money for the future in case of emergencies.<sup>2</sup>

Even still, there are opportunities to use VITA services to further increase financial well-being at tax-time. Although VITA and other free alternatives are readily available, far too many opt instead to file with paid preparers.<sup>3</sup> Additionally, too few filers use their refund to bolster their savings. Just over 3% of all filers choose to split their refunds, in part because many filers have already mentally committed them to other expenses well before they file or receive their refunds.<sup>4</sup> Even those who intend to save all or part of their refunds may not follow through on their intentions once their refunds arrive.

The CFPB has compiled best practices to encourage VITA programs to decrease the overall cost LMI households face to use the tax system and to encourage more filers to save part of their refund. Many of their promising practices highlight how making even small changes based on an understanding of how we make decisions can improve outcomes for filers. However, translating even small changes into practice is not always straightforward.

In this report, we outline a series of interventions that exemplify ways these best practices have been implemented in the field and how to use behavioral science to further extend their impact. We've organized these interventions into two categories:

- Increasing uptake and retention in VITA, and
- Increasing refund savings.

In each section, we outline the challenge faced by VITA sites. Then, we present a series of interventions that are ready to be implemented, including what steps are needed to do so and the materials that you may need. By making these best practices available and easy to use, we hope that organizations can help more LMI households take advantage of their tax-time opportunity.

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<sup>1</sup> Collins, J. M. (2009). Tax time as an asset building opportunity: Assessing the potential. *Community Investments*, (Sum), 17-22.

<sup>2</sup> Center for Social Development (2013). Refund to Savings (R2S): Insight from the field, 2012. St. Louis, MO.

<sup>3</sup> The Urban Institute (2005). Paying the price? Low-income parents and the use of paid tax preparers. Washington, DC.

<sup>4</sup> CFPB (2015). Increasing saving at tax-time and promising practices for the field. Washington, DC.

KEY BEHAVIOR

01

# INCREASING UPTAKE & RETENTION IN VITA

**The network of organizations providing free tax preparation offers a critical service for millions of low- to moderate-income individuals each year. Yet, despite the benefits of using VITA, many individuals who qualify for free tax preparation use other services.**

In 2010, only 3% of qualified tax returns were prepared at VITA sites.<sup>1</sup> Even as free online tax preparation software becomes increasingly popular, low- to moderate-income taxpayers still lose billions of dollars a year to paid tax preparers.<sup>2</sup> The challenges in getting qualified filers into VITA also apply to helping filers use new, drop-off VITA services, such as Valet VITA, that organizations are beginning to adopt. The solutions below are intended to help get new filers in the door, bring previous filers back in each year, and increase uptake of drop-off VITA services.

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<sup>1</sup> Internal Revenue Service (2012). Internal Revenue Service Advisory Council 2012 Public Report. Washington, DC.

<sup>2</sup> Lim, Y., DeJohn, T. V., & Murray, D. (2012). Free tax assistance and the earned income tax credit: Vital resources for social workers and low-income families. *Social Work, 57*(2), 175-184.

## SOLUTION 01: LOTTERY TICKET REFERRALS

### WHAT IS IT?

Sites disperse lottery referrals with scratch-off tickets that filers can hand out to friends and family for a chance to share a cash prize.

### PURPOSE

Give potential filers who qualify for VITA a tangible reminder and possible incentive to use a VITA site, delivered to them by people they trust.

### COST COMPONENTS

Printed referral cards = \$0.50 each  
Lottery prize money = \$1,500 (or other chosen amount)

## ESTIMATED IMPACT

In a pilot test, people who were referred with a tangible ticket were 6 times more likely to come into the VITA site than people who were referred but did not receive a tangible ticket.<sup>1</sup>



### IMPLEMENTATION

After filers finish meeting with a tax preparer, hand them flyers that double as scratch-off lottery tickets. Filers should write down names of people they want to refer and then give them the cards in person. There are numerous online printers who can add the scratch-offs to a flyer or print them as separate cards. The flyers can contain basic information about site hours and how to find the nearest location. The instructions with the lottery ticket should indicate that people have to scratch off the ticket at the VITA site for a chance to win the prize, and if the card is a winner, the referrer and referred will share the prize.

