



# Energy Safety Net Toolkit

## TOOL #2

### **CREDIT, WHERE CREDIT IS DUE: PUBLIC UTILITIES AND THE EARNED INCOME TAX CREDIT FOR WORKING POOR UTILITY CUSTOMERS**

An Energy Safety Net Tool from:

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The end of the winter heating season presents particular financial problems for low-income consumers. Many of these consumers simply cannot afford to pay their winter home heating bills. Protected by state restrictions on winter utility shutoffs, these consumers frequently accrue substantial dollars of arrears. When the shutoff restrictions end in March and April, these low-income consumers must either come up with hundreds of dollars of bill payments or risk losing their utility service altogether.<sup>1</sup>

The problem is substantial. A June 2001 report by the National Fuel Funds Network, and other national organizations, found that at the end of the 2000/2001 winter heating season, at least 4.3 million low-income households were at risk of having their utility service cutoff because of an inability to pay their winter home energy bills.<sup>2</sup> While natural gas prices have moderated in the 2001/2002 winter heating season, the economic downturn has placed additional households at risk. These households are disproportionately low wage, low-income working households.

#### **THE ADVANTAGES OF PROMOTING THE EITC**

Promotion of the Earned Income Tax Credit (EITC) could be an important strategy for helping the working poor address otherwise unaffordable winter home energy bills. Coming as part of the federal income tax return process, the money will come at the time when low-income

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<sup>1</sup> While state shutoff restrictions focus on utility shutoffs, similar issues would arise from the loss of service from bulk fuel vendors. The loss of fuel oil service, for example, might arise from a refusal of a dealer to deliver additional oil when prior bills remain unpaid. There is no “disconnection of service” in the sense of a utility shutoff, but there is a loss of home heating nonetheless. Indeed, given the winter utility shutoff protections many states have adopted to prevent winter shutoffs—these are often referred to as a winter moratorium—customers of bulk fuels such as fuel oil and propane may be in *greater* danger than utility customers.

<sup>2</sup> National Fuel Funds Network, et al. (June 2001). *The Cold Facts*, at 1, National Fuel Funds Network: Washington D.C.

households are most vulnerable to unpaid energy bills. Tax returns filed in January and February would easily put cash in the hands of low-income households during the high bill winter months. Even tax credits coming back to customers in April may well serve as a source of downpayment on a payment plan to prevent the loss of service at the very time state winter shutoff moratoria are ending.

While a low-income household would need to file a tax return in order to receive the EITC, the household need not have a tax liability in order to receive the credit. The credits can thus place actual cash in the pockets of households. This cash can be used as a significant resource to retire unpaid utility bills. An Edison Electric Institute (EEI) staffperson reports, for example, that a 1994 study found that 90 percent of New Jersey EITC recipients used their tax credit to pay household living expenses. One-third of all recipients used their EITC to pay *past-due* bills and one-quarter used part of the refund to pay utility bills.<sup>3</sup>

### **A UTILITY ROLE IN PROMOTING THE EITC**

Public utilities can play a major role in promoting the EITC. Utilities can, for example, direct outreach to their own customers to ensure that information is universally distributed. EEI's Wilson reports that Arkansas Power and Light sent out a bill insert to 2.1 million customers. No single business outside the electric utility can reach so many people with such ease.

In contrast to these individual efforts, a utility can join a coalition supporting EITC outreach efforts. Public Service Electric and Gas (PSEG) joined a coalition providing enhanced EITC outreach in New Jersey. In an evaluation of its effectiveness, the Association for Children of New Jersey, which spearheaded this coalition, reported that:

- Over 3.5 million envelope stuffers, flyers and posters were distributed;
- An additional 1.1 million flyers describing the EITC were delivered to the parents of public school children; and
- 750 New Jersey transit buses carried EITC posters.

The positive impacts were remarkable. According to the Coalition's own assessment, as a result of the campaign, New Jersey increased the number of residents receiving EITC by 11%, 40% higher than the national average. New Jersey residents received \$60 million more in EITC benefits than they had received the immediately preceding year, 35% higher than the national average increase for the same period. The number of callers to the state EITC hotline more than doubled, with 94% of the callers being first-time contacts.

