



For Immediate Release:

Tuesday, April 11, 2006

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Predatory Tax Practices Cost Working New Yorkers \$207 Million
New Report from CDF-NY Shows Expensive Loans Most Common in High-Poverty Neighborhoods

New York, NY — As hundreds of thousands of working New Yorkers rush to file their taxes, many families are losing out on hard-earned money that is owed to them. A fast-growing industry of commercial tax preparers and lenders continue to charge outrageously high fees and interest rates, targeting those taxpayers who can afford them the least.

A new report by the Children's Defense Fund — New York finds that, on average, low-wage earners in New York spend **\$165** on tax preparation and an additional \$100 if they take a Refund Anticipation Loan, or RAL — money they need for essentials like rent, child care or home-heating bills. Heavily marketed under attractive terms like "Fast Money," "Instant Money" and "Rapid Refund," RALs are extremely short-term loans borrowed against a taxpayer's expected refund with **interest rates that can exceed 700 percent**. The study, "Keeping What They Earned: Working New Yorkers and Tax Credits," finds that in New York State, \$206,775,675 dollars meant to go directly to families is instead going to commercial tax preparers to pay for tax preparation and RALs.

Donna A. Lawrence, Executive Director of the Children's Defense Fund – New York, calls the predatory behavior indefensible and says there are viable alternatives: "The appeal for many families is that with a RAL they can receive their tax refunds within two days. What many families are never told, however, is that they can also get their full refund from the IRS within about 10 days if they file on line and have their refunds directly deposited into their bank account."

The practice of charging for tax preparation is especially atrocious for families earning less than \$40,000, since these families are eligible for free tax preparation at Volunteer Income Tax

Assistance (VITA) sites. "Taking money out of the pockets of working families in the form of excessive interest rates and fees is inexcusable," continued Ms. Lawrence. "In a state like New York, where nearly 1 million children live in poverty, we should be making every effort to help working poor families preserve their earnings and become financially self-sufficient, not forcing them to unnecessarily discard their hard-earned money to support commercial tax preparers."

"The CDF's report draws much needed attention to a type of exploitative lending that needs to be addressed by Congress," **Attorney General Eliot Spitzer** said. "The Earned Income Tax Credit was implemented to help low-income families, not to line the pockets of tax preparation services and national banks through high-cost refund anticipation loans."

CDF-NY's report calls for state legislation to require mandatory disclosure about RALs; capping the interest rate that banks can charge for a RAL; state licensing of tax preparers; and expansion of free tax assistance sites for working poor families.

"This is a scam, plain and simple," **U.S. Senator Charles Schumer** said. "We haven't done nearly enough to expose these wolves in sheep's clothing. The bottom line is, New Yorkers, and people all over the country, are getting ripped off by these so-called refund loans, and it's time to stop them dead in their tracks."

To view the report, "Keeping What They Earned: Working New Yorkers and Tax Credits," which includes county-by-county statistics, visit www.cdfny.org/RALS.pdf.

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