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C.I.T.S. EDMONTON

**A COMMUNITY INCOME
TAX SERVICE FOR
EDMONTON**

EDMONTON SOCIAL PLANNING COUNCIL,
10006 - 107 Street,
Edmonton, Alberta.

October -- 1976.

C.I.T.S.

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A COMMUNITY INCOME TAX SERVICE FOR
EDMONTON

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Although many others have been involved at one time or another, space limits the numbers that can be included.

I. INTRODUCTION

The period between October, 1975, and April, 1976, marks the arrival of community income tax service to Edmonton. Initiated by the Edmonton Social Planning Council, the program was later joined by Student Legal Services, the Boyle Street Co-op, Humans on Welfare and Alberta Human Rights Association as well as supported by the Department of National Revenue and the Federal Department of Consumer and Corporate Affairs. The Edmonton Social Planning Council also funded the part-time Researcher/Co-ordinator.

Basically, the program was begun in an attempt to provide an alternative to the tax discounting firms who were freely exploiting low economic groups every year. Its prime objectives were to study the relevant situation, contact appropriate organizations and individuals, and develop an alternative service to that of the tax discounters. This last objective was to be carried out through a committee consisting of interested and relevant agency and client representatives.

All these objectives were met in this first year of preparation and trial, as shall be demonstrated in Section III B.

II. THE PROBLEM

There is a problem to be dealt with here, but not one so simple and direct that it can be explained by such statements as "income tax rebate firms" or "the government's inability to act quickly and appropriately" or "the seeming addiction of low income groups to exploitation and expanding problems". Rather, the problem consists of many factors, a number of which will be pointed out and discussed in the following pages.

A. INCOME VS. CREDIT

A multi-city study conducted by the Royal Bank of Canada concluded that 20% of the population is excluded from the normal "legitimate" financial institutions of our society such as banks, credit unions and trust companies. This figure -- approximately correlative to that percentage of the population earning less than \$2,000 yearly -- seems partial and less than accurate in representing that segment which is considered worthy of bank service. There is at least an additional 30%, those with incomes between \$2,000 and \$5,000, who have only very restrictive access to "legitimate" credit institutions. While it is difficult to determine exact figures, over 50% of Canadians have difficulty in qualifying for the cheapest forms of credit.

With 50% of the population making yearly incomes of \$5,000 and less, the Canadian Consumer Loan Association reported that this group received only 9 to 10 percent of loans granted. This is a decrease from approximately 12% in 1972 and 14% in 1971. A compilation of facts shows that an individual or family with a below average income will find it extremely difficult to obtain credit, no matter what price they are willing to pay; for social assistance recipients, credit is a virtual impossibility.

For a number of years now, people needing quick cash for any one of many reasons have been selling their potential income tax rebates at usurious interest rates (30% to 70% of total value) to income tax rebate firms. These "services" have prospered tremendously since the start of the 1970's, but their early history ranges farther back than that. In the late 1940's, city entrepreneurs carrying large sums of cash began to travel annually to remote logging and mining camps and settlements. Such "fly-by-nighters" would purchase T-4 slips on discount terms by taking power of attorney over the subsequent rebate.

They very gradually became the store front operations of today, establishing in the lowest income districts of many urban centres. In 1974, a research study conducted by "The Financial Post" estimated that 75 firms operated 130 branches across the country. (Mike's Income Tax Service alone had 14 branches throughout Western Canada and the Northwest Territories.) A 1973 estimate placed some 15,000 refunds, total value at \$3.1 million, in the hands of the private rebater. The likely profit for these firms was thought to be between \$1 and \$2 million (it is difficult to collect any specific information about the discounters). To make this even more disconcerting, tax rebates form only the base of a business which is supplemented by the purchase of public assistance and unemployment insurance cheques and rent rebates.

With Unemployment Insurance Commission and public assistance cheques, the discounters will only deal with preferred customers; that is, those who have been using their service over a span of time with no ensuing problems. Customers come to them for an advance before the UIC cheque was due. This advance allowed the discounter to make an extremely high profit over the huge interest charged.

E. PROVINCIAL INTERIM ACTION

Various Provincial Government departments have attempted to carry out interim strategies, some only half heartedly, others with more perseverance, but all with very little clout. Alberta's Treasury Branch, for instance, instructed its branch managers to facilitate the granting of loans to individuals wishing to use their T-4's as collateral. This was not very helpful because the managers would only deal with the same segment of the population with whom they had always dealt -- the low risk, properly secured individual who would first have to qualify for a personal loan. This type of policy leaves out the person who would normally use the services offered by quick cash firms.

