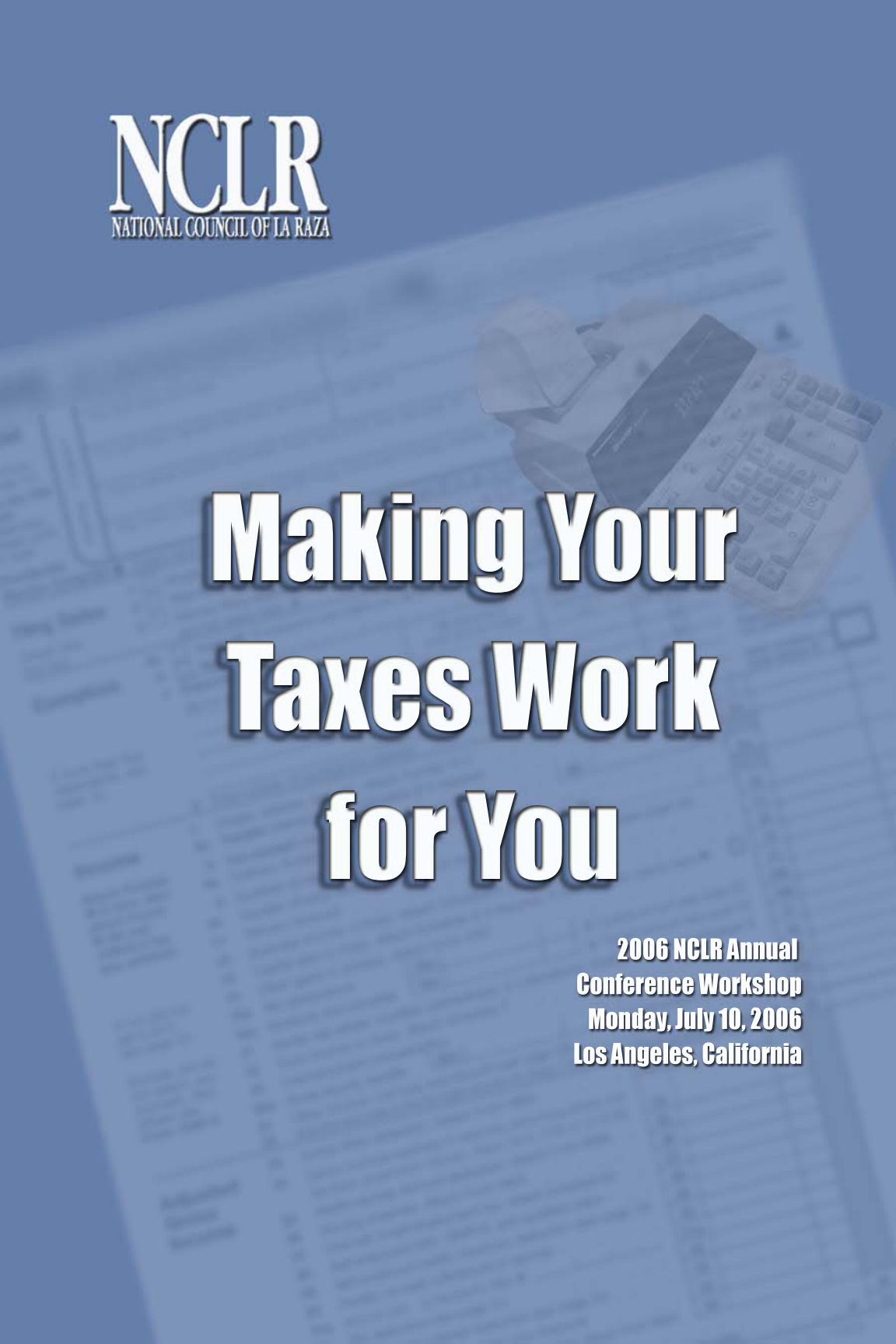


NCLR
NATIONAL COUNCIL OF LA RAZA



**Making Your
Taxes Work
for You**

**2006 NCLR Annual
Conference Workshop
Monday, July 10, 2006
Los Angeles, California**

The National Council of La Raza (NCLR) – the largest national Hispanic civil rights and advocacy organization in the United States – works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas – assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families.

Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. NCLR serves all Hispanic subgroups in all regions of the country and has operations in Atlanta, Chicago, Los Angeles, New York, Phoenix, Sacramento, San Antonio, and San Juan, Puerto Rico.

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Table of Contents

Acknowledgments.	i
Foreword	iii
Executive Summary	v
Presentations	
Kilolo Kijakazi, Ford Foundation (Moderator)	1
Jennifer Brooks, Corporation for Enterprise Development (CFED)	4
Louis Barajas, Louis Barajas Wealth and Business Planning	11
Lindsay Rojas, The Unity Council	18
Rebecca Gonzales, California Budget Project	21
Audience Questions and Answers	27
Participant Biographies	45

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The content of this document is the sole responsibility of NCLR. Panelists had an opportunity to review the transcript for clarification but did not alter materially or substantively their comments.

Foreword

All Americans pay taxes and contribute to the federal budget and their respective state budgets. Many American families are also able to use deductions and credits in the tax code to build wealth. However, for low-income families, the tax code provides relatively little in wealth incentives. For Hispanics in particular, the racial and ethnic wealth gap is growing, with Hispanic households having less than ten cents in wealth for every dollar White households have. At the same time, lawmakers in recent years have cut taxes in a way that further exacerbates the disparity in wealth opportunities. Policy and programmatic solutions are needed to provide opportunities to build assets and wealth for low-income workers, solutions that are often found in the tax code for more well-to-do taxpayers. One group of NCLR Affiliates has effectively combined these two areas, by providing the programmatic and technical solutions through running VITA (Volunteer Income Tax Assistance) sites and by sharing with policy-makers where the tax code may fall short of providing sufficient access to Latino taxpayers to asset-building opportunities. One NCLR Affiliate, The Unity Council, participated in this workshop panel to provide these insights.

Economically, our nation has seen major budget deficits increase at the same time tax cuts were implemented. Policy-makers often look to improve the economic security of families, but they also know that many government programs which are run through tax revenues have served families well. Given that the 2001 tax cuts are set to expire shortly, NCLR has sought to engage and provide a voice for how Latinos view taxes and how Latinos could better interact with the tax code.

Seeking to address this, NCLR convened “Making Your Taxes Work for You” at its 2006 Annual Conference to look at how the tax code could be made more accessible for Latinos and how to reach more Latinos regarding the effective use of their tax return to plan to save. Specifically, panelists and audience members had the opportunity to discuss the current methods that exist to develop assets and savings through the tax code and to highlight how tax rule changes can improve wealth and ownership for Latinos.

NCLR’s goal was to engage key community leaders in the Latino community on the importance of tax policy to Latinos and discuss ways Latinos could gain greater access to the provisions in the tax code of importance to them. To accomplish this goal, NCLR brought in stakeholders to offer various perspectives, which included that of a tax planner, a community activist working directly with the Latino community, a policy analyst to see how federal tax cuts affect low-income workers, and a community advocate to discuss taxes’ interaction with asset-building for low-income populations.

We found the discussion to be valuable and insightful and hope you do as well. NCLR recognizes the importance of Latinos contributing as taxpayers and hopes to engage in opportunities to improve the economic security of Latinos through the tax code.

Sincerely,

A handwritten signature in black ink that reads "Janet Murguía". The signature is written in a cursive style with a large initial "J" and "M".

Janet Murguía
President and CEO, NCLR

Executive Summary

The workshop, “Making Your Taxes Work for You,” held at the 2006 NCLR Annual Conference in Los Angeles, California, provided an opportunity to discuss how the tax system currently affects Latinos and how Latino taxpayers can better access and participate in asset- and wealth-building tax provisions.

Moderator Kilolo Kijakazi opened with a description of how asset-building intersects directly with the tax system and how most tax benefits accrue to those with assets. One example she provided was that tax expenditures for key assets such as retirement accounts, homeownership, and financial and business investments are estimated to be more than \$300 billion each year, which is more than the cost of all programs targeted to low-income households. Further, more than 90% of those dollars benefit households earning more than \$50,000 annually. She noted that Latinos and other low-income taxpayers do not benefit from the tax code as much as upper-income workers – as they experience less access to asset-building tax policy through items like employer-sponsored retirement accounts – and that they may not have any tax liability to benefit from other tax provisions for asset-building. She raised the importance of the Earned Income Tax Credit (EITC) to many low-income working families as a refundable tax credit that can reduce poverty and help many workers develop assets. However, the EITC does not reach as many Hispanic workers as it could because Puerto Rican residents cannot access federal tax benefits.

