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Implementing the Earned Income Tax Credit at AccountAbility Minnesota Teaching Note

This teaching case highlights the leadership and management of a small nonprofit organization, AccountAbility Minnesota, grappling with an emerging problem of economic injustice. The case describes the expansion of a significant federal policy focused on rewarding work among low-income families. The Earned Income Tax Credit (EITC) grew substantially throughout the 1980s and 1990s, becoming the most significant anti-poverty policy of the federal government. While AccountAbility Minnesota was established in the early 1970s to provide free accounting services to low-income people, the agency had not grown substantially to respond to its changing environment until a new executive director was hired in 2002. The case opens three years later, with the Executive Director considering new information about increasing reports of predatory financial products targeted at the very customers served by the organization. She must decide how to respond to this growing problem, given her small organization, the risks involved, and limited investment capital.

The protagonist in the case is a woman, although the story stresses the larger collaborative process she orchestrates, rather than her individual attributes. It has been used in university courses and executive education seminars, including those focused on cross sector leadership and management, social policy, and public policy implementation. It is particularly appropriate for sessions examining social innovation, organizational environments or operations, cross-sector management, program capacity and learning, or evaluation.

This case was the Snow Foundation winner in our 2010-2011 “Collaborative Public Management, Collaborative Governance, and Collaborative Problem Solving” teaching case and simulation competition. It was blind peer reviewed by a committee of academics and practitioners. It was written by Jodi Sandfort of the Humphrey Institute, University of Minnesota. The research for this case was supported by a Teaching Technology Fellowship at the University of Minnesota, as well as a grant from the Snow Foundation of Syracuse, New York. Particular thanks to Annie Anderson for her assistance with the research for this project. This case is intended for classroom discussion and is not intended to suggest either effective or ineffective handling of the situation depicted. It is brought to you by E-PARCC, part of the Maxwell School of Syracuse University’s Collaborative Governance Initiative, a subset of the Program for the Advancement of Research on Conflict and Collaboration (PARCC). This material may be copied as many times as needed as long as the author is given full credit for their work.

After working with this case, students will:

- Have familiarity about the Earned Income Tax Credit, a significant government policy tool that ameliorates poverty among low-income workers;
- Understand how policy implementation can become exploited by private interests and appreciate the unique role of nonprofits in aligning policy intent with actual implementation;
- Appreciate nuanced interactions within complex policy fields of public, private, and nonprofit actors and the importance of determining the effectiveness of leadership and management actions;
- Grapple with the ambiguity inherent in new program development and expansion.

The case is written in three segments, the first two of which are decision-forcing situations. In class, students can be asked, very particularly, what should be done next.

Case **Segment A** introduces students to the policy arena and implementation problem.

Throughout the late 1980s and 1990s, the federal Earned Income Tax Credit (EITC) expanded because of bipartisan support for policies that rewarded work and did not create new bureaucratic administration. The Internal Revenue Service provided modest funding for Voluntary Income Tax Assistance (VITA), which usually flowed to nonprofit agencies leveraging volunteers to help people in need with tax filing. With the expansion of this refundable credit—and the development of other such credits at the state level—these frontline nonprofits played increasingly important roles in antipoverty policy.

Starting in the late 1990s, though, for-profit tax preparers began developing high cost financial products—Refund Anticipation Loans—and targeting them at low-income customers. These ‘loans’ charged extremely high interest rates but enabled tax filers to access their refunds immediately rather than waiting for the government processing time. The first segment of the case introduces this policy and implementation context, including a description of one local VITA site, AccountAbility Minnesota. It is framed by the leadership question for the nonprofit executive director. In the face of all the information, what type of risk should she incur to try to address the growing problem of financial exploitation of her agency’s customers?

Some potential discussion questions for this segment include:

1. How significant is the EITC as a social program? What is appealing about it for policy makers? for citizens receiving it? What are its limitations?
2. Why is there a market for ‘refund anticipation loans’?
3. What are strategies the organization could adopt to try to alter this dynamic and more closely align policy implementation with policy intent?
4. What are the key assets that AccountAbility has to work with in the years ahead? How much capacity do they have to deal with the implementation problem of refund anticipation loans and the complexity low-income people face when filing taxes to access the Earned Income Tax Credit?

5. What are the risks Bonnie should consider associated with each of the four paths of action described at the end of the case? How can these risks be mitigated?

Case **Segment B** describes the innovation developed by AccountAbility Minnesota and a local credit union to respond to these circumstances. It describes the management involved in the first implementation of the pilot alternative product, called the Express Refund Loan and Savings program. It stresses that managers must be willing to modify initial program plans in light of implementation realities, and the daily attention needed in many cross-sector partnerships and programs where citizens' prior experience might significantly influence their engagement. The segment also discusses how the executive director found resources for a process and outcome evaluation so that the pilot might have the potential for larger scale replication.

Some potential discussion questions for this segment include:

1. What were the key steps in the development of the first year pilot of the Express Refund Loan and Savings program? Was the ordering of these steps significant?
2. How did Bonnie work with multiple stakeholders with an interest in the organization and its future?
3. What cross sector leadership and management skills were important in this case? What was the role of front-line staff in ensuring program integrity?
4. How should Bonnie think about implementation of subsequent years in light of what was learned in year one?

Case **Segment C** continues to highlight management issues, focusing on organizational strategies for growing and expanding the pilot program throughout the state. Specifically, it discusses program modifications given the unique objective of each year and the changing environment. The segment concludes with final evaluation results.

Some potential discussion questions are:

1. What are the key management strategies in supporting expansion of the program?
2. What role do professional relationships play in providing avenues for implementation? What are the costs and benefits of relying upon these relationships?
3. What significance does the formal evaluation of the pilot program play in this case? What barriers to evaluation exist in small nonprofits? What lessons can be learned about how they can be overcome?

Additional Resources

To ground this case in the larger policy or management context, faculty might want to consult articles related to policy research or the roles of nonprofits in service delivery.

Policy Overviews of Tax Credits as Anti-Poverty Tools

- Steve Holt (February 2006). *The Earned Income Tax Credit at Age 30: What We Know*. Research Brief. Brookings Institution: Washington, DC.
- Timothy Smeeding, Katherine Ross Phillips and Michael O'Connor (2000). "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility." *National Tax Journal*, LIII(4), part 2, pg. 1187–1209.
- Bruce D. Meyer and Dan T. Rosenbaum (2001). Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers. *Quarterly Journal of Economics*, 116(3).
- Sandy Gerger (March 2009). "Strengthening the Earned Income Tax Credit: Alternatives to Refund Anticipation Loans." *Community Divided*. The Federal Reserve Bank of Minneapolis. Found at http://www.minneapolisfed.org/publications_papers/papers/issue.cfm?id=293

Roles of Nonprofits in Service Delivery

- Peter Frumkin (2002). "Service Delivery," (Chapter 2). *On Being Nonprofit: A Conceptual and Policy Primer*. Cambridge: Harvard University Press, pg. 64–95.
- John Yankey and Carol Willen (2005). "Strategic Alliances," (Chapter 11). *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco: Jossey-Bass, pg. 254–273.

A multimedia decision simulation version of this case is available at:

<http://www.hubertproject.org>. While the content is identical, students in the multimedia decision simulation actually assume the role of the protagonist and make the decisions that here are described more passively. If students choose directions other than what is recounted here, they learn additional facts about the case but ultimately end up in a 'dead end,' without resolving the central leadership objective—to make a discernible impact on the prevalence of high cost refund anticipation loans taken by low-income people.