

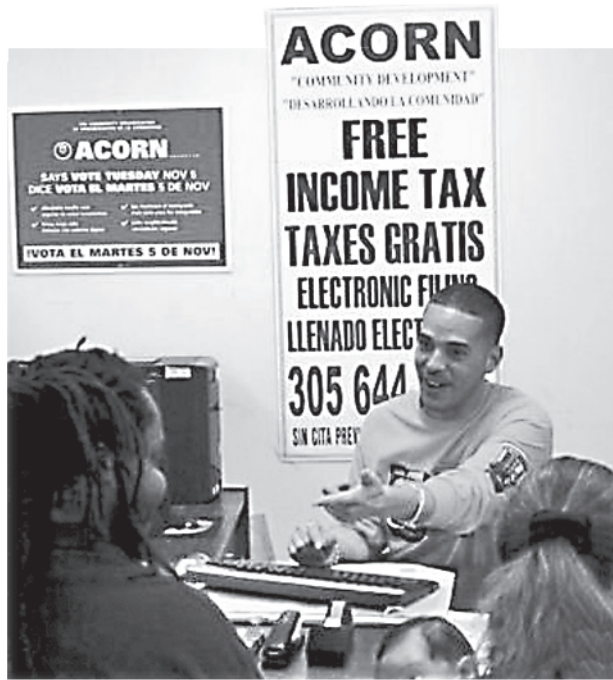


A report from the ACORN Financial Justice Center

Increasing Incomes & Reducing the *Rapid Refund Rip-Off*

Expanding Access to the
Earned Income Tax Credit
for Working Families

While Reducing Reliance
on Refund Anticipation Loans



A pilot project conducted by ACORN and funded by the Marguerite Casey Foundation may be a model both for increasing the number of eligible households who receive the EITC benefit and for reducing the reliance of lower income families on high-cost tax preparation services and expensive products such as Refund Anticipation Loans.

Marguerite Casey Foundation is pleased to support ACORN's efforts to increase the number of eligible households receiving the Earned Income Tax Credit. For more information visit us at www.caseygrants.org



ACORN

Association of Community Organizations for Reform Now
739 8th St. SE, Washington, DC 20003 • (202) 547-2500

I have been President of ACORN for some years now, so I have come to know many things about our work and how we do it effectively. Commonly, ACORN is known best when we unfurl our red flags and let them wave in the streets with hundreds and thousands of our members behind us. With our red and black t-shirts we have come to stay in many an office across this great country in our fight for justice with signs in front of our chests and fists in the air.

Indeed, these images of ACORN in the popular press and the corporate nightmare have much truth, but in 2004, as leaders we looked deeply at our communities of low- and moderate-income families in 65 cities across the United States. We wanted to try and get our hands around a problem and our feet moving door-to-door to solve the “eligibility gap” between those of our neighbors who should be getting EITC – the Earned Income Tax Credit – and the Child Care Credit – and those who are not getting it.

With the help of our partners at the Marguerite Casey Foundation, we learned a lot very quickly in the pilot projects we built in New Orleans, Miami, and San Antonio. We also had mixed feelings about the lessons we learned and our quick success in developing the number one VITA sites in Miami and New Orleans and the number three site in San Antonio. The EITC program is not a new entitlement for our members and our communities, so why had it taken so long for there to be a house to house search to assure increased participation? This needs to be something more than an ACORN campaign – this needs to be a national crusade! As this report shows, there’s too much money being left on the streets unused, yet desperately needed.

We also learned a lot about some very predatory practices that are picking our pockets even as we qualify for tax refunds from EITC. These Refund Anticipation Loans (RALs) have become community gold mines for big and small tax preparers of every stripe. We made progress on some of these abuses with some companies, but we still have a long way to go. I think you will join ACORN members in shock and dismay at seeing the amount of precious resources we are losing. Taking advantage of the economic circumstances of families in our communities is the very definition of predatory practices, and we hope this report will open your eyes and engage your anger as it has ours.

If we were able to change our ways and means to address this issue in our communities to bring more resources to bear to trigger more capitalization in our communities, we hope this report will help others to think of ways that they can join this crusade for full EITC eligibility and this campaign to end predatory practices around RALs.

Join us, please. We need your help!

Organize!