From the panelists' presentations and the dialogue with the audience that followed, a number of key points were raised including the following:

- **Tax incentives directly affect wealth-building opportunities, and those benefits largely accrue to the wealthy.** “[T]he amount that the federal government spends each year on supporting asset-building of all Americans...was more than \$335 billion...The problem is that it disproportionately benefits those who already have wealth...The reason the tax code matters is that most of that \$335 billion is coming through tax incentives,” Jennifer Brooks of Corporation for Enterprise Development (CFED) noted. Ms. Brooks elaborated on how the money that is foregone by the federal government via tax incentives inures to the more well-to-do which compromises asset-building for lower-income people to the tune of \$335 billion. Moreover, where and how the well-to-do taxpayers decide to invest their money is determined by the tax system. As a result, more can be done for the tax system to help asset-poor taxpayers move to more financial security. There should be broader consideration of how tax incentives can better meet the concerns of asset-poor taxpayers.
- **Tax cuts have compromised the federal budget which limits federal programs.** Rebecca Gonzales of the California Budget Project discussed the need for increased awareness as to how federal tax policy can impact the federal budget: “[W]e have a lot of large tax cuts that primarily benefit the wealthy, and what that is doing is increasing our budget deficit at the federal level...The second thing that does is that [it] leaves large federal deficits, due to the tax cuts, and puts fiscal pressure [on lawmakers] to cut [spending in] programs...” A lower federal budget does result in fewer asset-building opportunities

through social programs for low-income workers. In addition, fewer federal funds means that key social programs that otherwise could put many low-income workers on the path to greater economic prosperity, such as workforce development and job training, are not available or become even less accessible.

- **Misunderstandings about taxes and tax policy exist in the community; relevant financial planning can help respond to it.** Louis Barajas of Louis Barajas Wealth and Business Planning pointed to how misunderstandings about taxes and the tax system can adversely affect low-income workers who would otherwise engage in building assets. “[T]here’s a big misunderstanding in poor communities that if you owe taxes that the government’s taking money from you...a tax return for us is a financial planning document. We can go through the entire tax return and take a look at what kind of wealth-building things our clients are doing,” said Mr. Barajas. This comment pointed out not only more effective ways to reach low-income people, as nearly all will file taxes, but also how to move them to greater asset-building. Tax time is a key opportunity to discuss a family’s financial situation and plan to develop assets and further economic security. Unfortunately, many low-income taxpayers lack access to the preparers and advisors who can walk them through the relevant credits and deductions so that they can begin to use the tax code to develop assets.
- **Immigration status interacts with the tax system in unique ways.** Lindsay Rojas of The Unity Council noted how tax policy and filing taxes can affect immigrant families: “[I]n California, we have a high percentage of immigrants...not all of them can receive all the credits...they need to understand that there’s no connection between [the] INS and [the] IRS, and that it’s

important that they do file so that...it can help them if there is any immigration reform.” Immigrants pay taxes and participate in the tax system but may experience decreased access to various savings programs. In addition, some may not be aware of the ability to file with an ITIN (Individual Taxpayer Identification Number) and how this can be helpful in the citizenship status adjustment process.

The upcoming years will forge much debate on the future of the 2001 tax cuts, how the U.S. will pay down the deficit and fund our federal budget, and what programs will be funded, changed, or ended. This workshop is one step in highlighting the importance of fair tax policy to the Latino and low-income taxpayer communities. Tax policy is a key issue for Latinos today. As they will make up a greater percentage of workers and taxpayers in coming years, it is important to ensure that they are able to access and use the tax system as an asset-building vehicle.

Presentations

Ms. Kilolo Kijakazi: Good afternoon.

Audience: Good afternoon.

Ms. Kijakazi: It's good to be here. I'm Kilolo Kijakazi, and I'm a Program Officer at the Ford Foundation for the Economic Development unit in the Asset-building and Community Development Program, and my portfolio focuses on savings and assets, which include Individual Development Accounts, children savings accounts, pensions, and Social Security. And my work emphasizes the need to include and input the perspective and the points of view of communities of color and the experience of communities of color within the asset-building field. I think that's been lacking in the past.

Michael Sherraden, who developed the theory that underlies asset-building [for low-income families], notes that the typical American middle-class household accumulates most of its tangible and financial assets in home equity and retirement accounts, both of which are subsidized through the tax system. But for the most part, low-income households do not participate in these asset-accumulating policies. Tax expenditures for retirement accounts, homeownership, financial and business investments are estimated to be worth over \$300 billion per year. This is more than the cost of all programs targeted in low-income households, and over 90% of the \$300 billion goes to households earning over \$50,000 per year.

There are two key reasons low-income households are not benefiting more from asset-building tax policy as much as middle- and upper-income households are. First, they have limited access to these programs. For example, low-income households are less likely to work for employers who offer 401(k) retirement plans.

The second reason is [that] asset-based tax policies are not refundable, meaning households with incomes [that] are so low that they don't have to pay tax – they don't have a tax liability – won't benefit from the tax policies. Even the Saver's Credit, which is a retirement savings program that is targeted to low-income households, is not refundable. However, the Earned Income Tax Credit (EITC) is the exception. This is a refundable tax credit for low- and moderate-income wage earners. Households that do not pay taxes can still receive this tax benefit if they file for a federal refund – the federal tax refund.

The EITC is a major poverty-reducing program, but a large part of this program – also a large part of the Latino community – cannot participate in EITC even though it is a refundable tax program. Residents of Puerto Rico are not eligible for EITC because they do not file for federal income tax. Given that 60% of Puerto Rico's population has an income that is below the federal poverty line, not participating in the tax program has major implications.

Latinos on the mainland are also less likely than other groups to benefit from these tax policies. For example, they're less likely to receive Social Security, in part because Latinos are represented in occupations disproportionately that are vulnerable to nonreporting of wages for Social Security credits, so they're less likely to be able to receive benefits from this program.

Today, we are – we have the good fortune of having a panel of speakers who are well-qualified to address the issue of assets and

tax policies on Latinos. First, we'll hear from Jennifer Brooks, who is the Policy Director at CFED. She directs and executes CFED's state, federal, and tribal policy work and manages CFED's policy team. She employs policy research, analysis, advocacy, coalition-building, and technical assistance to policy-makers and advocates at both the state and federal level in order to help low-income people build assets and become entrepreneurs. Before joining CFED, Ms. Brooks worked for U.S. Senator Maria Cantwell as a policy advisor. She addressed all aspects of education and training policy, welfare, labor, and women and children's issues. Ms. Brooks also worked for many years on federal policy at Wider Opportunities for Women, a DC-based nonprofit foundation. Ms. Brooks holds a master's degree from George Washington University and a bachelor's from Tufts University.

After Ms. Brooks, we'll hear from Louis Barajas, who was born in the East Los Angeles barrio and is the son of Mexican immigrants. He began his business career in his teens by helping his parents in their wrought iron business. He went on to UCLA to do his undergraduate work and received his MBA from Claremont Graduate School. He also received designation as a Certified Financial Planner from the Denver College. In 1991, Mr. Barajas formed his own wealth and business planning firm, and over the last 15 years he has become a nationally recognized expert in Latino financial and business issues. In his books, speeches, seminars, and business and personal coaching, Mr. Barajas makes the complex and overwhelming world of finances and small business comprehensible.

Our third speaker will be Lindsay Rojas who is the Assistant Program Manager at The Unity Council. She oversees and coordinates the AmeriCorps program, the Volunteer Income Tax Assistance provider program, and the one-stop career center.

She's also leading a team of AmeriCorps interns at this conference. Ms. Rojas received her bachelor's degree from the University of California, Santa Barbara, and she completed her master's degree in International Organizations and Institutions at the Universidad de las Américas in Mexico City.

And our final speaker will be Rebecca Gonzales. She joined the California Budget Project as the outreach coordinator in 1998. She is primarily responsible for conducting training sessions on the state budget process, as well as other major policy issues that are before the California Legislature. Prior to that, Ms. Gonzales worked for the California State Assembly for nine years. She was the Chief of Staff for Assemblymember Antonio Villaraigosa, and before that she worked for five years for then-Majority Floor Leader Tom Hannigan, where she was his legislative assistant and policy analyst. She also worked as a consultant for then-Speaker Willie Brown. Ms. Gonzales worked for CALPIRG, the California Public Interest Group, as a campus organizer at the University of California, Berkeley, and she received her bachelor's degree from Stanford University.

Each speaker will talk for about ten minutes, and then you'll be able to ask questions. And we ask that you come to the microphone to ask your questions because this session is being taped and transcribed.

Ms. Jennifer Brooks: Good afternoon, everybody.

Audience: Good afternoon.

Ms. Brooks: I'm Jennifer Brooks, and after that very lengthy introduction – thank you – I get to skip over some of my slides now. Before we get started, I wanted to see who is in the room so we can make sure that we're tailoring our presentations to what it

is you're interested in. So I'm wondering if we could do a quick show of hands on the question of what it was that brought you to this session this afternoon.

Raise your hand if you are here from an organization that works on public policy at the federal level or state level or local level? So, how many of you are here because you work for a community organization that directly serves individuals? Okay, a few people. Is anybody here just because you want to know what the current opportunities are to help folks build wealth? Great. And how many of you are here because you really want to participate in the political process to open up new opportunities for low-income Latinos to build wealth? Okay, some. Great. (Inaudible.)

