



NEW AMERICA FOUNDATION

ASSET BUILDING PROGRAM

ISSUE BRIEF:

THE CALIFORNIA ASSETS AND TRANSACTION ACCOUNT

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Overview

In support of state-wide efforts to bring more Californians into the financial mainstream, the State of California could deliver a pre-paid account through the state's tax filing process. The Assets and Transaction Account, or ATA, would expedite tax filers' access to their tax refunds and serve as a safe, affordable, and convenient financial tool for lower-income Californians to conduct routine financial transactions and build saving throughout the year.

The state tax filing process presents a unique opportunity to reach and deliver a valuable financial product to *millions* of under-banked Californians, while also saving the state government millions of dollars each year through the electronic delivery of tax refunds.²

Rationale for a California ATA

- An estimated one in four Californians lack access to either a basic checking or savings account. Sixty-three percent of Latin American immigrants living in the U.S. do not have a bank account, a significant rate given high percent of Latinos who reside in California.
- Millions of Californians rely on high-cost services to meet their financial needs, from checking accounts, which often involve costly overdraft fees; to payday lenders; to check cashers. For a sense of the cost, the average full time worker will spend an estimated \$800 per year on check cashing services, alone.
- Access to affordable financial products to help build savings and retain income is critical to building wealth and economic security to weather unexpected financial crisis. Unfortunately, the wealth holdings of California households are dismal. Sixteen percent of all households in California have zero or negative net worth, the eighth worst rate among the 50 states. One in four households has insufficient net worth to subsist at the federal poverty level for three months if their income were disrupted.
- Lower-income Californians appear to be filing their taxes as a self-imposed, forced-savings strategy to meet pressing needs and upcoming expenses, even when their earnings fall below the filing threshold. Evidence from the 2004 tax year found that almost 2 million of the approximately 9 million California tax filers who received refunds had incomes below the tax

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² For a sense of the potential savings, the Federal government could have saved an estimated \$31 million in 2005 if the 48% of tax filers who selected a paper check refund had opted to receive their refund electronically. This is based on the Department of Treasury's cost assessment: \$.89 per paper check compared to \$.09 for electronic transmission.

filing threshold, but over-withheld throughout the year in order to claim a refund.³ This data suggest that the tax filing process offers a unique method to capitalize on lower-income tax filers' inclination to save and deliver a financial product that enables them to do so.

The Proposal

Building on the unique opportunity presented through the tax filing process, the ATA proposal entails a cost-saving change in the delivery of state tax refunds. Prior to providing ATAs, the California Franchise Tax Board would contract with one or more financial institutions to issue ATAs to state tax filers. Once the ATA is ready to be rolled out, individual tax filers would see on their tax return forms the option to either direct deposit their refund into an existing account, an ATA, or elect for a paper check. The form would specify that if they do not choose an existing account or elect to receive a paper check, their refund would be automatically deposited into an ATA.

Once the California Franchise Tax Board receives the tax return indicating that the tax filer has elected to receive an ATA, it would confirm the refund amount and electronically transmit it to the financial institution. The refund would be bifurcated between a transaction and a savings account, with five percent automatically deposited into an interest bearing savings account. Individuals could choose to deposit more of their refund into the saving account via their tax return form. The savings component will help Californians meet short-term expenses and savings goals.

Upon receiving the ATA card in the mail, the individual would call an activation line to initiate the ATA, and in a matter of minutes, walk out the door with a network-branded card,⁴ which would draw upon funds in the ATA and could be used for point-of-sale transactions, to access cash, and to make web-based or telephone bill payments. ATA holders also could have their wages and salary directly deposited into the accounts, with the potential for state and federal benefits to be deposited into the account, as well. The accounts would be held at an FDIC or equivalently-insured financial institution, and would contain the same consumer protections that apply to traditional checking and savings accounts.

The Major Points for Delivering an ATA to Californians

- Delivering a high-value, low cost account through the tax filing process is beneficial for all parties involved: California taxpayers, state government, and participating financial institutions. It would be based on a thoughtfully crafted public-private partnership between the state and the financial services sector.
- The ATA would be a reasonably priced, easy to use account held at a regulated financial institution. As a prepaid account, there is little to no risk of overdraft fees and the threshold features for opening an account could be met with the validation of identity at the tax filing stage.

³ Analysis of the 2004 tax year reveals that the average refund for all filers earning up to \$26,999 (0-80% of the median AGI) is \$140 and the average refund for taxpayers earning between \$27,000-\$40,000 (81-120% of the median AGI) is \$445.

⁴ Network-branded means the card would have either a MasterCard, VISA, Discover or other major brand label, and would useable at any POS terminal that brand is accepted.

- The state of California could reap significant cost savings through the electronic delivery of refunds. In 2004, only 3 million of the 9 million taxpayers who were issued refunds elected to direct deposit.
- The ATA has the potential to serve as a vehicle for consolidating and delivering other state payments, further streamlining benefits delivery and lowering administrative costs. Moreover, the prospect of acquiring a transaction and savings account with network-branded payment card might entice those not inclined to file income taxes, to fulfill their tax obligation, ultimately helping California close the \$6.5 billion shortfall in taxes owed.
- The ATA could help to close the tax gap and bring more Californians “on the grid,” as it offers an enticement for more people to file their taxes in the state. It also would reinforce the Franchise Tax Board’s efforts to increase electronic filings.
- Given that wages and salary could be deposited into the ATA, employers throughout the state of California could generate significant cost savings through the electronic delivery of wage payments and the general positive effects that accrue to employers for providing benefits to employees: lower absenteeism and improved retention; increased recruitment potential; and improved workplace productivity.
- The ATA could be especially useful for employers that have a high percentage of employees who lack bank accounts and are unable to use direct deposit to receive their wage payments. The ATA also could be useful for employers with a disbursed, mobile, or seasonal workforce.
- Employees would benefit from immediate access to their pay, the increase in the safety of their monies, and the expanded financial access resulting from a financial product with broad recognition and acceptance. In addition, employees with multiple employers could receive wages from each employer into one account.
- By offering a low-risk product to a large, under-served population, financial institutions stand to expand their customer base and earn CRA credit for providing the accounts. Finally, by establishing a relationship with the filer, the financial institution could assess the ATA holder’s readiness for additional financial products and services.

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