

LOS ANGELES – Representative Xavier Becerra (CA – 31), the only congressional member from Southern California who is on the House Ways and Means Committee teamed up with Children’s Defense Fund (CDF) to highlight the importance of Volunteer Income Tax Assistance (VITA) sites, the benefits they offer to low-income families and individuals, and the importance of the Earned Income Tax Credit (EITC). CDF released a report on refund anticipation loans (RALs), which are offered by unscrupulous tax-preparers who target EITC eligible taxpayers, and pocket unnecessarily costly fees.

“The fees some tax-preparers charge are ridiculously costly, especially in light of the free tax return assistance VITA has to offer,” Becerra said. “On top of this, certain tax-preparers then charge a usurious interest rate on the refund loans they offer, taking advantage of low-income communities, and taking money out of the pockets of EITC-eligible taxpayers. Last year, California taxpayers lost an estimated \$237 million to such practices – that’s food taken from our tables, clothes taken off our backs, and school supplies taken from our children. I will work to make sure the community knows this is an abuse, and to stop it from happening” emphasized Rep. Becerra.

To help combat the problem, this week Rep. Becerra introduced legislation, the “Low Income Taxpayer Protection Act of 2005,” which would provide additional assistance for low-income taxpayers in preparing and filing their tax returns and protecting them from unscrupulous refund anticipation loan providers. His statement on introduction is below:

STATEMENT ON THE INTRODUCTION OF THE

“LOW-INCOME TAXPAYER PROTECTION ACT OF 2005”

HON. XAVIER BECERRA

February 17, 2005

Mr. Speaker, today I am proud to introduce legislation to assist low-income taxpayers in preparing and filing their tax returns and to protect taxpayers from unscrupulous refund anticipation loan providers. In particular, the provisions of this legislation will benefit taxpayers eligible for the Earned Income Tax Credit (EITC) who must fill out dauntingly complex forms – the EITC instructions run 53 pages alone – and, because of the dearth of free tax preparation services to help navigate the process, are heavy users of commercial tax preparers.

The problems addressed by the Low-Income Taxpayer Protection Act of 2005 have been ignored for too long. The National Taxpayer Advocate’s FY2002 Annual Report to Congress notes that in 2000, only 1 percent of filers with incomes below the EITC income limit received free tax preparation assistance from either the IRS Taxpayer Assistance Centers or volunteer sites affiliated with the IRS. The remaining low-income filers who had their forms filed for them used a commercial preparer. While many commercial preparers provide a very valuable, necessary service, the work of these men and women is too often overshadowed by those who peddle refund anticipation loans (RALs) – usurious short-term loans secured by the taxpayer’s tax refund, including the EITC. In fact, it is estimated that 43% of EITC recipients who went to a paid tax preparer in 2001 ended up with a RAL.

The IRS tells us that 12 million taxpayers got RALs in 2003. These loans took an estimated \$1.4 billion dollars out of the refunds earned by American workers. Nearly 80% of taxpayers taking out RALs are earning less than \$35,000 per year.

More than half of those who get RALs receive the EITC.

EITC recipients are disproportionately represented in the ranks of those who get RALs, since these taxpayers make up just 17% of the taxpayer population.

A new Children's Defense Fund survey of eight states and the District of Columbia found that almost \$960 million were siphoned away from EITC recipients because of the cost of these loans and commercial tax-preparers who offer them. California taxpayers of modest-incomes paid nearly \$237 million to these businesses.

The Consumer Federation of America and the National Consumer Law Center found that refund anticipation loan fees cost consumers about \$1.14 billion in 2002, up almost \$200 million from the year before. Additional fees for electronic filing, "document preparation," and "applications" added another \$406 million to the total. Our constituents who can afford it the least are suffering a \$1.5 billion drain on their tax refunds.

Taxpayers who take out RALs are often told that the loan is the only way they can get assistance with filling their tax returns. The fees for preparation services are taken out of the loan proceeds first. Then the interest rates are applied to the loans, and low-income taxpayers are often unaware at the impact this has on the total amount of their refund.

Mr. Speaker, let me take a moment to break down these estimates from the cumulative to the individual using an analysis found in the consumer groups' report. Based upon the prices for RALs in 2004, a consumer might pay the following in order to get a \$2,100 RAL – the average refund – from a commercial tax preparation chain this year: 1) a loan fee of \$99.95, which includes a \$24.95 fee supposedly for the “dummy” bank account used to receive the consumer’s tax refund from the IRS to repay the RAL; and 2) a system administration fee that averages \$32 per loan. Combine that with tax preparation fees, which average about \$120, and the total is about \$250. The effective annual percent rate (APR) on this RAL would be 182%.

Mr. Speaker, the funds unnecessarily paid into usurious refund anticipation loans is hard-earned money taken out of the pockets of hard-working Americans who are already just barely getting by; it is food taken from their tables, it is school supplies taken from their children.

The Office of the Taxpayer Advocate acknowledges that there are several factors that drive low-income taxpayers to pay for tax preparation, including: 1) inconvenient location or hours of Volunteer Income Tax Assistance (VITA) sites for low-income taxpayers; 2) lack of bank accounts for quicker direct deposit of refunds; 3) need or desire for immediate cash; and 4) Inability to prepare one’s own taxes due to limited language, literacy, or computer skills.

The VITA program can be a great resource to low-income taxpayers, providing assistance that will help them avoid unscrupulous commercial tax-preparers that profit unduly from RALs. VITA is available to taxpayers earning less than \$36,000 a year.

In 2004, only 1.8 million returns were filed using VITA assistance, although 21 million taxpayers claimed the EITC that year.

VITA can better help taxpayers get the full refund from EITC they have earned.

In the city of Los Angeles alone, EITC returned over \$585 million in 2003.

Mr. Speaker, VITA is vital to the economic health of our hardest-working communities and should be promoted as a means of avoiding the use of RALs by low-income taxpayers.

This bill takes a two-pronged approach aimed at curtailing the drain on our low-income taxpayers by first regulating income tax preparers and refund anticipation loan providers and, secondly, creating IRS-administered grant programs to provide free tax preparation for low-income taxpayers such as provided by VITA clinics and to help individuals establish a bank account for the first time.

I encourage all of my colleagues to support this legislation.