

# Asset-Building Strategies for Low-Income Working Families

## Tax Preparation & Family Tax Credits

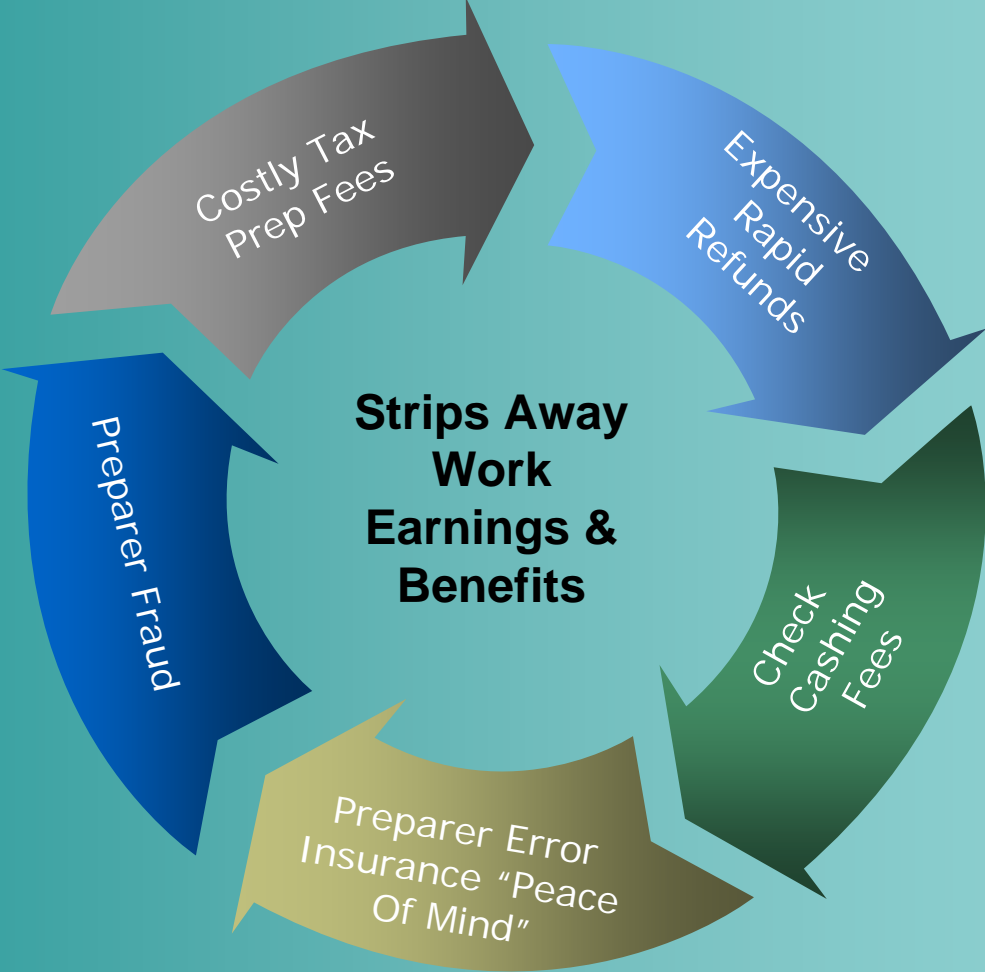


Presented by

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# High Cost of Tax Preparation



# **Tax Assistance Programs Addresses Key Issues**

## **PROBLEMS**

- **EITC Under-utilization**
- **Expensive Tax Preparation Fees**
- **High Cost Rapid Refunds**
- **Preparer Error Insurance**
- **Preparer Fraud**
- **Tax Legal Issues & Correspondence**

## **SOLUTIONS**

- **EITC Campaign Outreach**
- **Volunteer Income Tax Assistance**
- **Free E-Filing & Direct Deposit**
- **Not Sold at VITA Sites**
- **IRS Regulated VITA Program**
- **Low Income Tax Clinics**