Before I get started, I want to spend a moment telling you about the organization I work for. Kilolo mentioned some of this in the introduction, but CFED is an organization that's been around for more than 25 years that works to expand economic opportunity and to ensure that every person in this country can benefit from participating and contributing to the economy. Our business model is one where we go out into the world, and we look for good ideas, and then we test them out on the ground, often through demonstration projects. We take our learnings from those demonstration projects and take the good ideas and try to then take them to scale through both public policy and work in private markets. We do research, we do policy design, information sharing, coalition-building, as well as policy-maker education. Our agenda is broad. We focus on asset-building or wealth-building – I think it's a term of art that NCLR uses – entrepreneurship, as well as economic development.

Because this session is focused on wealth-building, I thought I'd tell you just very briefly about CFED's history with the asset-building movement. We've been doing this work for more than a

decade, and from 1997 until 2003, CFED ran the first systematic demonstration and study of Individual Development Accounts [IDAs]. For those of you who aren't familiar with those, they are a special kind of bank account where an individual deposits money and that deposit is matched by public and private sources provided that they use the money for a specific purpose, usually education, homeownership, or capitalizing a small business, and they needed some kind of financial education.

So that study was called the American Dream Demonstration, and what it proved was that low-income people, given the proper incentives and support, can and do save. Prior to this study, that was an idea that was debated. Folks thought that if you were poor, you couldn't save. So the experience and the evidence from the American Dream Demonstration led to the passage of the Assets for Independence Act in 1998. The Assets for Independence Act is the largest current funding source for Individual Development Accounts – it provides \$125 million over five years to support IDAs. In addition to work at the federal level, we also do state policy work and a whole range of other things. So I'll skip forward in the interest of time.

I want to just hit the highlights of a number of issues and then let my copanelists go into some more detail on some of these. I want to talk about why asset-building matters. I want to talk about why the tax code matters. That's the topic here: it is wealth-building and taxes. I'll spend a little time on talking about who has assets, who doesn't have assets, and then talk about the current opportunities that we have available, mostly centering around tax day April 15th,* and then talk about federal policy opportunities on the horizon, and then end by talking about what we can do.

* Tax day in 2007 is April 17.

So why do assets matter? As Kilolo mentioned, a professor named Dr. Michael Sherraden back in 1991 published a book called *Assets and the Poor*, and in that book he laid out a new conceptual framework for the power of asset-building to change people's lives, and he also laid out a new product called Individual Development Accounts. What Sherraden said basically was that – and this is a paraphrase here – that income feeds the stomach, whereas assets change heads. And what he meant was that possessing assets really changed people's thinking and their behavior. In his 1991 book, he posited and then many researchers subsequently have verified that holding assets yields a number of benefits to individuals, households, and neighborhoods, including greater economic stability, positive effects on long-term thinking and future orientation, as well as decreased risk of intergenerational poverty. So in short, assets matter.

So why does the tax code matter? Kilolo mentioned this number: more than \$300 billion. CFED did a study a couple of years ago where we looked at the amount that the federal government spends each year on supporting asset-building for all Americans, and the number that we came up with was more than \$335 billion, a whole lot of money. The problem is that it disproportionately benefits those who already have wealth. A third of it, so somewhere in the neighborhood of \$110 billion, is going to people in the top 1%. Those are the people who have earnings somewhere in the neighborhood of \$1 million. Less than 5% is going to the bottom 60%.

The reason that the tax code matters is that most of that \$335 billion is coming through tax incentives. For every \$1 of direct expenditure that the federal government makes, \$642 in taxes. So the tax code matters.

Let us take a minute and talk about who has assets and who doesn't. Every couple of years, CFED produces a report called the *Assets and Opportunity Scorecard*, which assesses a state's effort to encourage financial security and opportunity among its citizens, and as far as we know it is the most comprehensive tool that measures ownership and financial security at the state level. Not only does it tell us how states are doing in relation to each other, it also talks about how the nation is doing as a whole.

I brought along copies of the summary of the *Scorecard*. I'm not going to go into the state-by-state data in the interest of time. If you have questions later, I'm happy to talk more about that. But what I want to focus on now is the national picture that we get from the *Scorecard*. And I supplemented this data with some from the Pew Hispanic Center for some information on that piece.

Okay.

So who's got it and who doesn't? Nearly one in five households owes more than they own. That means they have either zero or negative net worth, and one in four families is what we call asset poor, which is a very conservative definition that says if your income was interrupted, you wouldn't have enough in the bank or in equity to survive at the poverty level for three months. That's one in four.

If you look at the net worth by gender and race, you see that one in four female-headed households has either zero or negative net worth, one in four Latino households, and one in three minority households. Here's another way to look at the same kind of statistic by gender and race: for every \$1 that a male-headed household has, a female-headed household only has 40 cents. For every \$1 in a White-headed household, a minority household only has six cents, and a Latino-headed household had only nine cents.

Well, I find this last statistic very interesting in that it appears that within minority groups, wealth is more concentrated, though not too much more so, than within the Whites as a racial group. Twenty-five percent of minorities own pretty much all of the wealth – 93% – whereas the top 25% of Whites own 79%.

I want to talk about just two ideas for using tax day, April 15th, as a savings moment to encourage people to save. The first is around the new ability that we'll have next year to split tax refunds. Back in 2005, the IRS announced that it would allow taxpayers who are owed a refund to split that refund between more than one account, but it actually took until the end of May of this year for them to actually figure out how to do that.

So beginning next year, which will be tax year 2006 (but calendar 2007), taxpayers can have their refunds direct deposited in up to three accounts and they could be any kind of account: a savings account, a checking account, even a retirement account. This may seem like a fairly small policy change, but I think it will have actually a significant impact. It is an opportunity for those who really depend on that annual refund check to pay off their debts, to make some major investments – for example, replacing a washing machine, that kind of thing – to spend some of that money, but also save part of it in a very hassle-free way. And we all know that making savings hassle-free is a good way to increase savings in general. So that's one opportunity.

The second is around small business. Self-employment is an important opportunity for Latinos to build wealth. There's some numbers up there that say between 1997 and 2002, the number of Latino-owned small businesses increased by 31%, three times the national average. This is significant. However, for Latinos, and actually for many low-income folks, the businesses that they have are informal, which means that they don't report that self-

employment income on their tax return. The problem is that if they don't report that income, they lose out on the number of benefits. The Earned Income Tax Credit, for example. If you're a low-income person, you'll only get it if you are filing your taxes. As well as Social Security. If you're not paying into Social Security now, when you're of retirement age, you're not going to have that resource available to you, as well as foregoing some key deductions for health insurance and retirement.

So the challenge really – and I think that one of my copanelists is going to talk to us a little bit about this – is that at many of the volunteer tax sites folks are not going to have the capacity to help taxpayers file the all-important Schedule C, which is the IRS tax form on which self-employment income is calculated and reported. To sort of help address that issue, CFED has what we call a self-employment tax initiative which has a couple of parts. The first part is that this summer we're going to release a request for proposal for mini-grants to train Voluntary Income Tax Assistance (VITA) sites as well as other community groups on how to help filers to fill out the Schedule C. And the second is we're doing some innovative state policy work in Nebraska and in Vermont to look at ways to create a state-level tax credit for new small businesses to offset the higher taxes that they pay.

Okay. So I'm out of time. I wanted to mention quickly a couple of opportunities. Kilolo already mentioned one of them: the "Savings for Working Families Act" is a bill that we have been advocating for, for years. If it were enacted, we would increase the number of Individual Development Accounts that were available by hundreds of thousands. The second is the "ASPIRE Act," which was a bill that was introduced in this Congress and the last that would provide a progressively matched account [that] endowed \$500 for every child at birth. And the last is the Saver's

Credit, which was actually created in 2001. It's got lots of problems. It's set to expire. It's not refundable, as Kilolo said, and it's not indexed for inflation. Chances are that this year, we may get an extension which will let us come back next year to make some of those other changes.

What you can do: stay informed. If you don't already receive CFED policy updates and action alerts, I encourage you to do so. There's a postcard in the back that has the same information on them as on the slide. I encourage you to come to our Assets Learning Conference in September and take action. On the "Savings for Working Families Act," House members are currently seeking cosponsors. If your member is not a cosponsor, we hope you will encourage them to do so. And there's a list in the back of the folks who are cosponsoring that bill. And there are some resources.

(Applause.)

Mr. Louis Barajas: Well, Jennifer mentioned a lot of what we're going to go through. What I'm going to do is change it a little bit and talk to you about my experience with working, and then some tax initiatives as well. We – if you don't know – I used to work a long, long time ago with some very, very wealthy people, and I was a tax consultant/financial planner. We came back, and we opened up a firm 15 years ago in the barrio of Boyle Heights, in East Los Angeles.

We are a financial planning firm, focused on working strictly with Latinos. We help clients build wealth. Early on, one of the ways that we [our firm] survived was to prepare our clients' tax returns, because it was difficult for us to survive on just financial planning alone, working with poor people or low-income, struggling people. One of the things that we see all the time is that people lack

knowledge on how to prepare tax returns, especially if they have a small business or are entrepreneurs.

So I want to share with you some tax mind-sets that our clients think about and then other tax policy issues as well. First of all, there's a big misunderstanding in poor communities that if you owe taxes that the government's taking money from you, meaning that, for example, if you file tax returns and you only make \$24,000 or \$20,000, you're probably – and you have children and are married – you're in the low-income tax bracket. You're going to be paying very little in taxes. Our tax system is a progressive tax system. We have what are called tax brackets, 10%, 15%; they go up to 35%. But most people in low-income households aren't paying that much in taxes, but if they owe money – let's say they owe \$100, they think that now, you know, boy, the government's ripping them off, they're taking them, you know, for all they're – why are they working so hard? The problem is that they just haven't properly adjusted their W-4.

