



## **Keeping What They Earned:**

The High Cost of Tax Preparation and Refund Anticipation Loans

# Executive Summary

---

The Earned Income Tax Credit (EITC) has been one of the most effective anti-poverty tools since its inception in 1975, providing lower-income working families with the much-needed funds to lift their annual incomes above the federal poverty line. However, to claim the EITC families need to file their tax returns, often paying expensive fees for tax preparation and high-interest Refund Anticipation Loans (RALs) to access their refunds quickly.

Lifting a family's income above the federal poverty line does not necessarily mean the family has completed the climb up the economic ladder to self-sufficiency. This is especially true in a state like New York where the cost of living is high. Though claiming the EITC and other tax credits can be a big financial boost, families are still struggling. In an economy where a dollar does not go as far as it used to, and even full-time workers labor to make ends meet, these exorbitant tax preparation and RAL fees are especially predatory. They harm some of the most vulnerable families in our communities.

This report examines the dollars that EITC recipients lost to tax preparation and RAL fees in tax year 2005, the most recent year for which there is available data.

## In New York, in tax year 2005:

- Nearly 1.5 million taxpayers received the EITC, totaling \$2.7 billion in EITC refunds to New York families, individuals and the communities in which they live and work;
- Tax preparation, refund products and associated fees drained approximately \$196.5 million from working families;
- More than 74 percent of EITC recipients used a paid preparer, compared to only 65 percent of non-EITC recipients;
- An estimated 225,000, almost 19 percent, of EITC tax filers took out RALs, whereas only 3.2 percent of non-EITC taxpayers purchased RALs for the same year;
- EITC recipients lost \$25.5 million, or approximately 8.5 percent of their average federal refund, to tax preparation and RAL fees; and
- The RAL uptake rate is almost 30 percent lower than the national number (nearly 19 percent compared to 27 percent), perhaps due to pressure and outreach stemming from advocates.

To combat these predatory practices, the Children's

Defense Fund — New York (CDF-NY) recommends:

- 1) strengthening consumer protections through enacting effective legislation;
- 2) expanding access to free and low-cost tax assistance;
- 3) connecting working families to mainstream financial services; and
- 4) expanding the EITC.

As the report notes, five bills stalled in the New York State Legislature in 2007 that would have provided some protection to lower-income families. In fact, in CDF-NY's 2007 "Keeping What They Earned" report, we noted four of those same bills in a call for New York State legislators to stand up for working families and pass consumer protections. With more families losing their hard-earned dollars every tax season, CDF-NY implores elected officials to pass legislation to protect working families and vulnerable consumers this year. The stakes are high.

### The Federal Poverty Line versus Reality

According to the U.S. Department of Health & Human Services, in 2008 in the lower 48 states and Washington, DC the federal poverty line is \$21,200 for a family of four. Advocates and lower-income families know that \$21,200 doesn't go very far for a four-person family living in New York.

In fact, a 2004 study released by the Women's Center for Education and Career Advancement shows that a family of four living in the five boroughs that year would need anywhere from \$54,590 to \$78,741 to meet basic living expenses, depending on their borough of residence. (That same year, the federal poverty line for a family of four was a mere \$18,850.) It now costs even more for a family of four to survive in New York, a fact that is not reflected accurately in the federal poverty line.



## Tax Credit Benefits Reach Millions of Our Most Vulnerable Children

---

Since its inception in 1975, the Earned Income Tax Credit has been one of the most effective anti-poverty tools in providing lower-income working families with the much-needed funds to lift their annual incomes above the federal poverty line.

The most recent estimate available from the Center on Budget and Policy Priorities states that in 2003 the EITC lifted 4.4 million low-income families in the United States above the poverty line, including 2.4 million children. Without the crucial income supplement that the EITC provides, it is estimated that the child poverty rate in 2005 would have been one-fourth higher.<sup>1</sup>

According to the Internal Revenue Service (IRS), more than 22 million taxpayers received the EITC for the 2005 tax year, with an average benefit amount of \$1,894.<sup>2</sup> In aggregate, this 2005 EITC outlay represented a \$41.8 billion investment. In New York, nearly 1.5 million taxpayers received the EITC that year, totaling \$2.7 billion in EITC refunds to New York families, individuals and the communities in which they live and work.

### EITC Eligibility

The EITC is a federal, New York State and New York City tax credit for lower-income workers. To be eligible for the

**Teresa Morales** is a home health aide from Brooklyn who earns about \$24,000 per year. She is also the single mother of a one-year-old girl. Teresa doesn't have a bank account and finds it difficult to save money, so the \$75 she used to pay at Jackson Hewitt to have her taxes prepared could be quite a burden. This year, things were different. When a friend told her about a free tax preparation site nearby, she decided to try it. Volunteers at the Brooklyn site prepared her returns and told Teresa she would receive an EITC award of \$1,481. When adding the other credits for which she is eligible, Teresa will receive a total refund of \$4,329, which she said will be very helpful in paying off debt. Teresa added she had a good experience at the site (coordinated by the nonprofit Seedco) and would recommend friends and family to have their returns prepared there.