Finally, a utility can serve as a "gap filler" in the EITC outreach effort. In this role, a company would work with the state IRS office and local EITC coalition to identify eligible but underserved populations. Rather than doing generalized widespread outreach, the utility would

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<sup>3</sup> Alexander Wilson (November/December 1994). "Another Perspective: Earning Credit in the Community," *Electric Perspective*, at 78.

seek to find narrower mechanisms designed to target the specific population identified.<sup>4</sup> For example:

- According to the Center on Budget and Policy Priorities (CBPP), “women make up the majority of part-time and minimum wage workers, and are likely to be in jobs earning lower wages than men . . . Newly employed women may not know about the [EITC] or that they may be eligible. They may never have filed a tax return or they may earn too little to be required to file a tax return.”<sup>5</sup>
- Hispanic parents are much less likely to know about the EITC. A recent survey by the Urban Institute found that only 32 percent of low-income Hispanic parents knew about the EITC and only 20 percent responded that they had claimed the credit. In contrast, nearly two-thirds of all low-income parents know about the EITC.

Utilities in states without state income taxes have a particularly important role to play. A study by Karl Scholz at the University of Wisconsin found, amongst other things, that families who live in states with no state income taxes are less likely to apply for the EITC.<sup>6</sup> Scholz found that many of the two million households that he identified as having failed to claim the EITC filed tax returns, but mistakenly filed the Form 1040EZ, which does not allow the taxpayer to claim the EITC.<sup>7</sup>

#### QUADRUPLING THE EITC BENEFIT

It is quite possible that the amount of new money flowing into a utility jurisdiction would be much higher than a single year figure. The EITC is not a “use it or lose it” proposition. An income-eligible household may make “back claims” for EITC credits within a three year statutory limit. Claims for Tax Year 1997, in other words, expired if not made by April 15, 2001.

An outreach campaign for the 2001 Tax Year (returns filed in 2002) could, therefore, potentially generate (on a one-time basis) not only the credits claimed for the 2001 Tax Year, but the credits for Tax Years 1998, 1999 and 2000 as well. EITC claims for Tax Year 1998 will expire on April 15, 2002.

These back claims can represent a substantial sum of money. The Chicago-based Center for Law and Human Services, for example, sponsors an annual Tax Counseling Project (TCP).<sup>8</sup> The TCP

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<sup>4</sup> For a discussion of how to target fuel assistance, *see generally*, Roger Colton (2000). *Outreach Strategies for Iowa's LIHEAP Program: Innovations in Improved Targeting*, Iowa Department of Human Rights: Des Moines (IA).

<sup>5</sup> Center on Budget and Policy Priorities (2001). *Helping Workers Boost their Paychecks: How to Promote the EITC and the New Child Tax Credit*, at 16, Center on Budget and Policy Priorities: Washington D.C.

<sup>6</sup> John Karl Scholz (Winter 1993 – 1994). *Tax Policy and the Working Poor: The Earned Income Tax Credit*, at note 18, University of Wisconsin, Institute for Research on Poverty: Madison (WI).

<sup>7</sup> *Id.*, at note 13.

<sup>8</sup> Launched as a pilot program in 1994 to meet the tax preparation and tax counseling needs of homeless individuals at several Chicago area shelters, the Tax Counseling Project (TCP) has grown into the nation's largest free statewide tax preparation service for working poor families. The Tax Counseling Project is a volunteer-driven program that relies on more than 400 trained volunteers to provide free, tax preparation assistance for families and individuals. To qualify for the Project's services, clients must meet the Project's income guidelines of \$31,500 or less for families and \$15,000 or less for individuals.

relies on trained volunteers to provide free, confidential tax preparation assistance to low-income wage earners. TCP reports that between nine percent and fifteen percent of all the returns it prepares each year are prior year returns. In turn, 90% of the prior year returns claimed tax refunds.<sup>9</sup>

## THE CRITICAL ROLE OF VITA

Outreach and publicity is not the exclusive role a utility can and should play in seeking to bring the EITC to eligible but unserved or underserved populations. One of the most critical roles that a utility might play, beyond the role of providing outreach, is to recruit volunteers to help staff what are called VITA offices. VITA stands for Volunteer Income Tax Assistance.

VITA offices are community-based offices that are generally located in churches, libraries, schools, community colleges and other public places. VITA volunteers are trained by the Internal Revenue Service (IRS) to help fill out tax forms and answer questions. VITA offices are generally open from late January through mid-April.

According to the Center on Budget and Policy Priorities (CBPP), the primary problem with VITA is that not enough people use it. Most people don't know about VITA offices. Those that do, often find it difficult to find them. Unfortunately, CBPP says, the local IRS telephone numbers through which people might find the location of VITA locations are frequently busy.