DOWNLOAD THIS TEMPLATE AT [VITAGUIDE.COMMONCENTSLAB.ORG](http://VITAGUIDE.COMMONCENTSLAB.ORG)

### BEHAVIORAL THEORY

This idea uses the concepts of *tangibility* and *reward substitution*. People are more motivated by things they can touch, as well as when benefits are immediate. It is important to make sure the reward comes with an action (filing at a VITA site), rather than an outcome (receiving a refund). This idea also incorporates a lottery with random rewards. The chance to win a larger prize is more motivating than

receiving a guaranteed, smaller prize, even if the chances of winning are low. Finally, the ticket serves as a *reminder* – and a source of *curiosity* and even *potential regret* – to come in and get your taxes done because it is given to people ahead of time. Lotteries can be implemented in this way around various actions, such as filing with a particular service or saving a refund.

## KEY BEHAVIOR 01: INCREASING UPTAKE & RETENTION IN VITA

# SOLUTION 02: IMPLEMENTATION INTENTION POSTCARDS

### WHAT IS IT?

Postcards to potential new filers prompting them to make a plan to come into the site.

### PURPOSE

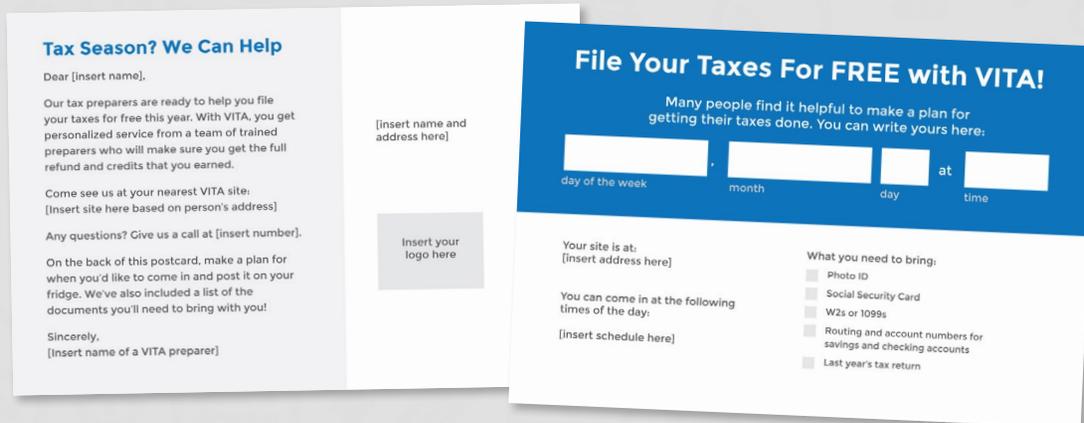
Inform potential new filers about VITA services and help them overcome procrastination so that they do not turn to paid preparers at the last minute.

### COST COMPONENTS

Printed postcards = \$0.25 each

## ESTIMATED IMPACT

In a pilot test aimed at increasing flu vaccinations, rates of uptake were 4% higher for those who received a postcard prompting them to make a plan (37% uptake), compared to a standard postcard reminder with no prompt (33% uptake).<sup>1</sup> We estimate slightly lower impact for VITA uptake due to increased barriers, but still recommend this intervention due to the low cost and potential for impact.



### IMPLEMENTATION

Before tax season starts, send postcards to neighborhoods with low VITA uptake. On the postcards, in addition to information about the sites, include a space for filers to make a detailed plan about when and where they will file with VITA and prompt them to post it on their fridge.

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### BEHAVIORAL THEORY

This idea applies the concept of *implementation intentions* – when people make detailed plans about when and how they are going to take an action, they are more likely to follow through with it. The plan also forces a *pre-commitment* to filing with

VITA. By providing a postcard that they can display in a visible place, such as on their fridge, this tool serves as a *tangible reminder* to get new filers to come into VITA sites.