So next time you take a look at your tax return, don't worry about how much money you're getting back or how much money you're owing. What was your overall tax liability? Your tax liability is not your tax due. What did you owe? And people say, "Well, I didn't owe anything, Louis. I got money back." "No," I ask, "what did you owe?" See, all of us are going to pay taxes at some level. What are you really paying in taxes for what you're earning? You need to know your effective tax rate. And that's how you come up with your effective tax rate. So you look at that line that says tax liability, divide it by the income that you earn, and that's how you come up with the effective tax rate. What are you really paying in taxes for what you're earning?

And so, again, when I ask people: "How much did you owe last year in taxes?" "I didn't owe anything. I got a refund." That is

not tax. That's not what we're talking about. We want to focus on actually tax liability, okay? I need you to understand that.

The other thing is that in our community and usually in poor communities – and I say usually because, again, as I travel – people throughout the country – I hear the same thing. Who's the best tax preparer? The person that gets you the most amount of money coming back – the biggest refund. You go to that person because they get you a big refund. I mean, that's how people refer in low-income communities: "Go to that person." Most of the time, I want you to understand that they're not using a lot of these policies. They're not using Earned Income Tax Credit or other tax credits that they could be using, but they don't. Why? Because they know that their clients are claiming on their W-4s – the form that they fill out for having withholding of taxes – they're claiming, you know, married and zero when they have three kids and a house and other stuff. So at the end of the year, they get a big refund, and they're really happy because for a lot of, especially Latinos, that's their savings accounts. That's what they use, and they can't wait to get that money in April, because that is when their property taxes are due.

Well, there's an acronym for it: **No Darn Fooling Around** with your property taxes. And most Latinos use their refund to pay their property taxes off; they're due on November 1st. By December 10th, you get it paid off, no darn fooling around. February 1st, and by April 10th it's due. So people get their taxes and right away by March, early April, they're giving the money to help pay their property tax. But the problem is that's the only way they're saving – and so just because you're getting a big refund does not mean they're using any type of tax planning.

The other thing that we do in our firm is that we realize that for a lot of people, financial planning [is hard to plan to do] and we take

advantage of tax time to do financial planning. In our firm, we go through a tax return and a tax return for us is a financial planning document. We can go through the entire tax return and take a look at what kind of wealth-building things our clients are implementing. For example, if you take a look at Line 8, your wages, on a 1040 form. How much income are they earning? Did they earn more than last year? Did they invest in themselves? Did they get any raises?

Line 9 is the interest income, right? What happens is that we can take a look at a family, whether they're earning \$30,000 a year or \$200,000 a year. You heard the quote, right? The income feeds your stomach, but assets help you change. Well, when we see that there's a zero or \$2 or \$15 recorded as interest income, what does that mean? There's no money in the bank. They're not accumulating any assets. We can tell you how much money they have saved up – all you have to do is you take the average interest rate in a savings account – let's say it's 2%. If they've got, you know, if they earned \$12 – divide that by 2%; that's going to tell you how much money they have in savings.

Or you go to the next line and take a look at dividends. What does dividend tell you? When you file a tax return and you look at the client's dividends, that tells you whether they're invested in alternative investments like stocks, not in pension plans because that's outside of pension plans, (anything that's been pre-taxed or tax deferred is not going to show up there). But most likely if they do have some level of income in there - if they do have a dividend to be reported – what is that? That's telling you that the client has a different mind-set and they're probably using that money to start developing some assets, investing in some mutual funds, some individual stocks that are kicking out dividends.

The other thing that I'm taking a look at a tax return is I'm seeing is that do they have – poor people usually will have most of the time just income and that's it – no interest, no dividends, and nothing else, but what happens is there are other lines on that tax return that talk about capital gains. What does that mean? If somebody has capital gains on a tax return, what does that mean? Again, the mind-set of that. The mind-set of capital gains is somebody owns an asset and they sold the asset and they have profit.

What other lines do you see on a tax return? You see a Schedule E, you see interest, you see an income coming in from rental property. If you have rental property also at the same time – we've got clients who have, who make a little bit of money, but they'd figure out how to buy with two or three different people. Rental property is income, so they're building assets there.

So what I want you to understand is some of you, because I know you're working with Latinos, I met some of you out there today, you're working with Latino clients with the VITA programs. Take a look at their tax returns. Take a look at them and make sure that you understand them first. You understand why people are getting refunds, why they're not. And then what happens is be careful about the mind-set of tax preparers within the community – that sometimes they're just doing the minimum and if people are happy with their refund – there is so much more they can do.

We've got clients who are getting refunds of \$2,000 or \$3,000 when they first come to us. Our goal is to get them to zero refund. What does that mean? What does a zero refund mean? It means the client has adjusted their W-4, they're now getting \$250 a month more on their paycheck. Then we show them how to leverage that because one of the tax things that we have is leverage it into an IRA or a pension plan. If they're self-employed, they can do their own SEP plan. They can do a SIMPLE, they can

do an IRA. And now they put that money to work – they’re getting a tax break on that money because they’re in the lowest tax bracket: 10%. But how many [of] you are earning 10% on your money right now? And then so you get it invested for them in some kind of diversified mutual fund. So we show them how to start developing and building their assets based on just taking a look at their tax return.

I want you to understand that there are also a lot of areas where you can go to, and I want you to write this down so you guys can go on to this website; it’s [irs.gov](https://www.irs.gov) – [irs.gov](https://www.irs.gov). I’m going to talk to you about tax policies for low-income and retirement savings credit, Earned Income Tax, Child Tax Credit, Child Dependent Care Credit. There are publications. Look at publications, and if you want to know everything about the Child Tax Credit – it’s impossible for me to do this in the next two and a half minutes. It’s all there. Or you want to get information about Earned Income Credit; there it is, it’s also in Spanish. You can go on [irs.gov/espanol](https://www.irs.gov/espanol). It’ll be there for you as well.

Because sometimes you know, it’s really hard to find this information. You just don’t know where to look for it and sometimes you go to the bookstore and it gets rather complicated. It’s all there; [irs.gov](https://www.irs.gov), go to the publications, they have everything right here.

I want to mention just one more thing about Earned Income Credit. I constantly hear about how people do not know about Earned Income Credit. Well, let me tell you how they would not know about it, because this is what we see all the time, is that to prepare to do a tax return, a simple tax return for low-income people, how difficult can it be? Husband and wife, they both work, own a home, make a little bit of money. How difficult can it be?

I have done hundreds of tax returns, and I used to do them by hand a long time ago. I couldn't do a simple tax return by hand anymore. I need to use a tax software to help me with that, and I need to just kind of become knowledgeable, even with that there's – you've got to stop and think you've got to know what. As we say in our office, "you got to know which box to check," to make sure the client – and when you're working with certain tax preparers in specific areas that have never taken a tax course or it's been 20 years since they've taken one – I mean, the tax law changes every single year.

You need to make sure that the people who you know who live in those areas are simply people who understand what they're doing and taking continuing education courses, are using the latest software. This is really difficult stuff. The tax preparer who has been there for 30 years and doesn't invest in time going back and getting his education is going to be retired in the next two, three years? "Ahh, don't worry about that Earned Income Tax Credit. You know, it's not that much money you can get." They come back to us, we have to amend the tax returns and they're getting back \$2,000 to \$3,000 sometimes, and they go: "Well, he said it wasn't going to be much money." "Well, did you ask him how much money it was going to be?" "Well, he never told me."

So I just want you to understand that there are [a] lot of people who don't understand that if they're looking for help and, to do it on their own, it's very difficult. And that's why sometimes at the VITA programs, they're using software as well.

Other issues I want you to understand that are affecting Latinos is that supporting family members – I want you to understand that in countries other than Mexico or Canada – cannot be claimed as dependents. We have a treaty with Mexico and we have a treaty with Canada, but, see, when people come into our office, we don't

assume that everybody – here, we’re in Southern California, so if we assume that we are in Southern California, everybody’s Mexican. That’s not right. Right? Guatemalan, Salvadoran, and so we go to a lot – we get a lot of clients who come to us and then we ask them we say, you know: “You send money to your mother?” “Yeah.” “Where does your mother live?” “In El Salvador.” “In Guatemala.” “Oh, you can’t take her.” “Well, what do you mean? I’ve been taking her my whole life.” “We cannot take them.” And so there is some policy there. We’ve got a lot of people here who come from very poor countries who are doing – and they’re sending money out, but we don’t have any [tax] treaties with [other countries], outside of Mexico or Canada.

And then undocumented immigrants think the Social Security system things that we talked about is that there are a lot of people here who are...I’m done, running out of time. If we have people here who are working very hard who are undocumented and everyone must file a tax return. You need to understand that. Whether you sell drugs – whether you, it doesn’t matter what – whether you’re on the street or the corners at night, whether you – whatever you’re doing, you still have to file a tax return. Undocumented workers can get a federal ID number with the form W-7, and you can still file a tax return. The problem is that there’s no guarantee they’re going to get that money back in Social Security and that’s a big policy issue for the future.