Other problems exist with VITA sites, as well, CBPP reports. Many communities do not have any VITA sites. An insufficient number of sites generally reflects the inability of the IRS to recruit a sufficient number of volunteers to staff those sites. Some communities have VITA sites, but do not have them located in places, or do not have them open at times, that workers can take advantage of them.

VITA offices can be the front-line effort to bring EITC benefits to particular targeted populations. In 2000, for example, more than 370 TCP volunteers prepared over 16,500 federal and state income tax returns at 21 sites in Illinois. Total federal income tax refunds generated to clients equaled \$11.5 million. From 1994 through 2000, TCP volunteers served 30,000 Illinois families and individuals and secured more than \$34 million in refunds, primarily through the federal Earned Income Tax Credit (EITC).

The utility industry was instrumental in this Illinois initiative. The local telephone company, Ameritech—Illinois, provided more than 70 staffers to be trained to help people file their returns and obtain the EITC benefits which were due them.

The important thing about VITA offices is that they need not be open from 8:00 to 5:00 each day; nor must they be open five days a week. VITA offices need not be housed in permanent locations; nor must they be open for the entire tax-filing season. VITA volunteers can serve

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<sup>9</sup> See e.g., Center for Law and Human Services (1996). *Tax Counseling Project Report on Year II, July 1, 1995 – June 30, 1996*, at 7, Center for Law and Human Services: Chicago (IL); Center for Law and Human Services (1996) (15% of all returns were prior year returns). *Tax Counseling Project Report on Year III, July 1, 1996 – June 30, 1997*, at 7, Center for Law and Human Services: Chicago (IL) (9% of all returns were prior year returns).

targeted populations by setting up temporary offices in churches, community centers, library branches, or similar locations for a couple of days a week over a few week period. The VITA volunteers can then move on to serve another neighborhood or community.

Making VITA sites available, and encouraging their use, has an impact extending beyond merely increasing the number of low-income working families that can claim the EITC. Promoting the use of VITA sites also helps to maximize the EITC benefits that will flow to the low-income community.

Consider that low-income workers who have tax returns prepared by VITA workers will not have to pay commercial tax preparers to prepare their returns. A commercial firm may charge anywhere from \$50 to \$100 to prepare a tax return. As CBPP notes: “Paying for tax preparation takes away money from a worker’s [EITC]. Since people who are eligible for the [EITC] earn low incomes, it usually doesn’t make sense for them to pay for tax preparation when there is another choice.”<sup>10</sup> IRS data indicates that about sixty percent of EITC recipients are paying someone to prepare their tax returns. CBPP estimated that these payments totaled about \$660 million in 1999.<sup>11</sup>

Overall, a utility can play one or more critical roles with respect to the use of VITA sites. A utility can use its universal contact with consumers to publicize the availability of VITA sites. This “information function” would inform customers of where VITA sites will be, when they will be in operation, and how to access them.

A utility can refer eligible families to VITA. Customers who are in payment-trouble, who have received federal fuel assistance in the past, or who exhibit other characteristics, which might indicate their need for additional public assistance, can be “pushed” toward VITA sites. Information in VITA sites can be included in notices of service termination, in written confirmation of payment plan terms, or in other collection initiatives.

A utility can sponsor (and staff) VITA sites that serve distressed communities. Opening an office in a church in a particular neighborhood two nights a week for four weeks can bring EITC benefits into a community where the value of arrears is large, the number of spring shutoffs is high, or the level of bad debt is substantial.

#### **SUMMARY AND CONCLUSIONS**

In sum, electric and natural gas utilities, whether investor-owned or otherwise, can be an important player in outreach efforts to bring federal Earned Income Tax Credit benefits to the working poor. These efforts not only benefit the utility customer, but will have direct benefits for the utility as well.

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<sup>10</sup> Center on Budget and Policy Priorities (1996). *The 2001 Earned Income Credit Campaign: A Guide to an Effective Campaign*, at 7.

<sup>11</sup> 2001 *EITC Guide*, *supra*, at 7.

Two types of efforts are possible. On the one hand, a utility can provide education and outreach. This can be general and universal (such as through a bill insert) or it can be a gap-filler, (targeted to specific unserved or underserved communities). A utility can act on its own, or it can become a member of a state EITC coalition.

On the other hand, a utility can leave the outreach to others and focus its efforts on ensuring a more effective use of the VITA process. Education and outreach specific to VITA, referrals of potentially eligible customers to VITA, recruiting VITA volunteers from the utility's own staff, and helping to establish and staff VITA offices in vulnerable communities, are all functions that a utility should consider.

*Prepared for NFFN by Roger Colton  
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