## SOLUTION 03: DECISION SHEETS FOR NEW SERVICES

### WHAT IS IT?

Small cards to help taxpayers make a decision about what kind of tax services are best for them.

### PURPOSE

Help more taxpayers choose a drop-off VITA service by highlighting the time they lose by waiting in line to see a preparer.

### COST COMPONENTS

Printed sheets = \$0.25 each

## ESTIMATED IMPACT

In a pilot test, 28% of people who received an opportunity cost decision slip chose to use a drop-off filing service.



### IMPLEMENTATION

Print cards ahead of time and place them at the intake table. As filers enter, the greeter hands them the decision sheet along with the other intake forms.

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### BEHAVIORAL THEORY

People tend to ignore *opportunity* costs when making decisions. Opportunity costs are things we give up by choosing one option over another. Research finds that opportunity costs related to time are especially difficult to factor into decisions. These slips aim to make these costs clearer by highlighting the time people lose by waiting in line to see a preparer. Helping potential filers better understand the opportunity costs of their decisions could inform a variety of different tax-time

interventions, from increasing savings to opting to use a free tax preparation method. These sheets also implement the concept of *active choice*, wherein people must consciously choose which service they want to use, making it more likely that they will consider the costs and benefits of both options. Finally, this decision aid signals a subtle social cue, suggesting that if filers identify with the points listed, then drop-off filing might be the right choice for them.

## KEY BEHAVIOR 01: INCREASING UPTAKE & RETENTION IN VITA

# SOLUTION 04: TEXT MESSAGE REMINDERS

### WHAT IS IT?

Messages to filers to let them know that the deadline to file with VITA is approaching.

### PURPOSE

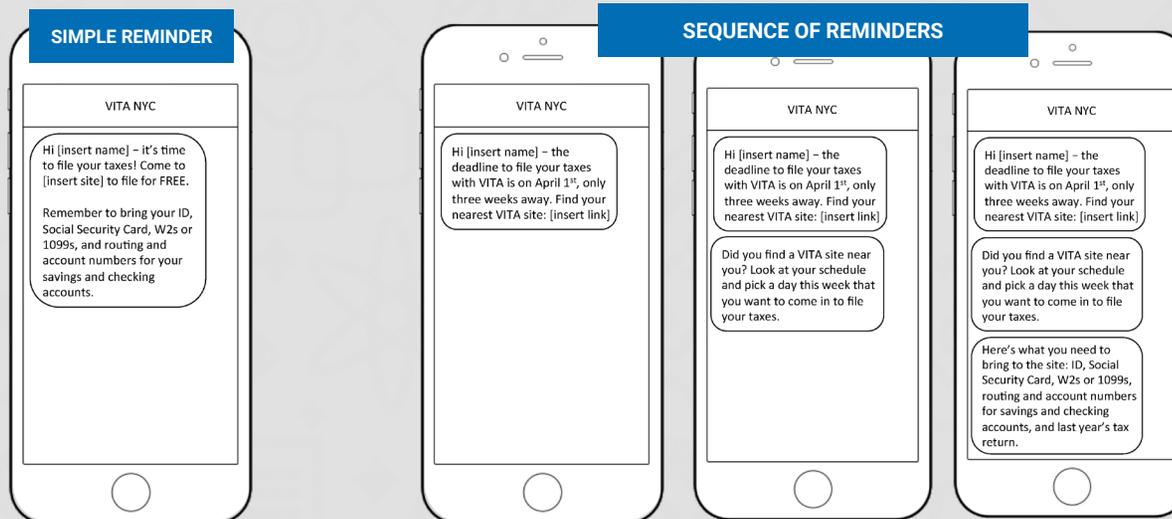
Help previous filers overcome procrastination so that they do not turn to paid preparers at the last minute.

