Keeping What They've Earned

Working Minnesotans and Tax Credits

The Earned Income Tax Credit is "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress."

—*President Ronald Reagan, 1986*

Children's Defense Fund Minnesota, updated as of February 2006

Children's Defense Fund

The mission of the Children's Defense Fund (CDF) is to Leave No Child Behind® and to ensure every child a Healthy Start, a Head Start, a Fair Start, a Safe Start, and a Moral Start in life and successful passage to adulthood with the help of caring families and communities. CDF provides a strong, effective voice for all the children of America who cannot vote, lobby or speak for themselves. We pay particular attentions to the needs of poor and minority children and those with disabilities. CDF educates the nation about the needs of children and encourages preventive investment before they get sick or into trouble, drop out of school, or suffer family breakdown. CDF began in 1973 and is a private, nonprofit organization supported by foundations, corporation grants, and individual donations and does not accept government funds. In 1985, CDF established the St. Paul office to direct its efforts in Minnesota.

The EITC Is an Effective Weapon Against Child Poverty in America

The federal Earned Income Tax Credit (EITC) increases the prosperity of communities and families by investing in the ability of the American people to attain personal and financial well-being. It provides a significant tax break to low- to moderate-wage workers, which makes it one of the most effective weapons in the battle against child poverty in America.

During the 2004 tax season, more than 250,000 working Minnesotans claimed more than $387 million through the EITC.[i] They spend most of these refunds on basic needs in their local communities, benefiting grocers, retailers, and other local businesses. This makes the tax credit a critical local economic stimulant as well.

Finally, the EITC provides families a tremendous opportunity to set aside some savings and begin to, or further, develop financial assets. Financial assets are essential for addressing unexpected emergencies, but they also enable families to create wealth and financial security, and achieve economic mobility. By increasing the ability of low-wage families to participate in the economy, the tax credit bolsters local economies and improves the stability of families and neighborhoods. This betters children's lives.

Yet the EITC could do much more for Minnesota's families and communities. Although the majority of eligible taxpayers do receive the credit, some families are unaware of their eligibility, or do not

understand how to claim it. **If 10 percent more eligible Minnesota families had claimed the Earned Income Tax Credit in 2004, an additional $29 million in federal funds would have come to the state's economy.** Even among those who do claim the credit, most lose a substantial portion of it by paying too much for tax preparation services, and many lose even more through Refund Anticipation Loans (RALs). Aggressively marketed by paid tax preparers partnering with out-of-state banks, these short-term loans have exorbitant fees and interest rates—the average APR for the 2004 tax season was 236 percent. **All told, tax preparation fees and RALS cost Minnesota's low- to moderate-wage earners more than $24 million in 2004.**

Through collective effort, Minnesota could ensure that more EITC funds are claimed each year and that their full value goes to the intended low- to mod-

What Is the EITC?

The Earned Income Tax Credit is a federal tax credit created by Congress in 1975. It benefits low and moderate wage *working* people, especially those raising children. It reduces any federal income tax they owe and refunds the remaining amount of the credit to them. In 2004, the average amount claimed in Minnesota was $1,549.

What Is the WFC?

Nearly all Minnesotans who qualify for the EITC are also eligible for Minnesota's supplemental Working Family Credit (WFC). The average WFC in 2004 was $516.

The Impact for a Minnesota Family

- Single parent of two children
- Full-time minimum wage work in 2004 (after payroll taxes)...$11, 814
- EITC and WFC combined...$5,500
- An almost 50 percent increase in income