Thank you.

(Applause.)

Ms. Lindsay Rojas: I work for The Unity Council in Oakland, and we have been running a Volunteer Income Tax Assistance (VITA) Program for about four years. And each year we see an increase in families and individuals coming in, utilizing our

services in the hopes to be able to receive the Earned Income Tax Credit (EITC) and to be informed about what the EITC is and what the Child Tax Credit is and how we can give financial assistance and awareness.

In addition to that, we are part of the United Way of the Bay Area Alameda County VITA Coalition, which consists of about 22 sites and every year more sites are coming in, and we're actually expecting more sites to be a part of our coalition. In addition to that, there [are] also other sites including Contra Costa, Napa, San Francisco, San Mateo, Solano, and this year realized an increase of approximately 60% in total EITC refunds provided in the Bay Area, and a 5% increase in the total refund that has been credited to our community in Alameda County.

Some of the challenges that the community faces and that we have been addressing are questions like: "Why am I not receiving the same amount as I did last year," or "why am I getting less money if I have so many children and my friend or my neighbor has the same amount, they earn about the same amount of money, yet I'm getting less." And I ask them: "What did you write down on your W-4? How many people are in your family? How many are you reporting now as opposed to last year?" We try to assess and explain the reasoning to them.

Through the coalition, we review information and try to pinpoint all these things that they are asking every year. In addition to that, they also ask, "Why can't I claim my son? Why is it being rejected?" "Well, you know, you told me that you were married. Is someone else claiming your son or are you separated and someone else claiming your son?" They say: "No, no one is claiming him." But unfortunately, there's never been an agreement with that other party to see if they have claimed their sons or daughter in order to file taxes, and that also reduces the amount of

money that they are going to be receiving in EITC money or even Child Tax Credit.

Another concern is: “Can I get the EITC money?” I know you mentioned it in terms of ITINs. People who have ITINs – who don’t have Social Security numbers – unfortunately, unlike in previous years, they are unable to receive, you know, that EITC money if they have an ITIN number. And this policy is affecting them because there’s times when they’re given false information. They’ve been told, “Oh, you can receive the EITC money because you have so many children. We are going to help you.” Then, you know, like I said, false information.

What we try to do is establish that relationship with the community, try to inform and disseminate the information as much as possible so that they understand what the protocol is, and what they need to do.

We service people [in] eight different languages. We are trying to inform them so that they understand. Guiding them to the IRS webpage is important, but a lot of our families, you know, they can barely read or write or don’t even know how to utilize a computer. How do you get that information to them so that they understand – so it’s something that is tangible for them? That’s what we try to do: we try to inform. And we encourage many other organizations to inform them about the different VITA projects that are around and to pinpoint which organizations are providing that assistance so that they can indeed receive the free tax assistance.

Also, most of the VITA projects collaborate directly with the IRS and receive IRS training so that we can provide this assistance. We are also provided with a 1-800 number for assistance throughout the day if we have any questions to better assist our clients. In addition, most of our volunteers are usually also sent

out to receive more training so we can assist with more than just the basics.

Also, one of the things that I think is important to know in terms of informing the community is that we, in California, have a high percentage of immigrants, and unfortunately, not all of them can receive all the credits. They can't obtain all the credits. They feel scared or fear that they're going to be deported if they file taxes. They need to understand that there's no connection between INS and IRS, and that it's important that they do file so that they can receive their refund. It can help them if there is any immigration reform that will then give them the right to residency, and then if they file, then they'll be able to obtain these Child Tax Credits. They're going to be able to obtain the EITC money.

So all this information is what we try at VITA projects to inform the community at all levels and we're trying to extend more through the different venues – media, newspapers, radio, local newsletters – so that people understand and can come and learn more about what it is that can be done to help develop their assets and grow and become more financially fit as well.

Thank you.

(Applause.)

Ms. Rebecca Gonzales:* Okay. Hi, I'm Rebecca Gonzales. Once again, I'm with the California Budget Project. Briefly, we're based in Sacramento, and we analyze state budget and state fiscal issues in the interest of how it affects low-income and middle-income communities, so those are our communities of interest.

* The California Budget Project requests that an additional reminder be made that Ms. Gonzales' comments reflect the budget and tax environment as of July 2006.

My topic here today is federal tax policy. That probably sounds like a great, big snooze, but what's important to know is that what's been happening in the federal level recently with all of the tax cuts that primarily benefit wealthy people, what that results in is it's been resulting in cuts to programs that serve low-income communities, the communities that we care about, and that's why it's really important to pay attention to what's going on.

Briefly, this is just a slide about how the federal budget works. The President proposes the budget in February. Congress then prepares a budget resolution, which basically just sets out the budgetary rules for that year, so it sets targets for federal spending and what we think the tax revenue is going to be based on the economy, how are the tax receipts going to come in. It also can include requirements to cut spending or cut taxes.

So where we are this year, the President has already introduced his budget. The Senate passed their budget resolution on March 6th, the House followed on May 18th. So right now, they're trying to consider appropriations bills. They're in the middle of that process. The House is pretty far along. The Senate kind of does that process after the House, but what is important about this year is that there's not a lot of agreement between the two Houses. The House generally goes along with a lot of the budget cuts that the President wants; the Senate doesn't follow lockstep as much. And so it looks like although we're supposed to have a budget by October 1st – most likely in a budget year – this year, which is an election year, it's not going to happen. We think that there'll probably be a continuing resolution to keep government going after October because the two Houses really are having a hard time grappling with the current budget situation.

Before I go to the rest of the presentation, I just wanted to summarize at the outset more fully what's going on. And so I

mentioned that we have a lot of large tax cuts that primarily benefit the wealthy, and what that is doing is increasing our budget deficit at the federal level, which I'm sure you have heard about. The second thing that that does is that leaves large federal deficits, due to the tax cuts, and puts fiscal pressures [on lawmakers] to cut [spending in] programs, which I mentioned before, which in turn a lot of times put these needs onto the states and localities so that the states and localities feel pressure to pick up some of the programs that are being cut at the federal level, but of course, as we know, the states and localities have their own problems.

And the third thing is that the recent Deficit Reduction Act of 2005. It was intended to reduce the deficit, but the program cuts that they made, the deep program cuts, really just offset the tax cuts that the federal government has been engaged in. And so they say that they're trying to reduce the deficit, but since they have so many tax cuts for the wealthy, the Deficit Reduction Act overall increased the deficit, so it was really a misnomer.

This kind of looks at projected deficits in the federal budget [*referencing a PowerPoint slide*]. In January 2001, as recently as this, we thought we were going to have a surplus of \$5.6 trillion and now the current projection – all of this was updated recently, been reading the papers – we're projecting a deficit of \$3.4 trillion. So that's a huge (inaudible) of about \$9 trillion and, you know, a lot of it has just been because of decisions that have been made in Washington that [have] made the situation worse.

This just kind of shows that under current policy, deficits would grow deeper in future decades, especially after 2016. And this, you know, part of the pressure the federal government faces, is that the baby boomers are aging, they are retiring, our health care costs are rising, and if you couple that with all the tax cuts, our deficit is just getting worse and worse.

Legislation adding to the deficit. This talks about what the Congress has done that is really – other things that have made this problem worse. I already mentioned the tax cuts: 50% is increasing the deficit. A huge part of what's increasing our deficit is defense spending, which is kind of the goal, 33%. And then the other increases in programs that, you know, things that Medicaid and those kind of things that the programs that we look at and care about is a much smaller portion, and to hear politicians talk about what's creating this huge problem we have at the federal level, you know, they make it seem like it's just programs that are creating these problems – programs that benefit poor people, but in reality it's the tax cuts and the defense spending.

What would it take to balance the budget while preserving the tax cuts? This is just an example of how big our problem is. You'd have to cut Social Security benefits by 45% to solve the problem or cut defense spending by 66%, which I don't think Congress is willing to do. Cut Medicare by 56%, or cut every other program, except these programs, by a third or almost a third, 32%. So the problem is very, very deep.

Long-term deficits damage the economy. This is just an illustration that, you know, the deficit isn't just a number that the federal government keeps track of; it really is harmful. It reduces national savings. It depresses investment and productivity gains, weakens the economy and drags down growth, and hurts low-income individuals because of the slowed economy.

And then in 2005, 2006, the most recent budget, instead of – really what they did is that they concentrated on cutting programs instead of saying, “Maybe we should reverse some of these bad tax cuts. Maybe we should look at defense spending.” What they did is they cut entitlement programs, programs that people are supposed to be entitled to, by \$39 billion, including Medicaid,

student loans, cuts in domestic discretionary programs, including housing, K-12 education. And then they have those tax cuts, which just makes the problem worse.

Key elements of the proposed budget for this year is the President didn't want large cuts in discretionary programs, making the recent tax cuts permanent, cuts in Medicaid that shift costs to the state, and then the governor – I mean, the government – I am so used to saying governor because I use state and not the federal – a new budget rule that gives the President more power. He wants a line-item veto. He wants automatic cuts if certain deficit reduction triggers don't happen. So he wants to give himself a lot more power in the process. This is, like I said, this is an evolving process. I mean, the President has his budget in February. Things changed, but this slide is just really what the President wants.

