



Tax Refund Services Can Attract the Unbanked

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For bankers who want to take advantage of one of the biggest marketing and outreach opportunities of the year, it's not too early to start thinking about tax season.

Tax time has proven to be a powerful sales opportunity for financial products because of the large sums involved -- \$228 billion in individual tax refunds in 2004 alone.

It has become standard practice in the banking industry to market IRAs in the spring to people who are trying to reduce their tax liability. Wouldn't it make sense to spend some marketing dollars on consumers who are expecting refunds? Wouldn't it make more sense to market those products when consumers are having their taxes done, at the moment they reach the bottom line and find out how much they will be getting back?

It would be like having the opportunity to sell investment services to the next lottery winner just as she is having her picture taken with the big cardboard check.

Banks can't simply put new posters in their windows if they want their products to be in play at the moment consumers are faced with the prospect of a windfall. They need to partner with commercial and community-based tax preparers to have their products marketed during the tax-prep process, both in person and online.

Every year the IRS processes refunds averaging \$2,100 to more than 100 million taxpayers. In particular, more than 20 million lower-income Americans receive a \$1,700 average boost to their tax refunds from the earned income tax credit. But an estimated 20% of taxpayers earning less than \$25,000 per year lack bank accounts, and only about half of all tax filers use direct deposit to receive their refund.

Unbanked and underbanked consumers have demonstrated their desire and propensity to invest at least a portion of their refunds in savings and investment vehicles. H&R Block, for instance, enables tax filers to make IRA contributions when they have their taxes prepared, funding all or part of the accounts from their expected refunds. Through the end of last year more than 245,000 clients with no prior savings accounts had saved over \$140 million in these IRAs.

Block also has experimented with marketing other financial products during tax time. It partnered with Bank of America to offer a prepaid debit card aimed at customers who want to get their refunds faster by using direct deposit. Similarly, Intuit, the maker of TurboTax, formed an alliance with the media mogul Russell Simmons to offer tax filers between the ages of 18 and 24 the chance to receive their refunds via direct deposit to a prepaid Rush Visa Card.

Increasing numbers of financial services companies have begun to recognize the opportunity, in large part because of the work of the IRS, the National Community Tax Coalition, and community groups around the country that provide lower-income taxpayers with free preparation services. Financial institutions from JPMorgan Chase and PNC to North Side Community Federal Credit Union in Chicago have partnered with these groups to offer bank accounts, stored-value cards, and other products during the tax-prep process.

And the stakes are rising.

In March the IRS announced a decision to make refund splitting available in the 2007 tax filing season. The current tax form allows filers to have their refunds sent to one account; in 2007 filers will be able to split their refunds into multiple accounts.

Banks that want to capitalize on this marketing bonanza would be wise to develop partnerships now and put them to the test in 2006.

Will consumers take advantage of this new option? One experiment suggests they will.

In 2004 a Boston nonprofit called Doorways to Dreams, or D2D, launched a pilot test to simulate refund splitting on a small scale. Working with Bank of Oklahoma and the Community Action Project of Tulsa County, D2D gave taxpayers the option to automatically deposit a portion of their refunds in savings accounts or, if they owned homes, in mortgage prepayments.

More than 20% of the nearly 500 individuals offered the free service used it, saving an average of 47% of their refunds.

This is a good time to start planning your bank's tax-time strategy to acquire customers.

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