# What is EITC?

- ✓ The Earned Income Tax Credit is a special refundable tax benefit for working people who earn low or moderate incomes
- ✓ The EITC reduces the tax burden for these workers, and supplements their wages to make work more attractive than welfare
- ✓ Qualifying workers who file a federal tax return may qualify to receive up to **\$4,536** as a tax refund

# 2006 EITC Campaign Outreach

<b>Total Outreach</b>	<b>2,866,711</b>
- Mailings/ Distribution	1,075,795
- Training	6,870
- EITC Message/ Paystubs	37,000
- 211 Hotline Calls	12,661
- Other (MTA Buscards, etc)	1,727,330
- EITC/CTC Presentations	7,105
<b>Total Media Impressions</b>	<b>8,241,163</b>
- TV Media Impressions	4,790,257
- Radio Impressions	1,633,400
- Print Impressions	1,707,706

# LA County Tax Filing Data

	<b>2004 Tax Filing Season</b>	<b>2005 Tax Filing Season</b>
# EITC Returns Filed	799,360	786,310
# New EITC Returns Filed	207,560	205,212
EITC \$'s Claimed	\$1.44 B	\$1.45 B
# VITA Returns	4,360	5,117

# Trends in EITC Filings

- - 1.63% Decrease in EITC Returns Filed
- - 1.13% Decrease in New EITC Returns
- + 6.9% Increase in EITC \$'s Claimed
- + 17.4% Increase in VITA Returns
- Nationwide, EITC Filings have decreased due to increased IRS regulation on qualified individuals (EITC Pre-certification)
- Decrease in Fraudulent EITC Claims (i.e., qualified dependent children, earned income, valid Social Security Numbers)

# How Many People?

**Average EITC Claim: \$1,848**

**Latest estimates show that nationally between 75% and 80% of ‘eligible’ individuals claim the credit.**

# What Low-Income People Pay to Have Their Taxes Prepared

**Fees That Strip Away Hard-Earned Income from Working Families:**

**1040A + State Return + EIC + Child Tax Credit  
+ Rapid Refund + Electronic File + Preparer's Insurance**

**= More than \$200 in Tax Preparation Fees**

**Additional Fees: Check Cashing Fee : 3% to 10%**

# LA County 2005 - 2006 e-filed VITA Tax Filing Data

	<b>2005</b>	<b>2006</b>
# VITA/ SCTAP/ DPSS Returns	2,288	4,397
# EITC VITA Returns	1,028	1,529
EITC \$'s Claimed (VITA)	\$1,301,219	\$3,505,208
# Returns Direct Deposit	672	958
Total \$ Refund from VITA Returns (EITC + CTC)	\$1,876,238	\$4,374,919
# VITA / SCTAP Sites	23	48

Source: UTS Reports (Jan–June 2005 & 2006)

Statistical data based on the use of TaxWise Software

# Challenges in EITC / VITA

- Low # VITA Returns Compared to Overall Commercial Filings
- Decrease in EITC Filings / Calls
- Lack of Volunteers
- Lack of Computers / Printers/ Resources
- Lack of Funding Support
- Filers Hesitant of Using Free Services
- Competition with Commercial Preparers

# What Are Rapid Refunds?

- ✓ **Rapid Refunds = Refund Anticipation Loans are offered by tax preparation services that provide a short term loan using the anticipated refund as collateral. The tax preparer offers a refund check within 1 to 3 days minus processing fees, interest, tax preparation fees, and other services.**
- ✓ **The annualized percentage rate of a Rapid Refund is about 200% APR**
- ✓ **EITC recipients are highly targeted by commercial tax preparers for Rapid Refunds**

# Trends in RAL Usage

- RAL usage increased from 1999 to 2001
- RAL decreased in 2002 by 4.6%
- Major cities with larger VITA programs had largest declines in RAL usage
- Fact: 60% of EITC recipients are RAL users
- Average Cost of a RAL: \$120 - \$150

# Questions?

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