



**ACORN**

A Report from the ACORN Financial Justice Center

# *Missing Millions*

**Expanding Access to the  
Earned Income Tax Credit  
for Working Families**

**While Reducing Reliance  
on Refund Anticipation Loans**

# 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. Nationally in 2005, over 21 million families received almost 40 billion dollars in refunds through the EITC. These 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 – including 2.7 million children -- 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 3.8 million households nationwide missed out on the EITC dollars to which they were entitled.

The average EITC amount received per family in 2005 was \$1,836. Using this figure and a 15% unclaimed rate would mean that low-wage workers and their families lost out on more than \$7 billion<sup>1</sup>.

In this report, we examine lost EITC money nationwide as well as in 100 individual cities. 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.*

City	Number of EITC Recipients	Eligible households missing EITC, based on 15% unclaimed rate	EITC dollars lost based on 15% unclaimed rate <sup>2</sup>
New York	814,991	143,822	\$268,688,100
Houston	282,217	49,803	\$103,351,823
Chicago	277,885	49,039	\$98,491,381
Los Angeles	239,710	42,302	\$81,416,484
San Antonio	158,611	27,990	\$56,987,658
Philadelphia	160,291	28,287	\$53,295,162
Dallas	123,858	21,857	\$43,842,867
El Paso	102,320	18,056	\$40,757,058
Memphis	105,401	18,600	\$40,402,017
Detroit	101,178	17,855	\$38,348,854

# Losses to high cost bank products, tax preparation firms, and check cashing fees

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 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 2005 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 6.5 million EITC recipients - or 30% of all EITC recipients nationally - paid for a RAL in order to get their EITC refund in 2005. Using the \$130 cost means that EITC recipients lost over \$857 million to RALs.

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

City	Number of EITC Recipients	Number of EITC Recipients who received RAL	Percentage of EITC recipients who received RAL
Pine Bluff, AR	7,993	4,521	57%
Jackson, MS	29,924	16,763	56%
Memphis, TN	105,401	58,764	56%
Birmingham, AL	51,039	26,485	52%
Little Rock, AR	21,769	10,831	50%
Lake Charles, LA	13,734	6,477	48%
Baton Rouge, LA	42,086	19,854	47%
Columbia, SC	28,525	13,329	47%
Detroit, MI	101,178	46,360	46%
Dayton, OH	19,297	8,730	45%

*The ten cities with the most amount of money lost to RALs by EITC recipients are listed below. Three of them are in Texas.*

City	Number of RALs sold to EITC recipients	Amount Lost to RALs by EITC recipients
New York, NY	157,358	\$20.4 million
Chicago, IL	101,148	\$13.1 million
Houston, TX	92,418	\$12 million
Memhis, TN	58,764	\$7.6 million
San Antonio, TX	54,858	\$7.1 million
Dallas, TX	54,698	\$6.8 million
Philadelphia, PA	52,987	\$6.8 million
Detroit, MI	46,360	\$6 million
Los Angeles, CA	41,095	\$5.3 million
St. Louis MO	36,036	\$4.6 million

### **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 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. With a RAC, these customers are essentially given a loan of the \$125 to \$150 – the amount usually charged for tax preparation - at a cost of \$65, an effective interest rate of over 1,000%!

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 \$251 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% of all EITC recipients use VITA to do their taxes.

Instead of using this free service, two out of every three EITC recipients (71%) pay someone to prepare and file their tax return, according to the IRS. At a cost of \$100 to \$150 for tax preparation, EITC recipients are spending over \$15 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 27 of the 100 examined cities, 75% or more of the EITC recipients paid a tax preparer. The 10 cities with the highest percentage of EITC recipients who paid a preparer are listed below.*

City	Number of EITC recipients	Number of EITC recipients who paid tax preparer	Percentage of EITC recipients who paid tax preparer
Brownsville, TX	33,323	28,111	84%
Santa Ana, CA	27,814	23,117	83%
Paterson, NJ	23,740	19,717	83%
San Bernardino, CA	27,031	22,412	83%
Jersey City, NJ	26,485	21,891	83%
Providence, RI	20,992	17,348	83%
Hempstead, NY	7,759	6,349	82%
Los Angeles, CA	239,710	195,891	82%
Newark, NJ	35,128	27,972	80%
Anaheim, CA	23,994	19,067	79%

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

### **Check Cashing Fees**

The Consumer Federation of America estimates that almost half of the people who get an EITC refund take it to a check casher. This means that nationally almost 10 million EITC refund checks were cashed at check cashers in 2005.

At an average fee of 3% of the check amount, EITC recipients paid an average of \$55 to cash their refund checks.

