



# Program Overview: Self-Employment Tax Initiative

## Leveraging Tax Time to Empower Entrepreneurs

### Overview

The **Self-Employment Tax Initiative (SETI)** is a small business development strategy that takes advantage of the tax code to help low-income, self-employed individuals formalize and **grow** their businesses, **create jobs** and access tax-based asset building opportunities. SETI recognizes the tax season as an incredibly opportune time to introduce self-employed business owners to a host of products and services that support small business development and asset building. The SETI team offers **technical assistance** and funding to community tax preparation providers, supports related product and service **innovations**, conducts practice-related **research** and promotes sound **tax policies**.

### Opportunity

SETI focuses on the annual tax preparation process as the primary outreach mechanism for educating self-employed business owners and connecting them to other products and services that will help them grow their businesses, incomes and wealth. Nearly all small businesses must pay business taxes in the very first year of operation. This encounter with business tax preparation can be both intimidating and, consequently, a powerful teachable moment for business startups. The mandated business tax preparation moment provides an advantageous opportunity to provide more business services to more startups, and tax reforms that make filing simpler and less costly for small businesses can further enhance this universal microenterprise gateway. SETI is exploring all of this potential.



#### **Asset-building for low-income households.**

Reporting self-employment income on a Schedule C or C-EZ brings self-employed business owners and their households into the social safety nets of Social Security and Medicare. In addition, self-employed income qualifies toward Earned Income Tax Credit (EITC) eligibility. Annually, the federal EITC delivers \$7.5 billion in capital assistance to 4.4 million self-employed households. Of that amount, \$4 billion goes to 2.4 million self-employed households which have no wage or salary income but rely primarily on their business income. Thus, the EITC is the single largest capital support program for self-employed individuals.



#### **Growing and expanding micro businesses and creating jobs.**

Schedule C is basically a profit and loss statement that every business-owner needs to understand. It can also function as a tool for helping new business owners understand their finances in greater depth each year. Moreover, paying taxes is a teachable moment that can be leveraged to help self-employed individuals better understand their businesses and identify products and services that may be available to help them grow sustainably.



#### **Building a more sustainable economy.**

Self-employed individuals that file their taxes generate tax revenue and create jobs in their local economies. When the self-employed use the tax code to formalize and grow their businesses, they are likely to spend their net income in their own neighborhoods and hire locally; self-employment helps to sustain local economies. Facilitating tax filing for the self-employed also represents a step toward closing the nation's tax gap – the difference between taxes owed and taxes paid – of more than \$345 billion annually.

