



## News Release

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## **This Labor Day, Group Calls Attention to EITC Dollars Unclaimed by Low-Wage Workers and Drained by Predatory Tax Preparers**

### *Up To Seven Million Families Could Be Missing Out on Over \$12 Billion in Tax Benefits*

(NEW ORLEANS) -- The Association of Community Organizations for Reform Now (ACORN) today released a new report documenting that as many as seven million U.S. low-income working households may be missing out on more than \$12 billion in Earned Income Tax Credit (EITC) refunds to which they are entitled. The report – titled “Increasing Incomes & Reducing the Rapid Refund Rip-Off” – also shows that tax preparers siphon off over one billion dollars per year from low-income working families through the sale of unnecessary bank products such as Refund Anticipation Loans (RALs).

The report describes a successful three-city pilot project funded by the Marguerite Casey Foundation through which thousands of families in New Orleans, Miami, and San Antonio were able to claim their full EITC benefits by utilizing the free tax preparation sites offered by ACORN. The three-city experiment was so successful that ACORN plans to expand the program to other cities this coming tax season.

ACORN has also calculated the amounts lost in over 100 individual cities and counties and the financial impact that these EITC dollars could have on local communities and will be announcing plans in these locations to reach those families who are not collecting their refunds.

“On Labor Day, as we recognize the men and women who work hard to make this country run, we must also recognize that millions of working families are struggling to make ends meet,” said Maude Hurd, ACORN’s national president. “We need to commit ourselves to making sure that the lowest paid workers are getting the benefits they have earned and that tax preparers do not cheat them out of one dime of their money.”

“Marguerite Casey Foundation is proud to have supported this innovative pilot program to raise awareness of the EITC and help thousands of working families claim their tax credit for the first time ever,” said Luz Vega-Marquis, President and CEO of the Marguerite Casey Foundation. “It is a model program for helping low-income families regain the economic footing they need to

stay strong and engaged in their communities. We hope to see it extended to hundreds of other cities nationally in the coming years.”

### **About the Earned Income Tax Credit**

The Earned Income Tax Credit (EITC) is the largest and most effective poverty reduction program in the country. It is a special tax benefit designed to improve the financial situation of people who work but earn low wages. Almost 21 million families received more than 36 billion dollars in refunds through the EITC last year. These EITC dollars had a significant impact on the lives and communities of the nation’s lowest-paid working people, lifting more than five million of these families above the federal poverty line.

The families helped by the EITC are very much in need of this additional income. Census data show that nearly one-fifth of US workers had incomes below 200 percent of the poverty line, and that 24 million Americans live in low-income working families with children, yet research by the General Accounting Office (GAO) and IRS indicates that between 15 - 25 percent of households who have earned the EITC do not claim their credit.

Household income and family size determine eligibility for the EITC and amount of EITC refund. For the 2003 tax year:

- ◆ Workers with one child in their home and who earned less than \$29,666 (\$30,666 for a married couple) could get an EITC refund of up to \$2,547.
- ◆ Workers with more than one child in their home and who earned less than \$33,692 (\$34,692 for a married couple) could get an EITC refund of up to \$4,204.
- ◆ Workers ages 25 to 64 with no children in their home who earned less than \$11,230 (\$12,230 for a married couple) could get an EITC refund up to \$382.

### **About Refund Anticipation Loans (RALs)**

Refund anticipation loans (RALs) are short-term loans secured by the recipient’s tax refund. With a RAL, low and moderate income tax payers are charged extraordinarily high interest rates to get their own tax dollars back from the government just a week or so faster than they otherwise would. In 2002, the typical charge for a RAL was \$130 in interest and fees, according to a study by the Consumer Federation of America (CFA) and the National Consumer Law Center (NCLC). The \$130 cost resulted in an APR (annual percentage rate) of 245 percent on the average refund of \$2,043, and according to the study, some taxpayers paid even higher APRs – up to 1800 percent.

RALs are marketed extremely aggressively to those taxpayers who can least-afford to lose the money. More than 7.6 million EITC recipients, or 37 percent of all EITC recipients nationally, paid for a RAL in order to get their EITC refund in 2002. RALs seem to exist only as a product for, and fee generator from, low-income households. Low-income families and EITC recipients are the main users of RALs. Of the 12.7 million RALs made nationwide in 2002, 10.6 million, or 83 percent, were made to low-income households and 7.6 million, or 60 percent, were made to EITC recipients.

## **The ACORN/Marguerite Casey Foundation Pilot Project**

With the support of the Marguerite Casey Foundation, ACORN operated its own VITA (Volunteer Income Tax Assistance) sites to offer free tax preparation and filing in three cities this year. ACORN went door-to-door in low-income neighborhoods in these cities to inform residents about their possible eligibility for EITC and about the availability of ACORN's free tax sites.

The results showed that this type of outreach could be a model both for increasing the number of eligible families who receive the EITC benefit and for reducing the reliance of lower income families on products such as Refund Anticipation Loans. In their initial year of operation, the ACORN sites ranked first in New Orleans and Miami and third in San Antonio (behind only the IRS and City of San Antonio sites) in the number of tax returns filed among VITA sites within those cities. Together, the three sites prepared 3,481 tax returns and filed for \$3.9 million in EITC and Child Tax Credit (CTC) refunds.

### **About ACORN**

ACORN is the nation's largest community organization of low- and moderate-income families, with over 150,000 member families organized into 700 neighborhood chapters in more than 60 cities across the country. Since 1970 ACORN has taken action and won victories on issues of concern to our members. Our priorities include: better housing for first time homebuyers and tenants, living wages for low-wage workers, more investment in our communities from banks and governments, and better public schools. We achieve these goals by building community organizations that have the power to win changes -- through direct action, negotiation, legislation, and voter participation. ACORN is an acronym, and each letter should be capitalized. ACORN stands for the Association of Community Organizations for Reform Now.

### **About Marguerite Casey Foundation**

Based in Seattle, Washington, the Marguerite Casey Foundation is a private, independent grant making foundation created by Casey Family Programs to help expand Casey's outreach and further enhance its 38-year record of leadership in family well-being. Marguerite Casey Foundation's mission is to help low-income families strengthen their voice and organize their communities in order to achieve a more just and equitable society for all. The Foundation supports community-based leadership and promotes education, activism and advocacy among families, parents, and youth.

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