Nationally, this translates into a total of over \$530 million in check cashing fees that EITC recipients pay per year, and this is on top of the tax preparation and RAL fees. There is no risk involved in cashing these.

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# More about the EITC and the families who are eligible for it

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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 2006 tax year, the maximum EITC refund is \$2,747 for a family with one child, \$4,536 for a family with two or more children, and \$412 for childless adults, and the upper income limits for eligibility were \$38,348 for a household with 2 children, \$34,001 for households with 1 child, and \$14,120 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 \$7.50 an hour (well above the federal minimum wage of \$5.15) earns \$15,600 a year. If such a worker has three children, they qualify this year for the maximum EITC benefit of \$4,536, increasing their income by 29% and raising them above the federal poverty line for a family of four of \$19,350 a year.

## EITC Eligibility Guidelines for Tax Year 2006

- Families with one child who **earned less than \$32,001** in 2006 (or less than **\$34,001** for married workers) are eligible for a credit of **up to \$2,747**.
- Families with two or more children who **earned less than \$36,348** in 2006 (or less than **\$38,348** for married workers) are eligible for a credit of **up to \$4,536**.
- Workers without a qualifying child who **earned less than \$12,120** in 2006 (or less than **\$14,120** for married workers) are eligible for a credit of **up to \$412**.
- Investment Income Limit = **\$2,800**.

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# Helping Low-Income Families Recapture EITC Dollars

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With support from the Marguerite Casey Foundation, ACORN piloted the Accelerated Income Redistribution (AIR) project in 2004 in Miami, New Orleans, and San Antonio. The overarching objective of the AIR project was to increase the disposable incomes of working families by insuring that they received every tax benefit they qualified for – specifically the Earned Income Tax Credit (EITC) – and helping them avoid expensive tax refund products such as Refund Anticipation Loans.

In those three cities, 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 report from an independent research team which evaluated 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 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.

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.

Based on this success, IRS staff expressed strong interest in expanding ACORN’s VITA operations to other cities and states, and in 2005 ACORN expanded to running fifty-one tax centers in forty-five cities. In 2005:

- ACORN filed tax returns for more than 16,000 low-income families.
- These families had an average annual income of \$15,179.
- We enabled them to receive a total of \$19.5 million in refunds.
- This included \$9.7 million from EITC and more than \$3.8 million for Child Tax Credit.
- Our centers prepared over 900 returns for households to collect previous years’ EITC.

***After 2005, SPEC Director Smith stated:***

“ACORN is the most successful first year partner we have worked with . . . This is truly a remarkable accomplishment and a tribute to ACORN’s ability to nationally design and implement a complex program . . .”

In a number of cities in 2005, ACORN's addition as a VITA site provided a measurable added resource to the local community, as seen in the significant number of tax returns that ACORN prepared, relative to all VITA sites in the city:

City	Total Number of VITA-prepared EITC Returns	Number of ACORN-prepared EITC Returns	ACORN Returns as a Percentage of Total VITA EITC Returns
Harrisburg, PA	330	221	67%
Allentown, PA	257	316	67%
San Francisco, CA	1,053	467	44%
Prince Georges County, MD	144	55	38%
Hialeah, FL	272	102	38%
Orlando, FL	310	110	35%
Glendale, AZ	123	43	35%
Bridgeport, CT	363	126	35%
Dallas, TX	349	99	28%
Little Rock, AR	193	50	26%
Miami, FL	1,318	325	25%
New Orlenas, LA	2,462	585	24%
Providence, RI	334	77	23%
Newark, NJ	105	20	19%
Lake Charles, LA	126	24	19%

In 2006, ACORN dramatically increased its Tax Center program yet again, stretching to 72 cities across the country and becoming the IRS's third largest national partner.

Our grassroots outreach brought in almost 30,000 low-income families and enabled them to receive a total of \$38 million in refunds, including \$18 million in EITC dollars and more than \$7 million for the Child Tax Credit. Additionally, we estimate that our free tax service saved these families over \$5 million in fees they otherwise would have paid to a commercial preparer. Our tax centers also prepared previous years' tax returns for over 1,000 families.



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# ACORN's Campaign

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ACORN has also sought to redirect the billions of dollars lost to expensive bank products such as RALs. In 2004 we organized lower-income families to target H&R Block, the largest tax preparer in the country and the biggest seller of RALs, to demand that they reduce the costs of RALs and make changes in the presentation and marketing of these products. The campaign involved direct actions and demonstrations by our members at hundreds of different Block offices during the peak of the tax refund season. Members distributed fliers to potential Block customers and passers-by warning them about RALs and letting them know about the existence of free tax sites, which were often just blocks away from Block. The campaign also generated a significant amount of press coverage about the issue of RALs in virtually every city where ACORN exists.