### COST COMPONENTS

Twilio's text message service = \$0.0075 per message

## ESTIMATED IMPACT

In a pilot test, rates of filing at VITA were 4% higher for filers from the prior year who received a reminder message.<sup>1</sup> Reminders have also been shown to be even more impactful when they are coupled with a deadline. In a separate test aimed at reminding students about financial aid deadlines, rates of completion were 15% higher for those who received deadline messages.<sup>2</sup>



### IMPLEMENTATION

In January, send last year's filers a short text message reminding them to make a plan to come into the VITA site. For added effect, consider sending a sequence of messages to help filers take one step at a time or adding a deadline so that people make filing a priority.

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### BEHAVIORAL THEORY

*Deadline reminders* help focus people's attention to upcoming deadlines and create a sense of urgency around accomplishing a task. This is particularly helpful in the case of tax season, as having several months to file is conducive to *procrastination*.

This tool is further improved by sending a sequence of text messages to help filers prepare to come into VITA one step at a time (e.g. collecting identification, printing W2s and 1099s, writing down account numbers).

KEY BEHAVIOR

02

# INCREASING REFUND SAVINGS

**Saving money can be difficult for low- to moderate-income individuals, especially when they are focused on paying down debts first. In a 2008 study of LMI taxpayers, 63% of respondents planned to use most of their refund to catch up on bills and debts.<sup>1</sup> While this may be considered a productive way to use a refund, tax-time provides an opportunity for people to think not only about paying debts, but also about building assets.**

Taxpayers likely commit their refund to debts because the consequences are particularly concrete, while saving for the future is far more abstract. Furthermore, low-income filers may be interested in having their refunds more accessible, perceiving them to be out of reach if they are in savings accounts. However, research shows that low-income families are less likely to have money saved for the future, suggesting that opportunities to build assets are particularly critical for this demographic.<sup>2</sup> The solutions below are intended to help filers save some or all of their refunds.

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<sup>1</sup> Linnenbrink, M., Koonce, J., Mauldin, T., Rupured, M., & Schlanger, K. (2008). Earned income tax credit: Experiences from and implications of the voluntary income tax assistance program in Georgia. *Journal of Extension, 46*(1).

<sup>2</sup> The Annie E Casey Foundation (2016). *Investing in Tomorrow: Helping families build savings and assets*. Baltimore, MD.

## SOLUTION 01: SAVINGS PRE-COMMITMENTS

### WHAT IS IT?

Text messages prompting filers to commit ahead of time to saving part of their refunds.

### PURPOSE

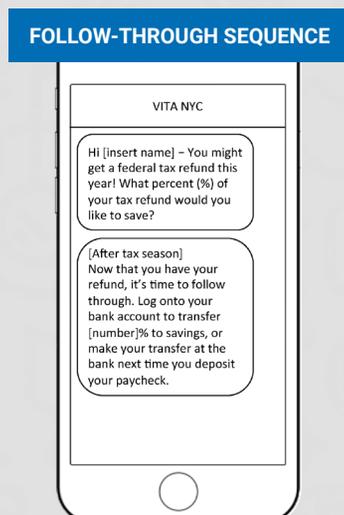
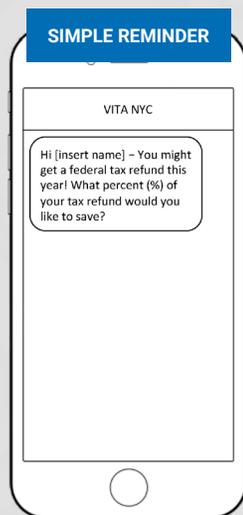
Help more filers save for the future at tax-time by pre-committing their refunds to savings accounts.

### COST COMPONENTS

Twilio's text message service = \$0.0075 per message

## ESTIMATED IMPACT

In a pilot test, 13.5% of filers who received a savings prompt via text message decided to save part of their refund. Of those that wanted to save, the average savings rate was 25% of each refund.<sup>1</sup>



### IMPLEMENTATION

Send text messages to filers early in the tax season (January or early February). Messages should prompt filers to respond with the percentage of their refund that they want to commit to saving. If VITA services are tied with a particular financial institution, this pre-committed amount can be automatically transferred to savings. If not, consider implementing a sequence of text messages that prompts filers to take the necessary steps to transfer their refunds to savings. This can potentially be paired with a platform like Salesforce so that the pre-committed amount can be populated in the tax process.