In British Columbia, the Provincial Department of Consumer Services started a counter campaign through newspaper advertising by advising people to shop around for a loan if they could not wait for a refund. With 10 different communities in British Columbia housing discounters, the government could not compete due to the vast amount of money used by discounters on advertising alone. When a government does not feel itself capable of handling such a situation, something is seriously wrong with the system. That same department also introduced a regulation under The Trade Practices Act enabling courts to investigate rebate transactions with the possibility of some offers of redress.

Saskatchewan cheque discounters are required to be registered under The Trust and Loan Companies Licensing Act. However, this has no effect on the cost of servicing.

Just prior to the writing of this paper, Alberta's Minister of Consumer and Corporate Affairs, the Honorable Graham Harle, made a statement to the Credit Granters Association of Alberta to the effect that the tax discounting business will be regulated more tightly in legislation to be introduced shortly (the latest information places this during the 1976 Fall Session of the Alberta Legislature). This legislation is not designed to eliminate discounting, but rather it will require these firms to disclose their interest rate, as if it were a loan, over a 60-day period. This period is the maximum length of time it might take Revenue Canada to return a tax refund.

III. THE SOLUTION

A. THE WINNIPEG PROGRAM

Winnipeg's answer to the problem of unscrupulous tax rebating businesses in the area was conceived at the beginning of 1974. As an alternative to the rebaters, Winnipeg's Community Income Tax Service (C.I.T.S.) provided a free income tax preparation and loan referral service for those with annual incomes of \$7,500 and less. In 1974, the income level was raised to \$8,000. The tax service was free for people with no taxable income but the remainder were charged a sliding fee of \$1 to \$7, depending on the amount of their income.

The Cooperative Credit Society of Manitoba, the Elmwood Royal Bank Community Branch and several individual credit unions have provided C.I.T.S. users with short term income tax loans of up to 50% of the value of their estimated return. This service has been the crux to help turn the tide of clientele away from the tax discounting firms to the doorstep of C.I.T.S. In 1975, C.I.T.S. serviced 7,000 people, 4,000 of these requesting loans, thus drastically reducing the potential number of victims of the tax discount system. One firm folded up its Winnipeg office and another operated with a bare fraction of its original client level. These results certainly lend deserving credit to Winnipeg's attempted solution.

C.I.T.S., which has continually expanded since inception, has introduced a new, experimental service to its program. Begun this past summer, Community Consumer Credit Counselling Service has been set up to further assist persons encountering financial difficulties. It will act as a resource for persons interested in learning how to budget their money and make wise consumer and credit decisions. The service also assists indebted consumers to remove themselves from their debt situation.

An educational component is planned for the 1977 program. Interested individuals will be taught how to prepare their own tax return. This educational service will also be available as a resource to community workers. Both this service and the counselling service are attempts to balance their existing "band-aid" (short-term) program with some long-range programs.

The income tax computing service was offered a total of five afternoons and evenings a week at three centres within the lowest income area of Edmonton. Twenty-five volunteer students from the University of Alberta Law and Commerce Faculties were trained by the Department of National Revenue to assist in the preparation of tax returns. The three service centres were located within the offices of agencies working with and familiar to many of the people who might frequent the tax discounting firms. The operation, which began in mid-February, maintained client totals between 75 and 100 individuals per week in the second, third and fourth weeks. Numbers subsequently dropped to approximately 50 clients every week and thereafter gradually declined. It is thought that many more people would have used the service had there been a loan plan available as well. Reactions from a number of those individuals who phoned in for information revealed that many potential clients went instead to the discount firms for instant cash rebates.

The last of the three components, a loan service, was determined necessary if there was to be any hope in making a substantial dent on the rebate firms. There was little hope, however, of accomplishing this during the first year. To implement this component would involve setting up a working relationship with one or more credit unions. Although communication leading toward such a relationship had successfully gotten underway in early Spring of 1976, ratification could not be achieved until probably the second year of program execution. Another variable here involved a possible short-term loan of \$50,000 at little or no interest rate from a private source.

The preceding documentation represents a concise description of the basic areas which collectively make up the first year of the program. Many of the incidental details involved in the various stages of planning and operation have been left out for the purpose of producing a brief, factual report.