The EITC as an Anti-Poverty Tool

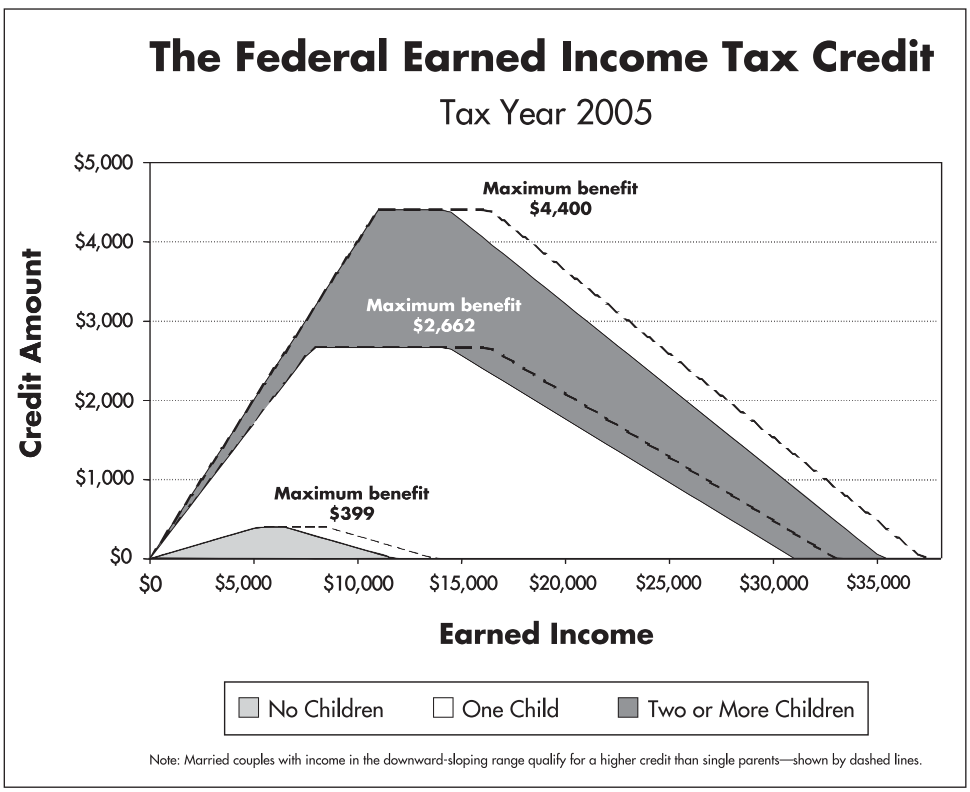
In 2002, the Earned Income Tax Credit lifted almost five million working Americans out of poverty; more than half of them were children.

SOURCE: Greenstein, R. The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor, Center on Budget and Policy Priorities, 2005.

erate-wage earners. Families' access to the EITC and to free tax preparation assistance must be improved. Better financial products for EITC-eligible families must be developed and marketed. Consumer protection and education must be strengthened and implemented. The entire community has a role in ensuring the success of this investment policy for Minnesota communities, families, and children.

The EITC as Local Economic Stimulant

The Earned Income Tax Credit means real money in the pockets and savings accounts of eligible individuals and families. It is a refundable credit, which means that if its value exceeds a taxpayer's income tax liability, the remaining amount is refunded to the taxpayer. In 2004, approximately 1 in 10 Minnesotan households claimed the EITC and approximately 94 percent of them received a refund because of it. These refunds have a tremendous impact on their financial circumstances. Research indicates that families spend the majority of their EITC refunds on basic needs like utility bills, rent, car repairs, and food and clothing for their children. Consequently, the EITC helps stabilize families by shoring up their needs, thereby helping them to stay in the workforce and off of welfare. In addition, because much of the money is spent immediately, the federal funds brought into the state through the EITC boost the local economy by benefiting grocers, retailers and other local businesses. These dollars then turn over multiple times within the local economy. While local economies vary greatly due to different structures, one study in San Antonio, Texas found that EITC dollars



spent in the local community generated an economic impact 60 percent greater that those initial expenditures.[ii] Assuming Minnesota benefits from a similar multiplier, the Earned Income Tax Credits claimed in 2004 generated an economic impact of more than $600 million statewide.

A key success of the EITC is that it effectively "makes work pay" because it is only available to workers with earned income. For the lowest wage workers, its value increases with each additional dollar earned. It can transform the earnings of a $6-an-hour job into those of an $8-an-hour job. A substantial body of research documents the credit's positive influence on families' ability to enter and remain in the workforce. This is especially true for single mothers.[iii]

Finally, the Earned Income Tax Credit allows low- to moderate-wage families to use the tax system as a doorway to build financial assets. Financial assets allow families to weather financial emergencies, as well as make it possible for them to leverage their assets to further their financial stability and well-being. However, one-third of American households have no financial assets.[iv] A tax refund provides these families a unique occasion to invest in their long-term needs and prepare for unforeseen expenses.