Maude Hurd

National President
ACORN



marguerite **casey** foundation

As our nation's economic pressures mount, so too do the strains on working families everywhere. Each year that the United States allows more than 12 million children to live in poverty will cost our society an estimated \$137 billion in future economic output, as poor children grow up to be less productive and effective workers. In short, our failure to make necessary community investments today ends up costing society far more in the long run.

Fortunately there are resources readily available to help families lift themselves out of severe financial hardship and break the cycle of poverty. One of the best such programs is the Earned Income Tax Credit, or EITC. Established by Congress nearly 30 years ago to offset the payroll and income tax burdens of the working poor, the EITC has enjoyed broad and deep support from lawmakers and community advocates alike.

In 2003, low- and moderate-income families received more than \$36 billion through the EITC, exceeding federal expenditures for either TANF or food stamps. This unique tax credit program returned an average of \$1766 dollars to each qualifying family, lifting millions of working households above the federal poverty line in the process, while pumping billions of needed dollars into the economies of low-income neighborhoods everywhere.

Despite these successes, however, the EITC program remains under-utilized by millions of low-income families. Research by the General Accounting Office and IRS suggest that each year as many as 25 percent of eligible households who qualify for the Earned Income Tax Credit fail to claim it. That means that literally billions of dollars in available resources are remaining unclaimed by families in need.

Marguerite Casey Foundation is proud to have funded ACORN's development of an innovative pilot program to raise awareness of the EITC and help thousands of families claim their tax credit for the first time ever.

With the Foundation's support, ACORN was able to open and operate Volunteer Income Tax Assistance sites in three cities (Miami, New Orleans, and San Antonio), processing over 3400 tax returns, delivering nearly \$4 million EITC dollars to working families and neighborhoods, and providing low-income filers with a free alternative to the costly refund anticipation loans offered by many of the predatory tax return services.

It is a model program which the Foundation hopes to see extended to hundreds of other cities nationwide in the coming years. Together, grant makers, community-based organizations, and the working families of America can and will make a difference.

Change is possible!

Luz A. Vega-Marquis

President & CEO

Marguerite Casey Foundation

Low and Moderate Income Families Miss Out On Billions of EITC Dollars Every Year

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 5 million of these families above the federal poverty line.

In these hard economic times the EITC is even more important, yet millions of families who are eligible for the tax credit are not receiving it, leaving billions of additional tax credit dollars uncollected. Research by the General Accounting Office (GAO) and IRS indicates that between 15% and 25% of households who have earned the EITC do not claim their credit.

Using the most conservative of these figures would mean that more than 3.5 million (3,689,582) households nationwide missed out on the EITC dollars to which they were entitled. If the actual portion of eligible families who do not collect the credit is 25%, then almost 7 million (6,969,116) eligible households did not claim the credit.

The average EITC amount received per family in 2002 was \$1,766. Using this figure and a 15% unclaimed rate would mean that low-wage workers and their families lost out on more than \$6.5 billion (\$6,515,801,812), or more than \$12 billion (\$12,307,458,856) if the unclaimed rate is 25%¹.

Economists suggest that every increased dollar received by low and moderate-income families has a multiplier effect of between 1.5 to 2 times the original amount, in terms of its impact on the local economy and how much money is spent in and around the communities where these families live. Using the conservative estimate that for every \$1 in EITC funds received, \$1.50 ends up being spent locally, would mean that low income neighborhoods are effectively losing as much as \$18.4 billion.

¹ The average refund of those families who did not claim the EITC may be somewhat lower than the average of those who did, since the research indicates that childless workers, who are entitled to a smaller credit, are less likely to claim the credit. On the other hand, immigrant families with children, who would be entitled to a larger credit, are also less likely to claim the EITC.

In this report, we examine lost EITC money nationwide as well as in more than 100 individual cities and counties. Viewing the numbers for specific areas shows the enormity of the impact that these missing dollars could have on specific cities.

Of the cities examined, the ten with the largest amounts of missing EITC dollars are listed below.