IV. CONCLUSION

Community income tax service in Edmonton, initially, is an attempt to make life a little easier for the poor by offering them fair credit arrangements for their income tax return as well as helping them in the preparation of that return. In this way, the program hopes to lessen their reliance on and support of usurers such as tax discounting firms. The tax discounters seem to be the only business group, though unconscionable and profiteering, to give credit to the poor.

Tax rebate firms, however, are only the surface problems. Underlying are the basic reasons for the endurance of poverty, endurance aided by a system whose supposed intention is to mend the condition. This then might be the long-range goal of our committee: to help set up a structure which would dig at the roots of poverty within the urban structure.

One important motive for this report has been to set an example for other urban centres to follow, though not necessarily in the same path. Winnipeg's C.I.T.S. has done this for Edmonton and now Edmonton will hopefully provide the same opportunity for other urban centres.

RECOMMENDATIONS

1. That C.I.T.S. become a national effort in both name and action. Only in this way can the problem of exploitive discounting be eliminated, and cooperation with Federal Government become an effective tool for change.
2. That the long term goal of the Edmonton project be financial and credit counselling and aid for low income families and individuals.
3. That the immediate concern be with setting up a tax computing and loans office for the tax year commencing in January of 1977 and running for a minimum of five months.
4. That a continuing effort be made to involve the low income user of such a service in the planning and operation of that service.
5. That the computing/loans office strive to become as self sufficient from grant sources as is realistically possible in as short a time as possible.

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APPENDIX 1

SCHEDULE FOR EDMONTON'S TAX COMPUTING CENTRES

(commencing February 23, 1976)

CENTRES INVOLVED:

Humans on Welfare
9676 Jasper Avenue

Boyle Street Co-op
10348 - 96 Street

Marian Centre
10528 - 98 Street

	<u>AFTERNOON</u>	<u>EVENING</u> (6:30 - 9:30 p.m.)
Monday		Humans on Welfare
Tuesday		Boyle Street Co-op
Wednesday	Humans on Welfare (2:00 - 5:00 p.m.)	Humans on Welfare
Saturday	Marian Centre (1:00 - 4:00 p.m.)	

APPENDIX 2

(EXCERPT FROM: C.I.T.S., Annual Report, 1976, Winnipeg, Manitoba)

C.I.T.S. 1976 OPERATING PROCEDURES

A description of procedures and the forms and recordkeeping therein, separated into four areas: I) Preliminary and Tax; II) Loan; III) Refund Process; IV) Other.

I PRELIMINARY

Clients were asked to take a number and were served in turn. Signs were posted to assist and inform, i.e., "Please have social insurance cards ready.", "Do you have your TFA-1's?", and a schedule and explanation of tax preparation fees.

Upon being served, the client was asked for all data needed for completing the Office Information Sheet (see sample OIS). We asked for identification in addition to the Social Insurance Card. Front desk workers completed the top six lines and added pertinent comments. (The balance of the OIS was completed by the tax worker.) Also, before the client was finished at the front, we tried to ascertain that all necessary T4's, receipts, etc., were with him/her.

This done, the client was asked to sit and wait until his name was called by a tax worker. This OIS was then placed in an ordered pile at the front desk, top one served first. Each client's name was recorded in the Daily Record of Clients which gave us our intake statistics. Tax workers initialled clients served, making proper notations as to work completed.

<u>DAILY RECORD OF CLIENTS</u>						
<u>CLIENT NAME</u>	<u>TAX WORKER</u>	<u>'75</u>	<u>'74</u>	<u>'73</u>	<u>'72</u>	<u>Other</u>
John Public	BJ	✓				

Tax

The OIS was checked to see if the client had received a loan from either Midland or Federal Employees Credit Unions in 1975. If so, we could get the client's personalized tax return which we had on file. We also had a virtually complete file of copies of all returns completed by us in 1975.

Again, we worked with carbon paper rather than an expensive photocopying system. Two copies plus an original were made of all tax returns, forms and schedules.

The tax worker would assemble all pertinent material and proceed with the return, questioning the client on all points. If a loan was requested by the client, comments by the tax worker would often be added to the OIS for the benefit of the loans officers.

All returns were stamped with our CITS stamp on the lower left corner of the tax return. The prepared return would be placed in a mailing envelope with a refund sticker when necessary, and if the client desired, we drop it into a mailbag for deposit at the District Taxation Office. We generally dropped off a bundle daily, a convenience much appreciated by everyone. The client was given a copy of the prepared return, while the last copy was attached to the OIS. Non-loan returns were filed as soon as research data was completed by the tax worker.