How to Increase EITC Dollars Claimed

IRS research estimates that nationally only 80 to 85 percent of taxpayers eligible for the Earned Income Tax Credit claim it.[v] Additional research is needed to determine if this statistic is mirrored in Minnesota.[vi] But if even ten percent more eligible Minnesota taxpayers claimed their EITC in 2004, approximately 25,000 more residents would have claimed almost $29 million more for Minnesota communities.[vii]

Research indicates that a primary reason more eligible taxpayers do not claim the EITC is its complexity. The laws and procedures that govern this area of the tax code are very complicated, and often change from one year to the next. Some families face language and literacy barriers, whereas others may not know they are eligible. Research reveals that most have income so low that they are not required to file a tax return. Others have self-employment income. Some live in rural areas and may have more difficulty in accessing tax preparation assistance. In addition, eligible Hispanic, Native American, and African-American families are less likely to claim the EITC, as are taxpayers with no qualifying children or those with three or more children.[viii]

The EITC as a Tool for Tax Equity

The low-wage families who claim the Earned Income Tax Credit often do not benefit from other parts of the tax code like deductions for home mortgage interest or state and local property taxes. These workers, however, pay a greater percentage of their total income in payroll, sales, and certain other federal and local taxes than those working for higher wages. The EITC helps make the tax code fairer for low-wage families.

Home Ownership

Terri's dream was to buy a house for herself and her 13 year-old son. They had rented the same place for 11 years, but she did not qualify for a mortgage. She earned about $14,000/year at the local food shelf, but had about $3,500 in debts. On the advice of Community Action Duluth, Terri used her substantial EITC to pay off items on her credit report for two years, and then in 2004 opened a savings account in which her contributions were matched through a public-private initiative. When Terri received her EITC in 2005, she set aside $2,000 for a down payment. With additional regular savings, she qualified for a mortgage and several down payment assistance programs by August, and bought her first house. Today, her house payments are less than her previous rent payments.

Moreover, due to changes in income and family circumstances, the population who does claim is ever-changing—about one-third of the Minnesotans who claim the EITC each year did not claim it the year before.

How EITC Dollars Are Diverted

The Cost of Preparing Taxes

Approximately two-thirds of Minnesotans who claim the EITC hire a professional to prepare their taxes. The average cost of having one's taxes prepared and electronically filed is $120 for an EITC family—a large amount for those who may live paycheck to paycheck.[ix]

Collectively, the dollars spent on paid preparers are fairly substantial. In 2004, more than $19 million of the federal EITC funds claimed in Minnesota were spent on tax preparation and filing costs, rather than on meeting working families' basic needs and stabilizing their households. But other options exist for low- to moderate-wage earners who need help preparing their taxes. Trained volunteers can provide them free tax assistance at Volunteer Income Tax Assistance (VITA) and AARP Tax Aide/Tax Counseling for the Elderly (TCE) sites in many Minnesota communities. There are approximately 350 free tax preparation sites in Minnesota, but many eligible taxpayers are unaware of them, and the reach of these efforts is limited. In fact, these sites served less than five percent of EITC Minnesota taxpayers in 2004, although this represented a 76 percent increase from those served two years earlier.

The Cost of Needing Refund Money Quickly

An additional estimated $5 million of EITC funds claimed in Minnesota in 2004 were diverted to pay for Refund Anticipation Loans.[x] RALs are extremely short-term loans that use the family's anticipated tax refund as collateral.[xi] Most EITC claimants need their refund as soon as possible, and many do not have the $120 necessary to have their taxes prepared. Knowing this, many paid tax preparers partner with out-of-state banks and aggressively market RALs to those most financially vulnerable.

The service RALs provide—delivering tax refunds quickly—come at a very high cost to the consumer. The average total loan cost is about $100.[xii] This translates into a shockingly high APR, or the loan's cost calculated at a yearly rate. If a family paid $100 for the average 2004 EITC refund of $1,549, the average APR on the loan was 236 percent.[xiii] This predatory rate is more than 10 times the APR ceiling Minnesota established to protect consumers, considering that Minnesota law limits APRs on consumer loans to 21.75 percent. However, RAL brokers circumvent state usury laws by partnering with nationally chartered banks that are only subject to federal regulation, of which there is little.