Ten Cities with Largest Amounts of Missing EITC Dollars				
City	Number of EITC Recipients	Eligible households missing EITC, based on 15% unclaimed rate	EITC dollars lost based on 15% unclaimed rate²	EITC dollars lost based on 15% unclaimed rate and multiplier effect³
New York	793,340	140,001	\$255,598,312	\$383,397,467
Chicago	281,514	49,679	\$92,544,137	\$138,816,206
Houston	266,679	47,061	\$91,593,114	\$137,389,671
Los Angeles	247,584	43,691	\$82,264,240	\$123,396,359
San Antonio	149,174	26,325	\$51,378,668	\$77,068,002
Philadelphia	156,708	27,654	\$49,580,087	\$74,370,131
Dallas	121,173	21,383	\$39,895,537	\$59,843,306
El Paso	98,231	17,335	\$37,170,314	\$55,755,470
Detroit	102,138	18,024	\$35,742,443	\$53,613,665
Phoenix	94,885	16,741	\$30,758,231	\$46,137,347

² These figures are calculated using the average EITC refund for each specific city.

³ The amount of EITC money lost multiplied by 1.5 to reflect that the money is spent in and around the local communities where EITC recipients live.

Losses to High Cost Bank Products and Tax Preparation Firms

In addition to the dollars lost because families are unaware of the EITC or can't get the help they may need to file a tax return, additional dollars are lost when low-income taxpayers are aggressively and deceptively sold high cost bank products, including Refund Anticipation Loans (RALs), Refund Anticipation Checks (RACs), and Assisted Direct Deposit. Billions of dollars are siphoned off to produce high profits for tax preparation firms and the banks they work with, rather than going to the low-income working families who the EITC is intended to help.

Refund Anticipation Loans

Refund anticipation loans (RALs) are usurious short-term loans secured by the recipient's tax refund. With a RAL, low- and moderate-income taxpayers 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 represents an APR (annual percentage rate) of 245% on the average refund of \$2,043, and according to the study some taxpayers paid even higher APRs of up to 1800%.

RALs are marketed extremely aggressively to those taxpayers who can least afford to lose the money. More than 10.6 million low-income families received their tax refund through a RAL in 2002⁴. Using the \$130 cost means that these low-income families paid a total of almost \$1.4 billion



⁴ A low -income household is defined as having an AGI (Adjusted Gross Income) below \$34,138.

(\$1,389,022,570) in RAL interest and fees.

More than 7.6 million EITC recipients - or 37% of all EITC recipients nationally - paid for a RAL in order to get their EITC refund in 2002. Using the same calculation means that EITC recipients lost one billion dollars to RALs.

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%, were made to low-income households and 7.6 million, 60%, were made to EITC recipients.

A significantly higher percentage of EITC recipients in southern cities receive their refund through a RAL.

The ten cities with the highest percentage of EITC recipients using a RAL are listed below.

Ten Cities with Highest Percentage of EITC Recipients Using a RAL			
City	Number of EITC Recipients	Number of EITC Recipients who received RAL	Percentage of EITC recipients who received RAL
Pine Bluff, AR	7,777	5,084	65%
Birmingham, AL	49,081	29,213	60%
Portsmouth, VA	11,089	6,575	59%
Norfolk, VA	26,101	15,089	58%
Atlanta, GA	78,998	44,320	56%
Little Rock, AR	20,976	11,734	56%
Harlingen, TX	9,901	5,444	55%
Columbia, SC	26,821	14,699	55%
Jacksonville, FL	74,842	40,912	55%
Lake Charles, LA	12,920	6,963	54%

In addition to these 10, there were 12 other examined cities in which half or more of the EITC recipients received a RAL, and 6 of these were also in the south: Baton Rouge, LA; Baltimore, MD; Indianapolis, IN; Detroit, MI; Charlotte, NC; Richmond, VA; Dallas, TX; New Orleans, LA; Springfield, IL; Fort Worth, TX; Cincinnati, OH; and Trenton, NJ.

The ten cities with the most amount of money lost to RALs by low-income families are listed below. Three of the top five are in Texas.

Ten Cities with Most Money Lost to RAL's by Low-Income Families		
City	Number of RALs by low-income tax filers	Amount Lost to RALs by low-income tax filers
New York	248,443	\$32,297,590
Houston, TX	162,398	\$21,111,740
Chicago, IL	156,237	\$20,310,810
San Antonio, TX	94,730	\$12,314,900
Dallas, TX	85,752	\$11,147,760
Los Angeles, CA	82,989	\$10,788,570
Philadelphia, PA	80,778	\$10,501,140
Detroit, MI	65,251	\$8,482,630
Atlanta, GA	57,860	\$7,521,800
Jacksonville, FL	57,181	\$7,433,530

Refund Anticipation Checks

RACs are different from RALs in that customers receive their refunds on the same time line that the IRS direct deposits refunds into personal bank accounts. With RACs, companies like Jackson Hewitt charge households \$65 or more to set up a short-term bank account into which the IRS deposits the customer's refund. The tax preparation company then issues a check, minus the tax preparation and RAC fees, from this account to the customer.