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### BEHAVIORAL THEORY

*Commitment devices*, including this example of pre-commitment, are techniques used to help people follow through on certain actions. In this case, committing to saving a refund before it is tempting and *tangible* makes it less likely that people will spend the entire refund. This tool also applies the concept of *accountability*, as

people are prompted to respond to the text with their savings intentions. This two-way system makes it feel as if another person is following up with them to make sure they actually save their refund.

## SOLUTION 02: LOTTERY FLYERS FOR PRIZE-LINKED SAVINGS

### WHAT IS IT?

Lottery flyers for the SaveYourRefund promotion for people who save at least \$50 of their federal tax refund (by splitting it using IRS Form 8888).

### PURPOSE

Encourage savings through a handout that advertises an engaging incentive program with the potential for large prizes.

### COST COMPONENTS

Printed lottery flyers = \$0.25 each  
Training time with volunteers

## ESTIMATED IMPACT

Since 2013, the SaveYourRefund promotion has helped nearly 12,000 people save part of their refund.<sup>1</sup> Similar prize-linked savings programs have increased total savings of participants by as much as 38%.<sup>2</sup>



### IMPLEMENTATION

Through the SaveYourRefund promotion (<https://saveyourrefund.com>), tax filers who use Form 8888 to split their refund can enter to win between \$100 and \$10,000. This can be implemented simply by advertising the promotion at VITA sites with tangible flyers and encouraging filers to fill out Form 8888. We recommend having tax preparers bring up this promotion with filers by actively asking them if they want to participate by saving part of their refund, and then helping them fill out the form. Alternatively, if funds permit, this can also be implemented through an independent promotion with a smaller lottery within a single VITA network. If done independently, people who save their entire refund can qualify, rather than limiting it to those who split their refund with Form 8888.

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### BEHAVIORAL THEORY

As in the earlier example of lotteries to increase VITA uptake, savings lotteries apply the behavioral concept of *reward substitution*. Lotteries are particularly effective because people are motivated by random rewards that incentivize actions, such as filling out Form 8888 to save part of a refund. This idea also capitalizes on

the concept of *active choice*, wherein people are required to make a choice about whether or not they would like to save their refund. Having preparers prompt this choice makes it more likely that people will choose to save rather than leaving it up to the filer to bring up savings.

<sup>1</sup> Commonwealth (2017). Five years of SaveYourRefund. Boston, MA.

<sup>2</sup> Tufano, P. (2008). Saving whilst gambling: An empirical analysis of UK premium bonds. *The American Economic Review*, 98(2), 321-326.

## SOLUTION 03: TAX PREPARER SUGGESTIONS

### WHAT IS IT?

Recommendations from a tax preparer suggesting savings amounts and goals for filers.

### PURPOSE

Prompt filers to think about refund savings through a trustworthy recommendation.

### COST COMPONENTS

Training time with volunteers

## ESTIMATED IMPACT

In an experiment to increase savings with online tax preparation, nearly 10% of filers who were shown a “savings anchor,” or a suggested amount to save, chose to save part of their refund, with 87% of those filers saving their entire refund rather than part of it.<sup>1</sup>



### IMPLEMENTATION

During the one-on-one tax preparation process, preparers can prompt filers to save a specific amount of their refund for a specific purpose. We recommend providing concrete suggestions, such as putting \$200 from a refund away for emergency savings. This can potentially be implemented through the tax system to prompt the preparer to make the suggestion.

### BEHAVIORAL THEORY

The concept of *anchoring* suggests that people rely heavily on the first piece of information offered when making decisions. Savings anchors make it easier for filers to figure out how much of their refund they should be saving. This intervention is made stronger when the suggestions come from tax preparers, as filers place more credibility in suggestions that come from people they trust.