Usually, refund loans enable families to access their refunds (minus the tax preparation, loan fees and finance charges) on the same day or within a few days. However, it only takes the IRS 10 days on average to process an electronically filed return and then electronically deposit the refund into a taxpayer's financial account. Many families are unaware how short the turnaround time is without a RAL. Many other EITC households do not have financial accounts that they could use to take advantage of a quick electronic deposit.

Because they are loans, RALs can actually send a struggling family into greater financial crisis. Usually, a RAL is paid off once the IRS processes a family's tax return and transfers the funds. However, if the IRS denies part of the refund for any reason or even withholds it temporarily for audit purposes, interest continues to accrue on the loan. Given their often-pressing financial needs, it is unlikely that EITC families budget for this possibility. Ironically, families could end up in debt due to their efforts to claim the credit and other tax benefits that are intended to assist them in becoming more financially secure.

One of the largest commercial tax preparers, H&R Block, has proposed a settlement in lawsuits involving its use of Refund Anticipation Loans. The settlement includes Minnesota and is awaiting final approval at the time of this writing. Yet the commercial tax preparation landscape contains many other threats to low-

Free Tax Assistance on the White Earth Indian Reservation

More than half of taxpayers in one zip code on the White Earth Indian Reservation claimed the EITC in 2004, but more than three-quarters of these families lost needed dollars to paid preparation services and Refund Anticipation Loans. In aggregate, more than $22,000 in EITC funds were diverted from low- to moderate-wage families in a community where the poverty rate is 30 percent.

Local community organizations are working together to provide families an alternative. In partnership with the AARP Tax Aide site at Mahube Community Council in Detroit Lakes this tax season, the Midwest Minnesota Community Development Corporation (MMCDC) trained volunteers to provide free tax assistance several times per week at additional locations on the reservation, including the tribal Shooting Star Casino, Hotel and Event Center and tribal headquarters. Many of the volunteers are Native Americans who work and/or live on the reservation. A week before the casino workers' W-2s were issued, MMCDC included an advertisement for their free tax services in the workers' paychecks. The free assistance began the following Monday, the same day the W-2s were issued.

Some homes on the reservation are in remote areas, making it difficult for families to get to the city or the casino. To reach these families, MMCDC is using the tribal child care program's new bookmobile to bring trained volunteers to all five of the remote villages on the reservation at least once during the tax season.

MMCDC's long-term goal is to work with additional partners to develop an alternative RAL product along with a more seamless delivery system of tax aid, financial literacy training, credit awareness promotion, and individual development accounts.

Using Tax Refund Loans as an Opportunity to Stabilize Families' Finances

Rather than using families' tax refunds to deny them a portion of their earned tax credits, this tax season a Twin Cities non-profit and credit union are working in partnership to provide families an opportunity to access their refunds quickly but also establish an ongoing relationship with a mainstream financial institution in the process. The partners are AccountAbility Minnesota (AAM), which trains and coordinates volunteers to provide free tax assistance to low-wage workers at more than 40 community sites across Minnesota, and US Federal Credit Union, which is a member-owned, not-for-profit full service financial institution available to those living or working in the greater Twin Cities community.

At two free tax assistance sites in Minneapolis, 100 taxpayers who have used a RAL or a RAC (a Refund Anticipation Check) in the past will be offered the option to get an "Express Refund Loan" by opening a savings account with US Federal Credit Union. AAM will complete and electronically file these taxpayers' returns. If the returns are accepted by the IRS without garnishments, the taxpayers will be able to pick up their federal refund loans at the nearest US Federal Credit Union office the next day.

This is a market-based response to Refund Anticipation Loans, but these refund loans are very different than traditional RALs. First, they are *entirely free* and linked to free tax preparation assistance, so customers will save the $220 on average they previously spent at commercial preparers for these services. Second, the refund will be directly deposited into a no fee savings account and customers will be encouraged to save a portion of their refunds to keep the account open and establish a long-term connection to the credit union. Over time, they will be offered opportunities to invest in more traditional financial products, like checking account, mortgages, and Individual Retirement Accounts. By forming lasting relationships with a mainstream financial institution, the taxpayers can begin to achieve financial stability and not need to use refund loans in future tax seasons.

to moderate-wage families. There are many other commercial tax preparers, whether large companies or small storefront shops that hang their shingles during tax season, that offer RALs.