And then this just kind of shows how funding for domestic discretionary programs has fallen. They keep on cutting funding. Making the tax cuts permanent would cost trillions of dollars. I think it was the figure I have here that that adds up to, I think it's \$9 trillion. Yeah, \$9.3 trillion were added to the federal deficit and the same areas where they want to make the tax cuts permanent is also, like I mentioned before, the added pressure of the baby boomers retiring, et cetera.

And then the tax cuts – just the cost of the tax cuts that the federal government loses cost more than most state agency budgets. You see the big red bar on the left-hand side. The blue bars are the total budget for these programs – education, veterans – and then the smaller red bar is just the amount of money we lose giving tax cuts to the very wealthy and it equals the same amount as agency budgets – their complete budgets.

And then this one is kind of the same thing. Tax cuts for millionaires are larger than the total domestic – or total domestic

discretionary cut. And then this kind of looks at tax cuts: Who does it benefit? Does it benefit the wealthy? Does it benefit the poor? This shows the value of the tax cuts for incomes over a million. They receive a lot of the benefits. You see the \$42,000, top 1%, also a lot of money, and you don't see the benefit for the people at the lower end of the income scale.

And then they've also been talking a lot about the estate tax; it's going to cost a trillion over ten years. Right now, the full repeal of the estate tax which, you know, taxes rich people, rich people who died, basically. It has been rejected except senators and other people are proposing compromises, but the compromises are almost as bad as the full repeal. So this is a big huge revenue loser and it's something that we've been working on stopping.

And then this last slide just shows that states really depend on federal funding. About a quarter of states' budgets rely on money they get from the feds, like money for the Medicaid program, MediCal in California. In California, that portion of the pie is actually a little bit bigger. It's closer to 30% of what we rely on for federal funding. So you can see this is the huge problem.

And in conclusion, I just want to point out that the federal budget really matters even though it sounds boring. And it's really important to be aware of what's going on, you know, communicate with your member of Congress, communicate with our U.S. senators, and this is a process that is evolving. It is an election year, so something that they're kind of backing off on, but we really have to be vigilant because we've seen that this Administration is really interested in cutting taxes that benefit the wealthy and not preserving programs.

Thank you.

(Applause.)

Audience Questions and Answers

Ms. Kijakazi: Okay. Do any of you have questions? If so, please come to the mic.

Q: I have a question for anybody on the panel, and then I have a question for Mr. Barajas. Can I ask both of them?

A: *Ms. Kijakazi:* Fine.

Q: What else can we learn? I know that it sounds like most of the policy out there is to benefit the rich, as we heard in the presentation, but what else can we learn? Those of us who are maybe in a different tax bracket and who come from families who don't use the tax system as much – what else can we learn so we can educate our family members to be able to take advantage of those policies to be more well-off I guess, if that's the right terminology?

A: *Mr. Barajas:* Okay, let me just quickly answer that one. Because I work in poor communities, one of the problems that I have is how people see: well, the rich are getting this, the rich are getting that, the rich are getting that. And one of the goals that we have in our firm is to teach people abundant principles to become rich and not to hate the rich, so you can get your tax breaks, too. Because the problem is that if you hate the rich, then you're never going to want to get money. And if the problem is that if you think that you're poor or you're broke – you know, there's a

difference. The mind-set of someone being poor is permanent, while the mind-set of someone who says I'm broke is that it's temporary.

You know, I grew up in Boyle Heights. My mom has a – had me at age 15 and my dad has a fifth-grade education. But my dad never saw himself as poor; he saw himself as broke. And so the people – when you're paying taxes, it's not to say: "Well, now you know, what do I have to do with the rich." I just want to let you know that the goal is also to try to figure out and to make as much money as you possibly can and not be afraid to pay taxes. People who are paying taxes also make good incomes, so I want you to think about it. I want you to pay more in taxes this year than you've ever earned in your whole life in one shot, right? That's why I want you to understand that – and I'll pass it around – because also there are people who don't think that way. And it's very difficult for them.

Ms. Rojas: I just wanted to add that one important thing is that there [are] many organizations out there that are providing assistance to low-income individuals and families so that they can clearly understand what is going on in terms of taxes and what they can do with their money, how they can then put that money into some kind of savings, and accrue interest and develop their assets. This is why, I think, VITA projects are so important because the different VITA projects and coalitions collaborate with each other. For example, this organization might have an asset development program or a financial fitness program where people can be referred to. We start networking with each other.

I think that one of – a good thing for you to do is to connect with some of the already existing coalitions. You can log on to the United Way Bay Area webpage, and you can get information on how the coalition functions. And then also look at what other organizations have so you can see if they can help you and the families that you might work with or even your family so that you can develop your assets and become more aware and then be more knowledgeable of the things that are happening so that you can take a stand.

Q: Thank you. Just another quick question I have for Mr. Barajas. I think that's very important what you're saying in terms of how these things can change the mentality in our communities. It does help a lot for us to think that way and hopefully bring that level to zero level in terms of paying taxes. But I believe you were going too fast for me so I really didn't understand what you said about tax liability divided by something?

A: *Mr. Barajas:* Okay. Yeah, let's talk about that because, again, what happens is that – I apologize, but it's lack of time. They give us eight, ten minutes to get this whole thing out. Is that I want you to understand that when you file tax returns – do you file tax returns?

Q: Sure.

A: *Mr. Barajas:* Get your last year's taxes, 2005 tax return, go to the second page of the 1040 and take a look at your total tax liability. It doesn't say at the bottom line total tax due or total refund – total tax liability. That's the amount of

money that you actually have to pay. Your refund or the amount due has nothing to do with the price of beans, as somebody once said. You need to figure out what that is and divide that by the income that you've earned. I can take the tax liability number and divide it by the total income and show you how they save an additional 10 or 15 or 20% on their tax return by funding an IRA, by putting their money in their 401(k), by purchasing their home, by using tax deferral or pre-tax, tax-deferred credit.

So we want to take a look at that. That's the fair part because the problem I want you to understand is that tax really is complicated, and there's just a lot of misunderstanding on how tax really works and it's easy to say, "Well, the poor get this and the rich get that, da-da-da-da-da." You don't understand. You're going to be pointing to the wrong numbers, okay?

Q: My last question for you is how much do you charge for your services?

A: *Mr. Barajas:* It depends on the client and how much income they make, but talk to Aaron there and he'll tell you.

Q: Hi, I'm here today on behalf of the Honorable John Chiang, who is chair of the California State Board of Equalization and a member of the California Franchise Tax Board. And [I] appreciate this opportunity that [the National Council of] La Raza and Luisa have given to make this brief announcement. I just wanted to say that for those of you who are from California or live here locally in the Los

Angeles area that State Board of Equalization Chair John Chiang's office is available as a resource, especially for small business owners, individual taxpayers, nonprofit organizations, religious organizations.

John's office provides a variety of resources for all his constituents in the district, so we hope to hear from you for those of you that we know that Mr. Barajas and the other speakers have mentioned today how complicated taxes can be. And we just would like to make sure that everyone knows that the State Board of Equalization and the Franchise Tax Board are here to be as helpful as possible, especially Mr. Chiang's office, which is actually right down the street at 7th and Figueroa, and I can give you the phone number also if you would like to ever call Mr. Chiang's office. It's area code (213) 239-8506. Again, that's (213) 239-8506. You can ask for John Chiang for help. And again thanks for this opportunity. Thank you all for being here.

A: *Mr. Barajas:* You know, you made a great point, though, that we've done – I'm like the key one – I do, we've done a lot of audits, represented clients who've been audited, terrible things have been done to them by other preparers, but people at the IRS or Franchise Tax Board are really most of them – not all of them, but like 99.9% – are there to really help you, or want to help you, especially if you're low-income or don't speak English well. There are people there to help you, and they want to help them. I think they're frustrated when there's not much they can do to help you or help some of your constituents or help the people you're working with. And so utilize them. I mean, they're being funded to help you guys out.

Q: To the panel, or anyone else on there. We talked about the federal taxes and some of the benefits we get from that. Are there any California taxes that we can benefit from?

A: *Ms. Gonzales:* Well, I know, you're talking about like low-income communities. I mean, we have the EITC, which was mentioned before. The Earned Income Tax Credit is something we've been trying to institute in California because it's the single, it's the single most beneficial thing I think that's really been identified as helping low-income communities, but because of our budget problems we haven't really been able to start that here in California. There's a Child Care Tax Credit.

Mr. Barajas: There are credits like, for empowerment zones, for employees that live in a specific area that if you're employed, then you get credit for that.

Ms. Gonzales: Yeah, that's like more small business though, small business, empowerment zones, those sorts of things that are there. I'm trying to think about low-income communities. I think that when they changed the Child Care Tax Credit, I think that was one of the biggest things.

Q: Thank you.

A: *Ms. Kijakazi:* Are there other questions?