RACs are often used for customers who don't have upfront money to pay their tax preparation fees. These customers are essentially being given a loan of the \$125 to \$150 charge for the tax preparation, at a cost of \$65, an effective interest rate of over 1,000%!

Jackson Hewitt employees have been caught on hidden camera steering clients to use RACs, regardless of whether a customer had the money to pay for their taxes up front and could simply have received their refunds through direct deposit.

Data from the largest tax preparers in the country further suggest that the same number of taxpayers receive RACs as RALs. Even if only half that many people received RACs, this would mean an additional \$300 million lost.

Tax Preparation Costs

Low-income workers can get free help with tax preparation through a program called VITA (Volunteer Income Tax Assistance), but less than 1 in 10 EITC recipients use VITA to do their taxes.

Instead of using this free service, according to the IRS, two out of every three EITC recipients (67%) pay someone to prepare and file their tax return⁵. At a cost of \$100 to \$150 for tax preparation, EITC recipients are spending over \$14 billion for this service.

At a typical cost of \$250 for the tax preparation and RAL fees combined, low income families on average are losing more than 10% of the refund dollars they have earned. Many families have paid even more, losing \$300, \$350, and even \$400 to overpriced loans.

In 8 of the examined cities, 75% or more of the EITC recipients paid a tax preparer.

Cities Where 75% or More of EITC Recipients Paid a Tax Preparer			
City	Number of EITC recipients	Number of EITC recipients who paid tax preparer	Percentage of EITC recipients who paid tax preparer
Brownsville, TX	49,977	25,203	81%
Santa Ana, CA	85,492	24,669	81%
San Bernardino, CA	51,288	20,461	79%
Los Angeles, CA	597,795	190,482	77%
National City, CA	15,447	4,850	77%
Charlotte, NC	155,581	38,446	76%
Lake Charles, LA	31,333	9,692	75%
Pine Bluff, AR	15,195	5,833	75%

In all of the examined cities and counties at least half of the EITC recipients paid a tax preparer.

⁵ 20,907,348 households received the EITC in 2002, and 14,097,714 of them paid a tax preparer.

More About the EITC and the Families Who Are Eligible for It

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% of the poverty line, and that 24 million Americans live in low-income working families with children.

Such families must struggle to pay for everyday necessities like rent, food and clothes. They pay a larger portion of their incomes than higher wage households in regressive sales taxes. Due to the structure of much low wage work, they are less likely to be able to take advantage of unemployment insurance. They are also less likely to be able to take advantage of tax benefits such as the home ownership interest deduction.

Household income and family size determine eligibility for the EITC and amount of EITC refund. For the 2003 tax year, the maximum EITC refund was \$2,547 for a family with one child, \$4,204 for a family with two children, and \$382 for childless adults, and the upper income limits for eligibility were \$34,692 for a household with 2 children, \$30,666 for households with 1 child, and \$11,230 for childless workers. For many households these EITC payments thus represent an extremely significant - and much needed - supplement to their low wage work.

For example, a full-time worker making \$7.60 an hour (well above the federal minimum wage of \$5.15) earns \$15,808 a year. If such a worker has three children, they qualified last year for the maximum EITC benefit of \$4,204, increasing their income by 27% and raising them above the federal poverty line for a family of four of \$19,804 a year.

EITC Eligibility Guidelines for Tax Year 2003

- Families with one child who **earn less than \$29,666** in 2003 (or less than **\$30,666** for married workers) are eligible for a credit of **up to \$2,547**.
- Families with two or more children who **earn less than \$33,692** in 2003 (or less than **\$34,692** for married workers) are eligible for a credit of **up to \$4,204**.
- Workers without a qualifying child who **earn less than \$11,230** in 2003 (or less than **\$12,230** for married workers) are eligible for a credit of **up to \$382**.
- Investment Income Limit = **\$2,600**.