Refund Anticipation Loans in Minnesota

More than 53,000 Minnesota tax filers who claimed the EITC during the 2004 tax season also applied for a RAL. Overall RAL usage by Minnesota EITC families increased by 13 percent between 2002 and 2003, and then an additional five percent in 2004. However, because the number of Minnesota households who claimed the EITC also increased during those years, the percentage of Minnesota EITC families who got a refund loan remained the same—about 1 out of every 5 Minnesota EITC families, or 22 percent. By comparison, only 2.8 percent of non-EITC Minnesotan households received a RAL that year.

The percentage of EITC claimants seeking RALs is significantly higher in certain zip codes, notably those blanketing more impoverished communities in the state. (See Appendix A.) More than 75 percent of EITC claimants on some of the northern Minnesota Indian Reservations and as many as 50 percent of EITC claimants in many Minneapolis zip codes took out a RAL in 2004. In 44 zip codes in Minnesota, more than one-third of EITC families applied for a Refund Anticipation Loan when claiming their refunds. Clearly, the negative economic impact of RALs is higher in these poverty-stricken communities of the state.

Solutions

1. Simplify the Rules and Process for Income Tax Filing

Working families should be able to complete their own taxes, without having to pay for assistance. Federal and state laws that govern working families' income taxes need to be simplified, and tax credits like the EITC need the full backing of every member of Congress. To end the need for refund loans, the IRS needs to work on technological updates that would deliver refunds with direct deposit in one to two days.

2. Expand Access to Free Tax Assistance

The community groups and non-profit organizations such as AccountAbility Minnesota that operate many of the free tax assistance sites need help. Federal, state, and local governments, employers, foundations, faith communities, and other community groups can all provide financial assistance, launch additional locations, donate computers for electronic filing, help recruit volunteers, and conduct outreach with potential EITC families.

3. Provide the "Unbanked" with Better Solutions

Having a tax refund electronically deposited directly into a financial account speeds up the time required to receive a refund significantly, but one out of four families with incomes less

than $25,000 does not have a checking or savings account.[xiv] Many are unable to get a regular account with a bank because of past financial issues. The AccountAbility Minnesota partnership with US Federal Credit Union offers a promising market-based approach to offer these families a viable alternative. Other financial institutions should duplicate these efforts to use the tax code as a doorway for families to build financial assets.

4. Protect Families from Predatory Lenders

In her 2005 report to Congress, the National Taxpayer Advocate identified RALs as one of the top twenty issues facing American taxpayers.[xv] In 2003, Minnesota passed a Taxpayer Protection Bill that created some standards of conduct for tax preparers and tightened written disclosure laws for RALs, but these efforts are only part of the solution. To ensure that EITC dollars go to the taxpayers who need them most instead of enriching corporate shareholders of federally-chartered banks, Congress should either (a) prohibit RALs from being made against the Earned Income Tax Credit, similar to the existing ban on loans which use Social Security checks as collateral, or (b) cap the APR national banks can charge. Minimally, Congress should pass the Taxpayer Protection and Assistance Act (S. 832), which would increase funds to sites that offer free tax preparation for low- to moderate- income families; require those selling RALs to register with the IRS; and provide verbal disclosure to taxpayers regarding loan fees and interest rates.

5. Require Tax Preparers to be Licensed

There is extremely little regulation of tax preparers—they are not even required to have completed high school. Yet, they are entrusted with sensitive personal information and expected to stay abreast of many complex tax laws. The potential for abuse of low- to moderate-wage workers, many of whom have language and literacy barriers, is high. If a mistake is made and the return is audited, taxpayers are held liable. Tax preparers should be licensed and held responsible for their errors.