If a loan was desired, all copies of the tax return and information slips were left with us for the client's loan appointment. (An improvement over 1974 and 1975 since many times material was lost by the client en route to the credit union.)

Where referrals were made to the Royal Bank Community Branch, same procedures were followed except that we retained one copy of the T1 and sent the original and one copy with the client. We added one of our 1975 pink information sheets as a basic info-record for the Bank.

Checking: Most returns were checked for accuracy and thoroughness before the client left. If changes have to be made, obviously the client should be informed. Checking was done by personnel from the Manitoba Property Tax Credit Office and by some of our own personnel. In the latter part of the operation, tax workers checked each other's work on the simpler returns. In all cases of doubt or difficulty we attempted to get the proper interpretation from National Revenue or other available expertise.

Tax Preparation Fees: We attempted to collect the fees at the time of completion of the return. This was a disadvantage in some ways since, in many of the cases, we had to complete the return before knowing if the client would be taxable. Front desk workers were often unable to tell the client what the fee would be beforehand. Receipts were issued for all payments. If a client indicated he could not pay, or would rather pay us later, we gave him a pre-addressed envelope, and recorded his name on a list. (Money received in late payments more than paid for the envelopes that did not "come back".)

If a client wanted a loan it was simple process to deduct the tax preparation fee from the loan, if so requested. We "red-tagged" any such forms for the loans officers' attention. The latter issued a receipt for the tax preparation fee upon granting the loan.

Tax preparation fees were collected and recorded daily, while fees paid by loans were covered in one cheque at the end of the day. Regular deposits at the bank were made.

Loan Referrals: An important routine was followed here:

- 1.) tax returns were not addressed with the client's name, (see samples in Section II);

These Information Requests were collected at four o'clock each day and taken to the District Taxation Office for processing. They were picked up the following morning by staff on the way to work. We kept a daily record of these and noted any debit balances. This was a cross check system for these forms which were filed in each individual loan file. As in past years these confidential forms indicated, when applicable, any outstanding taxes as a result of past debits or reassessments. Such amounts could reduce (or wipe out) a client's refund, and subsequently afford him less of a loan potential. We also used these forms for obtaining copies of past year's tax returns. We retained the bottom portion, the top by National Revenue.

II LOAN

Prior to opening each morning, loans officers took the coming day's list of appointments and crosschecked names with a list of loan defaulters from the 1975 and 1974 programs, and with another list of potential problems: these were 1973 and 1974 reassessment notices sent to the credit unions who had no forwarding addresses for these taxpayers. A further check was made to ensure that all material was there for each appointment, and Information Requests were matched up with each file, making note of any debits.

Loans were granted by a loans officer, and okayed by an employee of the CoOperative Credit Society of Manitoba, who was located in our office. The loans officer completed all documents with each client. With centralization this year we were better able to establish basic standards for granting loans. Each loan amount was determined by the loan officer -- 50 per cent of the refund amount to \$400.00 maximum loan -- taking into consideration a possible debit balance, or other circumstances that might warrant a reduction. Occasionally, clients asked for a smaller loan than they were entitled to.

Tax preparation fees were deducted from the loan, as was the refundable credit union membership fee of \$5.00. All non-members of Midland had to pay the fee -- a government requirement that a person has to join a credit union first. Thus, the reason for the membership cards, which were signed only.

Loans officers prepared the cheques (in an office separate from the loans area) for the signature of the CCSM employee, the cheque in the actual amount the client would leave with -- loan amount less membership fee and/or tax preparation fee, if applicable.) The next step involved completing the data on each loan file and placing all this material in a manila envelope, prestamped for recording data.

Forms to be filled out for each loan included a loan application designed especially for this program, a promissory note in duplicate (copy to the client), a power-of-attorney form in duplicate, and the membership card. Samples follow.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that

I, JOHN PUBLIC DO HEREBY make, nominate, constitute and appoint Co-operative Credit Society of Manitoba my true and lawful Attorney for me, and in my name, place and stead, for my sole use and benefit to conduct the following act and activities:

- To receive and collect at the following address, 536 1/2 Main Street, Winnipeg, Manitoba my 1975 Income Tax Refund cheque.
 - Endorse any bills of exchange, orders, drafts and cheques in connection with my Income Tax Refund, to be applied firstly, in repayment of my loan with ~~Co-operative Credit Society of Manitoba~~ Midland Credit Union Ltd. or to be deposited to my credit with Midland Credit Union Ltd.
- I, hereby covenant and agree, for myself, my heirs, my executors and administrators, to allow, ratify and confirm whatsoever my said Attorney shall lawfully do or cause to be done by virtue of these presents.