Helping Low-Income Families Recapture EITC Dollars

A pilot project conducted by ACORN and funded by the Marguerite Casey Foundation could be a model both for increasing the number of eligible households who receive the EITC benefit and for reducing the reliance of lower-income families on high-cost tax preparation services and expensive products such as Refund Anticipation Loans.

In three cities this year, ACORN operated its own VITA (Volunteer Income Tax Assistance) sites offering free tax preparation and filing services and conducted outreach for the sites. Through unique outreach methods such as going door to door and using an autodialer, the project demonstrated ACORN's ability to increase the use of VITA sites and free EITC filing.

A preliminary report from an independent research team on the effectiveness of the project stated:

"It is our assessment that ACORN has applied innovative and highly effective outreach technologies to the operations of VITA programs during the 2003 tax season. Using the resources and organizing strategies of its organization and the support of the Marguerite Casey Foundation, ACORN has demonstrated, even in such a short period of time, the potential of its outreach technologies to dramatically expand the impact of VITA programs in communities of greatest need."

The researchers compiled data from the intake forms collected at the sites and found that 44% of the participating families learned about ACORN's free tax preparation from a flyer or home visit, and that another 30% came from word-of-mouth, indicating to the researchers that "ACORN's community-



Photo Courtesy of Louisiana Weekly

based and door-to-door approach proved essential.”

The report noted the productivity of the ACORN sites, which even in their initial year ranked first in New Orleans and Miami and third in San Antonio (behind only the IRS and City of San Antonio sites) among VITA sites within those cities. Together, the 3 sites prepared 3,481 tax returns and filed for \$3.9 million in EITC and Child Tax Credit (CTC) refunds.

ACORN VITA Site Performance				
City	Number of tax returns prepared	Amount of EITC and CTC refunds filed at ACORN site	Number of VITA sites in City	ACORN rank by number of returns
New Orleans	1,634	\$1,940,327	65	1
San Antonio	1,237	\$1,446,121	27	3
Miami	610	\$523,941	39	1
Totals	3,481	\$3,910,389		

The project received strong recognition from IRS staff who noted both the quality of ACORN’s work and the unprecedented productivity for first-year VITA sites. Ron Smith, the IRS National Director of SPEC (Stakeholder Partnerships, Education, and Communication), stated that he “couldn’t ask for a better organization to partner with” and attributed the success of the project to ACORN’s door-to-door outreach.

“From a late start ACORN got a first class [VITA] operation up and running at Palo Alto College. ACORN’s Director seemed to have a very good vision of where she wanted to go and that made me feel comfortable. It all happened in 8 weeks. Which is an enormous task to hire, train, get the software, and be ready for the public on January 15! I was amazed at how quickly she did it! I am even more amazed at the volume [of returns] they are doing. I have over 900 returns from ACORN’s site. I give her an A+ for a start-up operation.”

-- Bill Hubbard, Internal Revenue Service, Austin, Texas Area SPEC Director, regarding ACORN’s San Antonio VITA site

Based on this success, IRS staff have expressed strong interest in expanding ACORN’s VITA operations to other cities and states.

According to the report, the intake forms also showed ACORN’s success in reaching its targeted community of people who have not filed taxes before, have not received the EITC, and have not used VITA services.

In conclusion, the report stated that:

“replicating ACORN’s approach, not to mention its lessons learned and organizational capacity developed during this past tax season – outreach, location, timing, software, training, partnering with the IRS and local groups, procedures and staffing – in additional cities in the future should significantly increase participation and effectiveness of this critical anti-poverty program.”



ACORN, the Association of Community Organizations for Reform Now, 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 60 cities across the country. Since 1970 ACORN has taken action and won victories on issues of concern to our members. ACORN's 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 public schools. ACORN achieve these goals by building community organizations that have the power to win changes -- through direct action, negotiation, legislation, and voter participation. ACORN's website is at www.acorn.org.

739 8th St. SE
Washington, DC 20003
(202) 547-2500
acorn@acorn.org

ACORN Financial Justice Center
757 Raymond Avenue, Suite 200
St. Paul, MN 55114
(651) 644-5061
financialjustice@acorn.org

1024 Elysian Fields Avenue
New Orleans, LA 70117
(504) 943-0044
acorn@acorn.org



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. The Foundation's website is www.caseygrants.org.

1300 Dexter Avenue, North
Suite 115
Seattle, WA 98109
(206) 691-3134
info@caseygrants.org