Q: Hi. This is a question to anyone on the panel. You know, I used to work for an organization called Center for Community Change. We lobbied on issues like food

stamps, welfare reforms, and so forth then. I just wanted to ask about do you see any philosophical differences between trying to serve low-income populations through services like food stamps and welfare versus delivering benefits through the tax system? What are the philosophical differences do you see between those, you know, sort of mechanisms and how have you dealt with that, you know, with that difference if you've seen it?

A: *Ms. Rojas:* We collaborate with food stamps, we collaborate with MediCal, Medicare, and the different health plans as part of the coalition throughout, not only California, but the nation that have VITA projects. And that's the important thing that if you bring in these collaborations, then you can provide more direct assistance by pinpointing the exact needs of each individual. We don't try to really differentiate; we actually try to help individuals so that they can indeed get assistance, and become more knowledgeable about the things that they need to do in terms of taxes, in terms of getting their refund and becoming more self-sufficient.

Mr. Barajas: Were you actually with – the question, I think, I heard you say was, if I get free something as compared to getting a tax credit, which would be better. No?

Q: That's part of it. That's part of it. It's an issue for example, like, you know, with the Food Stamp Program there's like a lot of different organizations that are there to support and

advocate on behalf of it and so forth, right? But for like the EITC it's like who's there behind pushing it? Who's there supporting it? You know, you guys have expressed interest in there, but is there a different mechanism to actually helping low-income individuals and low-income families, and I know that, you know, there might not, you know, there might be a philosophical difference about how to, you know, delivering benefits towards either using the tax system versus actually giving?

A: *Ms. Gonzales:* I think that a lot of the same organizations that are interested in preserving those programs – food stamps, etc., that you talk about – are also interested in possibly using the tax code to help low-income individuals with things like the EITC program. I think part of my talk, what I was talking about is that the tax code has primarily been used to benefit the wealthy instead of trying to help everyone out, and also being used to the point where we're having other problems in our budget like huge deficits. But I do think that I don't think there's necessarily a philosophical difference with people who want to help low-income communities preserve their programs and also using the tax code, the Child Care Tax Credit, and those programs that are here for low-income communities. I don't think that they see a problem using those, both of those, means to help those communities.

Mr. Barajas: And I'll tell you what I'm thinking about is that, you know, if it comes down to when we're talking about low-income, everybody's talking about EITC, Earned Income Tax Credit. But you know, when you're a professional and you're dealing with taxes, it gets rather

complicated and you know, there's like about 30 different other things you could be doing than EITC that if you really sat down and look at somebody and how you can help them, but the problem is you're right: how many people are out there in these communities who can actually have conversations with these people to help them out? And so EITC is easy because it's a VITA program, everybody knows about it and it's a VITA person 'cause they'll get it done for you. But the problem is that there's so many other things that you can help provide and transmit – and the person who's helping out with, let's say, with the other program may not have the sophistication or the education or the background to help them out. Maybe there's a difference. You're right: there's not going to be as much push for that.

Ms. Kijakazi: One other point that I would make, Michael Sherraden, who you've heard us mention, talked about in creating this policy, the push and return of policy and the relationship between those types of policies with asset policy. And he said that asset-building policies should not be seen as a substitute or replacement for income maintenance policies and social insurance policies. It's complementary. It's that both are needed – that you need to be able to address current needs and then to assist people to build wealth for the future.

Ms. Brooks: I could add something [to] what you said, Kilolo, which made me come back to the original question about when doing advocacy: Is there a tension between those who are pushing for greater funding for food stamps and those who are pushing the Earned Income Tax Credit?

And I think, unfortunately, that there has been tension, but it's an inappropriate one in that we should work together to see how these – as Michael Sherraden pointed out – to see how these two things are complementary and not in conflict and avoid sort of pitting our allies against us.

Q: Sorry, I won't wait for the microphone, so I'll just ask the question from here.

A: *Ms. Kijakazi:* They're transcribing, so if you could walk over here.

Q: I actually do think that there is – and I don't know whether there's a message for this – I'm just a (inaudible) lady from what you just said, actually I happen to think that there is a philosophical difference between tax credits and tax expenditures, which is what direct entitlement programs are.

And so my question from a policy perspective would be is there anything at the policy level, whether if it's state or federal level, that we need to be aware of or concerned about in these times of shrinking budget, expanding deficits that, you know, based on the charts and all of [this] information presented continue[s] to show that certainly the poor are doing worse and worse and the rich are getting richer, not that I hate them – but that is the reality. I want to be one of them, to be quite honest. But the gap between those that I care about the most and the top 1% of our society is getting wider. Is there, from a policy perspective, as an advocate myself, is there anything that I need to be aware of that is happening right now?

A: *Ms. Gonzales:* Well, I mean, I think that, you know, how they're talking like I mentioned about making some of these recent tax cuts at the federal level – how they're talking about making them permanent. I mean, I think that that has a huge impact on low-income communities because the federal government is really looking to cut programs in order to pay for the tax cuts and so I think that there's a danger there. And like I said, the tax cuts are geared toward wealthy individuals; like you said, not that you hate them, but hopefully the tax code could help everybody or we could be more prudent and not put such huge holes in our budget by overdoing it on the tax credit so to the point where we have deficits and to the point where there's pressure to cut programs.

Q: How do we counter the economic argument that tax cuts for the well-to-do actually have a multiplier effect and, you know, which is the argument that we hear that, you know, it's to create jobs, it's to stimulate the economy, et cetera, et cetera? How do we counter that?

A: *Ms. Gonzales:* Well, I mean, there's a wide, I'm looking for my thing right now. There is a – that's one economic argument that you hear a lot, but there are definitely economists who think otherwise that because some of the tax cuts that we've been talking about recently have been deficit financed. They actually dampen economic growth, so the fact that we can't really pay for these tax cuts – they don't pay for themselves. I mean, there's a lot of people who make the argument that tax cuts stimulate the economy, they pay for themselves. But a lot of economists

believe that because the tax cuts are really financed by our deficit, it really hurts the economy. It hurts long-term job growth and productivity and so that it really is a problem. If you're interested later I have a few quotes here from a few of these organizations.

Q: And then finally, that's at the macro level, at the micro level, I think that what ends up happening is that a lot of people overspend. So, for example, you were talking about tax day, April 15th, is a big day. Mom and – Christmas comes along and people overspend. We live in a very consumeristic kind of society. You know, our President after September 11th told us to go shop – and a lot of people did. And there's a lot more debt out there and yet it is more difficult to declare bankruptcy, but you know, Christmas comes, people spend a lot of money. They get into debt and then tax day comes, then where there is EITC or whatever the refund because of W-4s it is used to pay off debt as opposed to getting us off of that debt cycle and really utilizing those monies to actually build assets and wealth. How do we get off of this culture of spend, spend, and spend?

A: *Mr. Barajas:* That's the \$64,000 question, right? What's happening is that we're seeing the amount of consumer debt – you're right – increasing. In fact, last year was the very first year since 1933 that the savings rate for Americans was like a negative 1.3% – negative. And so what's happening is I go back to this whole process that, you know, you can go on to amazon.com, barnesandnoble.com, walk into a bookstore – there's

hundreds and thousands of books on financial literacy. I've traveled the country and it seems every nonprofit has a program on financial literacy, and so like Einstein said the definition of insanity is do the same thing over and over expecting different results. Here's another financial literacy stuff that we have coming out and it's getting worse and worse, or nothing's changing.

Here in Southern California, for example, we've got Garfield High School, Roosevelt High School that have – when they play football against each other playing at the Rose Bowl or – and they get 50,000 people to show up, yet we've got a 54% dropout rate last year and 45 years ago it was 54%: it hasn't changed in 45 years.

And I hate to say this: politicians come, politicians go, programs come and go, and nothing changes. In fact, things get worse. So until we start thinking – and I hate to say this – outside the box or on another planet and really start realizing how it's going to affect us, Latinos being the largest ethnic minority in America and growing at such an incredible rate and we're the poorest. We have \$1 trillion spending power, but what's our savings power? And we will continue being a poor community being controlled by other people if we have no assets, if we continue to have no money.

And there's only a few of us making it, like up in the slide you saw that I think 25% of rich Hispanics have 93% of the wealth or something like that. I forget the numbers you used. And so that's not going to help us. All of us have to start thinking that if we continue doing the same thing over and over, you know, we're going to be here next year

talking about the same thing, and 20 years from now we'll be talking about the same thing. And it goes back – so I always say – it goes back to the mind-set. We need to change the way we're thinking. And like all revolutions change the way communities think. When we had the Watts riots, the Watts riots were done not by poor African Americans; they were done by the middle class. Well, they had their college students come back and didn't have any opportunities. Well, Latinos are going to have to get to the point where we have to decide to do something very quickly, otherwise we're not going to move anywhere. And so, I mean, I hate to be on my soapbox, but I just believe that as I travel the country seeing thousands of financial literacy programs, not hundreds, thousands. Nothing is changing. In fact, things are getting worse.

Ms. Rojas: I just think that it's really important to add a lot of families that are immigrants here are sending money to their country and are developing their communities in their own country, providing assistance for their families. Saving is a lot harder for them because they are sending the money. They're waiting for that, you know, tax check refund so that they can send their monies off and be able to provide assistance to their family.