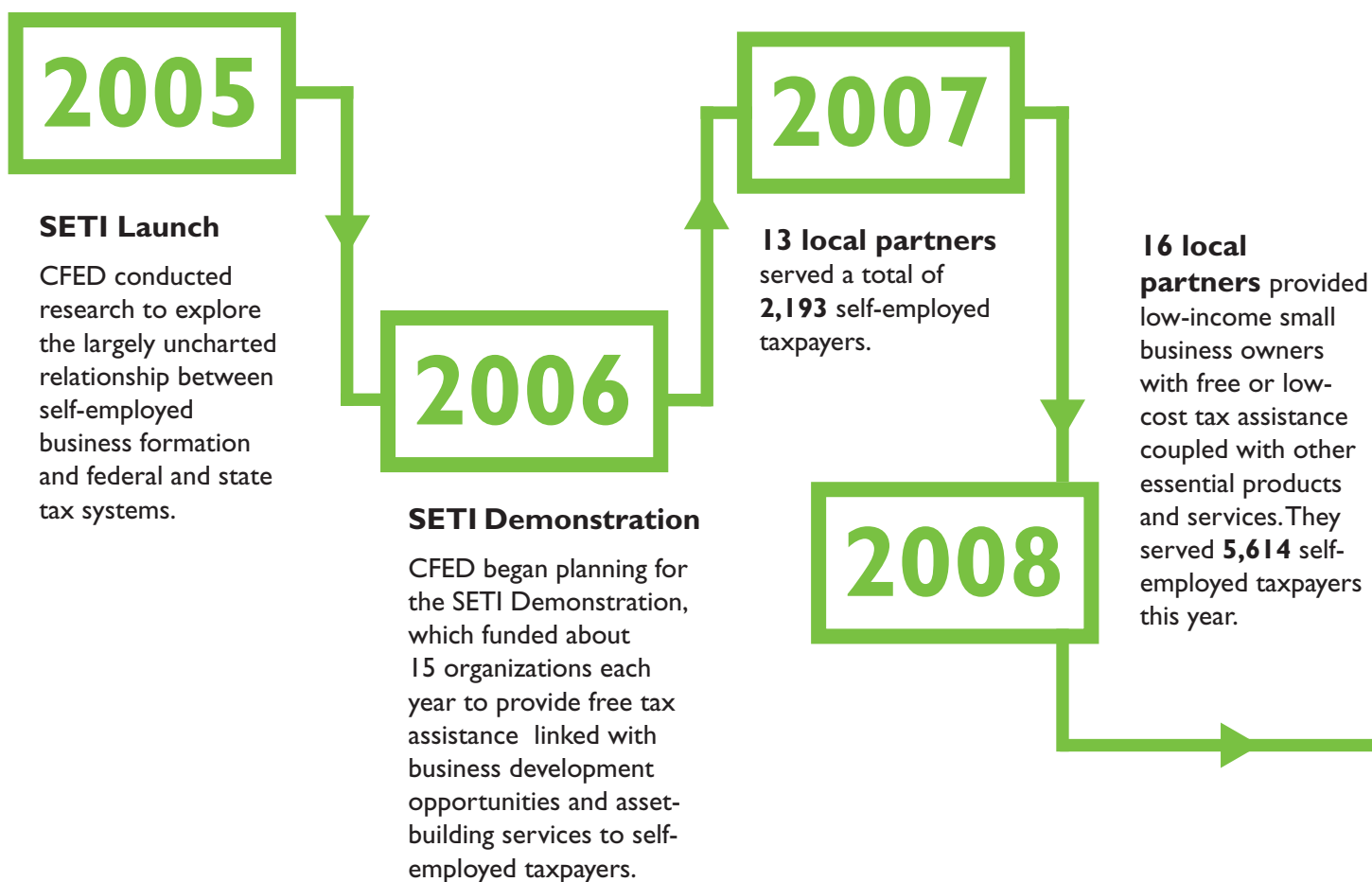
## Strategy

**SETI AWARDS GRANTS** to community-based organizations that offer free or affordable tax preparation assistance to low-income, self-employed individuals. To date, SETI has partnered with 39 organizations across the country, awarding over \$500,000 in grants. These local partners help SETI identify, test and refine promising practices for using the tax filing process as a means of fostering small business development.

**SETI CONDUCTS RESEARCH AND FACILITATES FIELD-BUILDING** among our local partners to identify optimal ways to serve self-employed people. SETI collects and disseminates lessons learned from local partners that explore **sector-specific** strategies for business support, **outreach and delivery** strategies that promote access by underserved populations, and strategies for serving entrepreneurs **beyond the tax season** with asset-building and microenterprise services.

**SETI PROMOTES SOUND TAX POLICY** as it relates to the self-employed. SETI engages with policy partners to help analyze, understand and test the boundaries of self-employment tax policies. At the national level, SETI works with the Aspen Institute, the National Association for the Self-Employed, the Association for Enterprise Opportunity, the National Community Tax Coalition and the IRS Small Business & Self-Employment Division. At the local level, our partners in both the microenterprise and the free tax preparation fields are important participants in this policy dialogue.

## SETI: A Brief History



2012

We also launched the SETI Resource Bank in 2010.

2010

In the final year of the SETI Demonstration, **15 local partners** served **12,583** self-employed businesses, and approximately **62%** of those filers earned a combined **\$11.6 million** in refundable tax credits like the EITC.

2009

**16 local partners** began collecting more detailed data to measure outputs related to self-employed taxpayers' characteristics and each partner's organizational characteristics.

The number of self-employed filers served increased by **130%** to **12,896** as awareness of the strategy increased and local partners increased their outreach and delivery strategies.

**Learn More Online**



To view data, reports, information about our local partners, tools for practitioners and other materials produced by SETI and our partners, visit us online at <http://www.cfed.org/programs/seti>

2011

The **Schedule C VITA Pilot** expanded to include four new local partners.

SETI partnered with **Mission Economic Development Agency** to develop an integrated service delivery system for self-employed clients.

SETI and the **MD CASH Campaign** partnered in the Washington, DC metro area to build the infrastructure for a regional network linking asset-building and microenterprise service providers.

1 SETI, NCTC and the IRS launched the **Schedule C VITA Pilot** to demonstrate the potential for expanding VITA scope to allow for broader Schedule C tax assistance.

2 SETI invested in the **SETI Innovation Cluster** to explore creative models of service provision.

# Questions?

Contact us at [seti@cfed.org](mailto:seti@cfed.org)

## About CFED

CFED expands economic opportunity by helping Americans start and grow businesses, go to college, own a home and save for their children's and own economic futures. We identify promising ideas, test and refine them in communities to find out what works, craft policies and products to help good ideas reach scale, and develop partnerships to promote lasting change. We bring together community practice, public policy and private markets in new and effective ways to achieve greater economic impact.

SETI gratefully acknowledges the support of our funders: Capital One, Citi, Bank of America, Sam's Club, The Annie E. Casey Foundation, The Walmart Foundation, Morgan Stanley, the Northwest Area Foundation and Charles Schwab Bank.