Appendix A

Minnesota Zip Codes with Highest Percentage of EITC Filers Seeking Refund Anticipation Loans, 2004 (Tax Year 2003)

Zip Code	City	County	Percent of all returns with EITC	Total sum of EITC claimed	Percent of EITC returns with RALs	Sum of EITC funds lost to RALs and paid preparation
56671	Redlake	Beltrami	63.6%	$1,386,524	**79.6%**	$117,660
56666	Ponemah	Beltrami	72.9%	$451,875	**77.7%**	$38,660
56670	Redby	Beltrami	67.9%	$859,537	**76.7%**	$73,080
56566	Naytahwaush	Mahnomen	54.0%	$252,353	**76.0%**	$22,040
56591	White Earth	Becker	64.9%	$157,070	**66.7%**	$15,760
56633	Cass Lake	Cass	38.9%	$1,362,493	**65.7%**	$125,180
56641	Federal Dam	Cass	32.1%	$95,352	**57.1%**	$7,080
56575	Ponsford	Becker	34.1%	$174,230	**56.6%**	$15,080
55415	Minneapolis	Hennepin	12.4%	$89,334	**54.7%**	$8,060
56626	Bena	Cass	39.9%	$107,326	**50.8%**	$9,120
55411	Minneapolis	Hennepin	40.4%	$6,940,090	**49.3%**	$487,640
55165	Saint Paul	Ramsey	33.3%	$82,514	**49.0%**	$6,100
55440	Minneapolis	Hennepin	17.9%	$117,007	**45.7%**	$9,220
55412	Minneapolis	Hennepin	24.0%	$4,166,761	**43.8%**	$293,020
55404	Minneapolis	Hennepin	31.7%	$4,478,558	**43.7%**	$352,820
56557	Mahnomen	Mahnomen	23.3%	$527,216	**43.7%**	$38,260
56569	Ogema	Becker	23.7%	$217,362	**42.6%**	$14,920
55366	New Auburn	Sibley	22.2%	$74,659	**40.9%**	$6,360
55716	Calumet	Itasca	31.9%	$105,217	**39.6%**	$6,060
55429	Minneapolis	Hennepin	18.1%	$3,586,010	**39.5%**	$267,460
55605	Grand Portage	Cook	21.4%	$84,232	**39.2%**	$5,600
56369	Rockville	Stearns	13.3%	$88,993	**38.3%**	$5,880
55402	Minneapolis	Hennepin	7.4%	$92,462	**38.2%**	$8,780
55407	Minneapolis	Hennepin	19.4%	$4,572,691	**37.5%**	$328,380
56589	Waubun	Becker	23.3%	$300,134	**37.4%**	$22,240
55430	Minneapolis	Hennepin	18.7%	$3,041,271	**37.0%**	$216,780
55334	Gaylord	Sibley	16.1%	$398,508	**36.9%**	$30,260
55454	Minneapolis	Hennepin	46.3%	$2,141,913	**36.9%**	$136,840
55458	Minneapolis	Hennepin	32.0%	$272,943	**36.9%**	$20,400
56710	Alvarado	Marshall	12.0%	$59,591	**36.7%**	$3,500
56201	Willmar	Kandiyohi	18.7%	$2,963,550	**36.6%**	$231,520
55175	Saint Paul	Ramsey	33.3%	$77,864	**36.5%**	$5,500
56621	Bagley	Clearwater	23.2%	$798,930	**36.4%**	$60,240
55428	Minneapolis	Hennepin	13.7%	$2,776,996	**36.3%**	$209,920
55408	Minneapolis	Hennepin	16.4%	$3,299,845	**36.1%**	$261,320
56484	Walker	Cass	15.7%	$524,038	**35.7%**	$35,040
56062	Madelia	Watonwan	15.0%	$377,165	**35.3%**	$27,220
56284	Renville	Renville	12.8%	$221,169	**34.8%**	$17,320
55107	Saint Paul	Ramsey	21.3%	$2,161,338	**34.8%**	$137,480
55103	Saint Paul	Ramsey	30.7%	$2,560,703	**34.5%**	$169,540

NOTE: In some cases, the above zip codes correspond to P.O. Boxes located within the city and identified on filer's returns.

SOURCE: Internal Revenue Service, Tax Year 2003.

References

[i] Data used for this analysis is from the IRS-Stakeholder Partnerships, Education, and Communication (SPEC) Return Information Database, which contains data extracted annually by the IRS's Wage and Investment Research Unit from the Electronic Tax Administration Marketing Database. Because taxes are filed and funds are received during the tax season following the tax year, when the analysis refers to taxes filed in a certain year (e.g., calendar year 2004), it relies on data from the previous tax year (e.g., tax year 2003).