And so, where do you draw the line? How do you help them? They are developing their assets, but maybe it's not here. So how do we bring it so that they can also develop their assets here and then be able to provide more for their family? I think that's the ultimate thing that we have to think about: that there is a high increase in remittances going out to different countries.

Q: *Ms. Kijakazi:* Let me ask a follow-up question to your comment. How could the tax code be made more effective in increasing assets in low-income populations so that they could build up assets? That's for anybody.

Ms. Gonzales: I mean, I guess the biggest single program that we look at is getting the EITC at the state level. I mean, there are a lot of other things, but that is the one that we focus on.

Mr. Barajas: I don't. I'm sorry. I think that, you know, you've got different programs. I think the programs out there that were policy that were talked about as giving people credit to see an actual planner like up to \$300, you know, to get advice from someone who can give them real advice, and then use it as a credit to get the money back and for people under a certain level of income. Well, people need – and NCLR put out a great white paper study. If you haven't read it, you can get it off the Internet on their site on how Latinos – what they need is one-on-one. You know, we need one-on-one. We need to work one-on-one. The problem is we also have a problem – they didn't mention it – but I'm on the National Board of the Financial Planning Association.

The first minority ever – not first Latino, first African American, first minority ever – 20,000 members, yet at the same time, less than half of 1% of its members – half of 1% is African American or Latino – I mean, or Latino. So you know, they're talking about that, but at the same time where are they going to go to? And most of the people in

our communities are mostly multilevel marketing people selling products instead of actually giving advice. So again, we've got some critical issues, and I think this whole process of coming here is not coming up with a solution, but everybody saying, you know, well, we've got a problem and it's – if I don't own this problem, oh, they'll take care of it.

We all have to own the problem and decide that we've got to do something about it, and we've got to get together. The other thing is that we don't get together enough. We talk about it, then we go home and everybody goes back to doing what they were doing.

Ms. Kijakazi: We've about [a] minute left, so [if] anybody has a burning comment that they'd like to make whether you're on the panel or in the audience? No?

Q: Mr. Barajas, back to your comments about a number of financial, thousands of financial literacy programs, yet the results have been the same. You've just mentioned one-on-one counseling: is that what you would advocate for over these programs?

A: **Mr. Barajas:** Well, I would advocate them – no, what I would advocate is something that would work as compared to what's not working. And so, if NCLR has done this huge white paper study and interviewed people and found something interesting, you know what? I've been saying for 15 years financial literacy is not working, especially for poor people who have an established mind-set, and I – so my work is totally different. I don't even know how to say it, but I do believe that what we do need to do is we need

to, for example, if this young man is interested in [working in] financial planning then he can come in to a process, fortunately, that I can somehow manage or maybe he can come work at my office so he can really understand it's about a process, not about a product. So, he can go and help one-on-one.

The problem is, in our community we've got mostly social workers coming out [of school] – Latinos don't get to go into this kind of industry, or the financial planning industry. And we need to figure out a way of how to mentor students or instead of me going out to an event where there's a career day, and all they have is the Marines, the Air Force, the Navy at the schools and whatever, is that they should have some financial planners up there, but we haven't figured that out, to be quite honest.


I'm looking at it not only because they figure out how the heck are you making it? And I have to be quite honest with you, because I'm very entrepreneurial, but otherwise I wouldn't even know how to make it either. But I'm advocating that we need something different, and I would try something different. And right now we need one-on-one, or we need somebody who really cares and has a soul, now because sometimes our worst enemies are our own people. And so we've got to try something different. And I don't know what that is. It's like (inaudible).

Ms. Kijakazi: Well, let's thank the panel.

(Applause.)

Participant Biographies


Louis Barajas

 Louis Barajas sets a premier example of achieving the American Dream. Born in the East Los Angeles barrio and the son of Mexican immigrants, Mr. Barajas began his financial and small business career in his teens by helping his father and mother with their wrought iron business. He graduated from UCLA in 1984, received his MBA from Claremont Graduate School in 1987, and attained a Certified Financial Planner designation from the Denver College of Financial Planning in 1990. After some personal life-changing events and years of experience at major accounting and financial planning firms in Southern California, Mr. Barajas left the “yacht and Mercedes” crowd of Newport Beach, California and returned to East Los Angeles in 1991 to form his own wealth and business planning firm, Louis Barajas Wealth and Business Planning. Mr. Barajas wished to make a difference among the kind of people he grew up with, hardworking men and women who, because of lack of information or understanding, often made bad financial choices that kept them from achieving the success, security, and significance they deserved.

Over the last 15 years, Mr. Barajas has become a nationally recognized expert in Latino financial and business issues. He believes that creating abundance in underserved markets like the barrio will happen only when people change their limiting and culturally-conditioned beliefs about money. His goal is simple: to create an economic revolution for the working class, to help them attain greater abundance through wiser financial choices. In his books, speeches, seminars, business and personal coaching, Mr. Barajas makes the complex and overwhelming world of finances and small business comprehensible, as he teaches

people at every economic level the simple, practical, and powerful financial and business strategies to achieve financial and entrepreneurial greatness.

Jennifer Brooks

ennifer Brooks is the Policy Director for the Corporation for Enterprise Development (CFED). She directs and executes CFED's state and federal and tribal policy work and manages CFED's Policy Team. She provides technical assistance to policy-makers and advocates to help low-income people build assets and become entrepreneurs, and to create incentives for equitable economic development.

Prior to joining CFED, Ms. Brooks worked for U.S. Senator Maria Cantwell (D-WA) as a policy advisor on all aspects of education and training policy, as well as on welfare, labor, and women's and children's issues. Ms. Brooks also worked for many years at Wider Opportunities for Women (WOW), a Washington, DC-based nonprofit that works nationally and locally to build economic independence for women and girls. In that role, she oversaw WOW's federal policy involvement, and led a multistate project designed to both implement positive social policies at the state level, and to demonstrate the need for federal change at the federal level. Ms. Brooks has testified before Congress, and spoken widely on strategies to help families reach economic self-sufficiency.

Ms. Brooks holds a master's degree from George Washington University, and a bachelor's degree from Tufts University and the School of the Museum of Fine Arts.

Rebecca Gonzales

*R*ebecca Gonzales joined the California Budget Project (CBP) as outreach coordinator in 1998. She is primarily responsible for conducting training sessions on the state budget process as well as other major policy issues that are before the California Legislature. Prior to her tenure with the CBP, Rebecca worked for the California State Assembly for nine years. Rebecca's most recent position with the legislature was as Chief of Staff for Assemblymember Antonio Villaraigosa, who went on to become the Speaker of the State Assembly. Prior to her position with Assemblymember Villaraigosa, Rebecca worked for five years with then-Majority Floor Leader, Assemblymember Tom Hannigan, as a legislative assistant and policy analyst. Her tenure with the legislature started at the Speaker's Office of Majority Services, under then-Speaker Willie Brown, as a consultant. Rebecca also worked for CALPIRG, the California Public Interest Group, as a campus organizer at the University of California, Berkeley. She received her bachelor's degree from Stanford University.


Kilolo Kijakazi

ilolo Kijakazi joined the Ford Foundation in September of 2003 as a program officer for the Economic Development Unit in the Asset-building and Community Development Program. She is funding strategies for creating universal and sustainable policy around a life cycle of savings and investment for low-income families and individuals, including children's savings accounts, individual development accounts, Social Security, and pensions. She is also undertaking the task of ensuring that these asset-building strategies are culturally relevant to the communities they impact.

Before coming to Ford, Ms. Kijakazi was a senior policy analyst for the Center on Budget and Policy Priorities where she specialized in Social Security. While there she wrote and presented research and policy papers, provided testimony before Congress, and served as a panelist at the White House Conference on Social Security under the Clinton Administration. Some of her papers were published by the National Academy of Social Insurance and the Gerontological Society.

Prior to that, she conducted research and policy analysis for the U.S. Department of Agriculture, Food and Nutrition Service and the National Urban League Washington Operations Office. Ms. Kijakazi received a doctorate in public policy from George Washington University and her dissertation was published in 1997 as a book entitled *African American Economic Development and Small Business Ownership*. She also holds an MSW with a specialty in community development from Howard University.

Lindsay Rojas

 Lindsay Rojas is an assistant program manager at The Unity Council in Oakland, California. Ms. Rojas manages and coordinates The Unity Council's thriving AmeriCorps Program, Volunteer Income Tax Assistance (VITA) Program, and One-Stop Career Center.

She is a graduate of the University of California, Santa Barbara where she earned a bachelor's degree in sociology and Spanish. She completed her master's degree in International Organizations and Institutions at the Universidad de las Américas in Mexico City with an emphasis in U.S.-Mexico labor relations.

As a talented dancer, she has indulged in choreography and participated in flamenco and ballroom dancing in Mexico and throughout California. Ms. Rojas volunteers her spare time and energy to fundraising, community organizing, and voter registration activities.

Ms. Rojas is leading a team of AmeriCorps interns at this year's NCLR Annual Conference. Due to her strong desire and dedication, these interns gain not only a better understanding of their roots, but also a better appreciation of their efforts in the community, as well as their potential roles in helping shape the future for tomorrow's youth.

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