# SOLUTION 04: SAVINGS WORKSHEETS

## WHAT IS IT?

A simple decision guide to help filers to commit to saving.

## PURPOSE

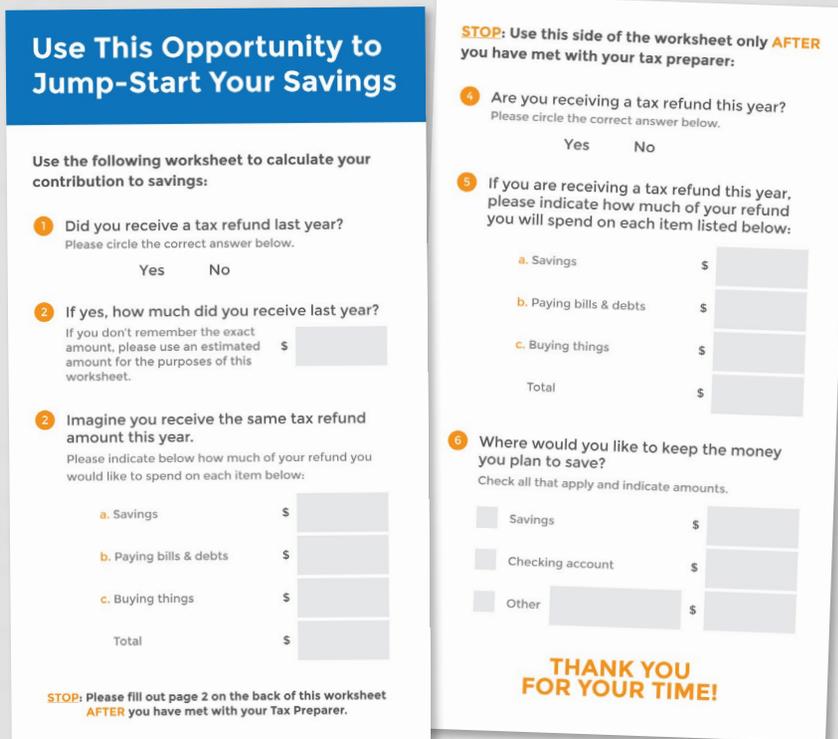
Create an easy, structured tool to encourage filers to save some of their refund.

## COST COMPONENTS

Printed worksheets = \$0.10 each

## ESTIMATED IMPACT

In a pilot intervention at a VITA site, 55% of people who received a savings worksheet filled it out. 25% of those filers decided to save part of their refund.



## IMPLEMENTATION

Print worksheets ahead of time and place them at the intake table. As filers enter, the greeter hands them the worksheet along with the other intake forms. Filers should fill out the front of the form before their meeting with the preparer and the back of the form after. Tax preparers can then look over the savings sheets with filers and help them follow through on saving a portion of their refund.

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## BEHAVIORAL THEORY

We often look to those around us for cues signaling the right choice. The savings worksheet capitalizes on this phenomenon by helping people distribute their refund into multiple categories and avoid spending it all in one place. The categories are broad and limited in quantity in order to deter people from committing their refund to too many expenses. This worksheet also reduces friction costs to saving by simplifying the process of deciding how much to save. Lastly, the worksheet incorporates *pre-commitment* by asking filers to make a plan for how they will use their refund before they actually receive it.

## CONCLUSIONS

With the goal of maximizing tax-time opportunities in mind, we seek to provide additional evidence for the capacity of small and cost-effective interventions to shift behavior. For those interested in improving the financial well-being of low- to moderate-income populations, tax season provides a number of hurdles, but also offers a chance to promote better outcomes. We encourage you to implement these ideas into your VITA process in order to help filers in your community use these services and begin to build savings for the future.

If you are interested in testing a variation on one of these ideas, or if you would like to run other tax-time experiments with us, we would love to hear from you. Similarly, if you implement one of the above interventions, share your results with us! You can reach us at [info@commoncentslab.org](mailto:info@commoncentslab.org).