After several months we reached an agreement which was announced in 2005 – in which Block eliminated the administrative fee they charged on RALs and Refund Anticipation Checks (RACs), totaling over \$200 million a year in reduced fees. H&R Block also agreed to provide disclosures about the true cost of RALs, making it clear to customers they would receive their refunds within 8 to 15 days at no extra charge through the normal electronic filing and direct deposit filing process.

After our success in winning changes at H&R Block, we targeted Jackson Hewitt, the nation's second largest tax preparer, and entered into negotiations with them. On Tax Day, April 15, 2005, Jackson Hewitt announced that they had eliminated their application for RALs at their company-owned stores and had begun getting their franchisees to do the same. Jackson Hewitt also agreed to terms along the same lines as the H&R Block agreement to improve its disclosures and promote the use of free refund options. An additional issue that ACORN negotiated with Jackson Hewitt was the company's assistance in getting Santa Barbara Bank and Trust, the primary bank which Hewitt uses to make their RALs, to lower its fees. Along with the elimination of their own application fee, Jackson Hewitt announced that Santa Barbara had agreed to eliminate a \$10 fee they charged for EITC refund. This saves about 1 million EITC recipients \$10 million a year.

For 2007, Jackson Hewitt got rid of the application fee at all 5,000+ of their stores, which translates into annual savings of \$114 million for the 2.8 million customers who buy RALs or other refund products at Jackson Hewitt.

During this past tax season, we reached an agreement with Liberty Tax, the third largest tax preparer in the country, who followed the pattern we set with the others and agreed to eliminate the application fee at all of their stores, most of which were franchises. This agreement will save their customers \$25 million annually. As with the other agreements, Liberty agreed to change their disclosures.

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# Policy Recommendations

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## HELPING MORE FAMILIES COLLECT THE EITC DOLLARS THEY HAVE EARNED

1. **Congress should allocate expanded resources to allow the IRS to do more to publicize the EITC directly**, and to support the efforts of community organizations, state federal and local governments and agencies, and other institutions to do so.
2. **The IRS should use more effectively the information it already has to help more potentially eligible families collect the EITC credit** by taking the following steps:
  - A) Send notices to low-income families who appear to be owed refunds based on W-2s received from employers, but who have not filed taxes or claimed refunds.
  - B) Ensure that these notices are clear, actually encourage eligible families to apply for the credit, and are in Spanish as well as in English.
  - C) Include in this notice contact information for community institutions to which potential applicants can turn for information about the EITC.
  - D) Make sure to include these basic standards in the notices that the IRS currently sends to families who have filed taxes but did not apply for the EITC even though they appear to potentially be EITC eligible.
  - E) Provide local governments and community institutions with the maximum possible information about likely concentrations of eligible non-applicants, so that these groups can most effectively target outreach efforts.
3. **Congress and the IRS should simplify the most confusing pieces of the tax code related to the child tax credit and EITC**
4. **Congress and the IRS should not adopt changes in the EITC program or its administration which would discourage eligible families from applying**, or place additional barriers in the way of eligible families access
5. **State and local Governments should provide support for EITC outreach activities.**

## HELPING FAMILIES KEEP MORE OF THEIR REFUND DOLLARS

6. **Federal, State and Local Governments should pass legislation to eliminate abusive Refund Anticipation Loans and other similar products**, or to sharply limit fees, ensure that they are sold fairly, and to encourage the development of alternatives to them
7. **The IRS should speed the processing of refunds**, including refunds with EITC, so that families can get their money back more quickly without bank products.
8. **The IRS should better promote the current relative speed of electronic filing.**

Current e-filing outreach efforts appear to focus on higher income and or computer savvy filers, leaving many families who use commercial preparers without the crucial basic information that e-filing, even without the extra cost of any bank product, already produces refunds quite quickly.

**9. The IRS should require all tax preparers which enjoy the privilege of participation in the Efile program (and, should they continue it, the debt indicator program) to provide full and clear information to clients about refund alternatives.** Preparers should be required to let clients know both how quickly they can get a refund through efilng and direct deposit, without use of a paid bank product, and what all the costs and dangers of various bank products are.

**10. The IRS should end the ‘debt indicator’ program,** which essentially facilitates the work of RAL sellers by informing them whether there are liens on taxpayers refunds.

**11. Tax preparers and the lenders who make RALs should reduce costs for RALs and other similar products.**

**12. Tax preparers and financial institutions should develop alternative products** which help EITC claimants access their money, and save their money , at low costs, and which help families take advantage of their refunds to increase access to needed financial services.



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**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 better 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](http://www.acorn.org).

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**(Footnotes)**

<sup>1</sup> 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.

<sup>2</sup> These figures are calculated using the average EITC refund for each specific city.