IN WITNESS WHEREOF I have hereunto set my hand and seal, this 13th day of February one thousand nine hundred and seventy-six.
SIGNED, SEALED AND DELIVERED)
IN THE PRESENCE OF)

Kelvin Peterson) John Public
(Witness))

AFFIDAVIT

CANADA) I, Kelvin Peterson of
PROVINCE OF MANITOBA) the City of Winnipeg in the Province of Manitoba,
TO WIT) Loans Officer.
make oath and say:

- THAT I was personally present and did see JOHN PUBLIC named in the within instrument who is personally known to me to be the person named therein, duly sign, seal and execute the above Power of Attorney for the purposes named therein.
- THAT the same was executed at the City of Winnipeg in the Province of Manitoba and that I am the subscribing witness thereto.
- THAT I know the said JOHN PUBLIC and he (she) is in my belief of the full age of eighteen years.

SWORN before me at the City of Winnipeg)
in the Province of Manitoba this 13th)
day of February A.D.) Kelvin Peterson
1976.)

George Hagen
A Commissioner of Oaths in and for the Province of Manitoba

My Commission expires March 31, 19 78

MEMBERSHIP APPLICATION	
<u>PUBLIC</u> (Surname)	<u>JOHN</u> (First Name) No.
I hereby make application for membership in the <u>CREDIT UNION LTD.</u>	
and agree to conform to the Society's bylaws and regulations.	
Date and Year of Birth	Occupation
Employer	
Name of Kin (Husband, Wife, Guardian, etc.)	Address
Recommended by:	Address
Signature: <u>John Public</u>	Phone No.
Address	Approved by
Date of Approval	
CCU 150	

CCSM's representative bore the responsibility for checking loan amounts, assigning loan numbers, preparing and signing cheques, and looking after considerable accounting chores. He also signed power-of-attorney forms and checked returns before mailing with CITS personnel.

III REFUND PROCESS

Receiving income tax refund cheques led to a process of record-keeping, all doublechecked to avert lost cheques or non-recording of data. Considering that as many as 150 cheques arrived in one day, it may be rightly assumed that there was considerable writing involved.

When refund cheques were received they were removed from envelopes and recorded on a master list as follows, under the date received:

March 23				
NAME	ACCOUNT NO.	REFUND AMOUNT	CHEQUE NO.	CH. DATE
PUBLIC, JOHN	PUBLI 0000000	999.25	89755901	MAR 22

Once they were recorded in this fashion, they were stamped for deposit and given to the CCSM representative who deposited them the same day. In this way, we had no need to keep any refund cheques on the premises.

Next step was recording of all pertinent refund data on the loan file. The above data was recorded, as well as any changes as a result of errors, assessments, or general averaging, etc. Each refund amount was crosschecked with the amount of the loan to be sure that the latter was covered. This also enabled us to evaluate our work and assist taxpayers with adjustments or corrections.

The final step at this point was to prepare a typed list of address changes for clients whose refund cheques had been received and whose loan was paid off. These were submitted weekly to the District Taxation Office as follows:

NAME	CORRECT ADDRESS	ACCOUNT NO.	S.I.N.
PUBLIC, JOHN	100040 ELGIN Rd WINNIPEG	PUBLI 0000000	848848848

(Please note that this was the only step in our whole process that required typing.)

IV OTHER

As in the past two years, we found it necessary to help people in many areas besides income tax preparation and loans:

- * completion of old age supplement applications
- * social insurance card applications
- * lost unemployment T4U applications
- * problems in obtaining T4's from employers
- * applications for Pharmacare refunds
- * Federal gas excise refund applications
- * American tax returns
- * referrals to social agencies and government departments
- * referrals to credit unions for regular loans
- * referrals to District Taxation Office
- * assistance with income tax reassessments and problems
- * referrals to and from Legal Aid
- * counselling victims of tax discounters
- * submissions of amendments and supplemental information to the District Taxation Office and the Taxation Data Centre
- * processing requests from the Taxpayer Contact Division of the Data Centre for additional information on returns