[ii] Texas Perspectives, Inc. *Increased Participation in the Earned Income Tax Credit in San Antonio*, 2004 Update, Prepared for the City of San Antonio, TX.

[iii] See for example, Meyer, B. and D.T. Rosenbaum, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effect," *National Tax Journal* 53(4), 2000, 1027-1062.

[iv] Calmes, J., "Building Blocks: New Programs Spur Working Poor to Begin Saving," *Wall Street Journal*, January 11, 2005, A1.

[v] SB/SE Research, *Participation in the Earned Income Tax Credit for Tax Year 1996*, Internal Revenue Service, 2002.

[vi] For more information on the methodological difficulties in determining the EITC participation rate at the local level, see Berube, A. *Earned Income Credit Participation—What We (Don't) Know*, Brookings Institute Metropolitan Policy Program.

[vii] Using the methodology recommended by Alan Berube of the Brookings Institute, this estimate was calculated by multiplying 10 percent by the number of Minnesota EITC taxpayers by the average Minnesota EITC refund by 75 percent. For more information, see Berube, A., *Using EITC Data—A Guide*, Brookings Institute Metropolitan Policy Program.

[viii] Holt, S. *EITC Promoting Prosperity Project—Research Memoranda, Part A*, for the National Community Tax Coalition, forthcoming.

[ix] The estimate of the average cost for tax preparation for EITC taxpayers comes from H&R Block, Q4 2002 H&R Block Earnings Release Conference Call, June 12, 2002 as cited in Wu, C. C. and J. A. Fox, *All Drain, No Gain: Refund Anticipation Loans Continue to Sap the Hard-Earned Tax Dollars of Low-Income Americans*, National Consumer Law Center/Consumer Federation of America 2004 Refund Anticipation Loan Report, January 2004.

[x] To calculate this estimate, the average cost of a RAL ($100) was multiplied by the number of EITC Minnesota taxpayers who applied for a RAL. There is some evidence that there is a 10 percent rejection rate for RALs, based on the Debt Indicator (DI) program of the IRS. However, like Berube and Kornblatt (2005), this report "treats the number of preparer debt inquiries as equivalent to the number of originated RALs associated with those returns … because (a) the IRS data may not capture a number of tax refund loans arranged by non-tax preparation firms that are not EROs [Electronic Return Originators], and thus do not participate in the DI Program, such as Indian Country trading posts, and used car and furniture stores; and (b) the IRS data do not report ZIP code preparer debt inquiry totals of less than ten, causing the analysis to miss perhaps [hundreds] of inquiries and associated RALs." Berube, A. and Kornblatt, T. *Step in the Right Direction: Recent Declines in Refund Loan Usage Among Low-Income Taxpayers*. The Brookings Institute, 2005, p. 3.

[xi] For more information about RALs, see Berube, A., Forman, B., & Burns, M. *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC*. The Brookings Institution Center on Urban and Metropolitan Policy and The Progressive Policy Institute, 2002. Also see, Wu, C. C. and J. A. Fox, *All Drain, No Gain: Refund Anticipation Loans Continue to Sap the Hard-Earned Tax Dollars of Low-Income Americans*, National Consumer Law Center/Consumer Federation of America 2004 Refund Anticipation Loan Report, January 2004.

[xii] The estimated $100 RAL fee was calculated using the average EITC return for Minnesota, $1,549. The RAL cost was based on a fee chart published by Household Bank (www.household.com/corp/hirl_express_refund_loan.jsp). The fee includes: $28 for a refund account set-up fee, $25 for a surcharge fee, and approximately $47 for a finance charge. The finance charge is dependent on the amount of the refund; refunds between $1,501–$2,000 are charged $47.

[xiii] APR calculations are based on the full RAL cost, including all fees and surcharges and on a 10 day loan period. According to IRS publication 2043, direct deposits of refunds take 8 to 15 days on average.

[xiv] Kennickell, A.B., Starr-McCluer, M., & Surette, B. J. Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances. *Federal Reserve Bulletin*, January 2000.

[xv] Olson, N. *National Taxpayer Advocate's 2005 Annual Report to Congress*. Internal Revenue Service, 2006.

Children's Defense Fund

Children's Defense Fund Minnesota

University National Bank Building
200 University Avenue West, Suite 210
St. Paul, MN 55103
651-227-6121 • www.cdf-mn.org