<sup>1</sup> Greenstein, Robert. "The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor." Center on Budget and Policy Priorities. August 17, 2005.  
<sup>2</sup> IRS SPEC Return Information Database, Tax Year 2005 (December 2007). All figures contained in this report have been retrieved from the 2005 SPEC database unless otherwise noted. CDF calculations. Note that tax returns for tax year 2005 occurred in calendar year 2006.

EITC in tax year 2007, filers must have:

- Earned income, from employment or self-employment;
- A Social Security number that permits them to work; and
- No more than \$2,900 in investment income (i.e. interest, dividends or rental income).

The EITC holds significant potential to substantially supplement earnings. This is especially true in New York, where a state EITC returns an additional 30 percent of the federal refund to recipients and a New York City EITC adds an additional 5 percent. The income thresholds and maximum benefit levels for tax year 2007 are shown below.

### EITC Boost to Local Economies

The financial contribution of the EITC extends far beyond enhancing the income and well-being of lower-wage working families and their children. The EITC also infuses substantial money into the local economy.<sup>3</sup> Surveys show that most EITC recipients use their refunds to meet short- to medium-term needs such as repairing their cars, catching up on rent and utility bills and purchasing clothes for their children.<sup>4</sup>

The limited studies that have attempted to measure the economic impact of the EITC on local economies signal substantial potential of these monies to contribute to growth

and productivity. An analysis of the EITC population and participation rates by researchers in San Antonio concluded that increasing the number of EITC claims would be highly beneficial, with each additional dollar received generating roughly \$1.58 in local economic activity.<sup>5</sup> Another study in Baltimore found that EITC benefits generate almost \$600,000 in local income and property tax revenues.<sup>6</sup>

### Billions Lost Annually in EITC Benefits Paid to Working Families

Unfortunately, local economies do not benefit fully from increasing EITC participation rates because of the billions of dollars of EITC benefits intended for working families that are diverted to commercial tax preparers and lending institutions. Increased education and advocacy to expand knowledge of the EITC and promote its greater application has helped millions of working families to claim these key benefits they have earned. Notwithstanding, the significant poverty reduction potential of the EITC investment continues to fail to be fully realized.

In tax year 2005 (the earliest year for which the IRS has available data), tax preparation fees, Refund Anticipation Loans, and other commercial products used to access tax refunds diverted hard-earned EITC benefits to commercial tax preparers and lending institutions.

How many children did the worker raise in 2007?	Maximum Income	Maximum Federal EITC Refund	Maximum Combined Federal and New York State EITC Refund	Maximum Combined Federal, New York State and New York City EITC Refund
<b>2 or more children</b>	\$37,783 ( <i>single</i> ) \$39,783 ( <i>married filing jointly</i> )	\$ 4,716	\$6,131	\$6,367
<b>1 child</b>	\$33,241 ( <i>single</i> ) \$35,241 ( <i>married filing jointly</i> )	\$2,853	\$3,709	\$3,852
<b>No children</b> ( <i>worker must be between 25 – 64 years of age</i> )	\$12,590 ( <i>single</i> ) \$14,590 ( <i>married filing jointly</i> )	\$428	\$556	\$577

3 Berube, Alan. "Using the Earned Income Tax Credit to Stimulate Local Economies." The Living Cities Policy Series. 2006.

4 Rhine, Sherrie L.W. et al. "Householder Response to the Earned Income Tax Credit: Path of Sustenance or Road to Asset Building?" Federal Reserve Bank of New York. 2005.

5 "2004 Update: Increased Participation in the Earned Income Tax Credit in San Antonio." Texas Perspectives. 2004.

6 "The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City." Jacob France Institute. 2005

- Nationwide, EITC recipients lost \$3 billion to tax preparation fees, RALs and other commercial products.
- In New York, tax preparation, refund products and associated fees drained approximately \$196.5 million from working families.

### Tax preparation fees

A number of factors underlie this substantial redirection of EITC investments. First is the heavy dependence on external providers for tax preparation. The complexities of federal and state tax laws and the time required to compile the requisite documentation and prepare and file tax returns often seem onerous. As a result, a significant portion of U.S. tax filers each year ultimately turn to commercial tax preparation services and private tax consultants to prepare their federal and state tax returns. This is especially true among low-income filers.

For tax year 2005, almost 71 percent of EITC recipients in the United States paid to have their returns completed professionally (as compared to 57 percent of non-EITC recipients). Those tax preparation fees drained, in total, nearly \$2.3 billion in EITC benefits from the pockets of these families and individuals. In New York, those numbers were even higher. More than 74 percent of EITC recipients in New York used a paid preparer, compared to only 65 percent of non-EITC recipients.



### Refund Anticipation Loans

A Refund Anticipation Loan, also known as a “rapid refund,” is a high-interest loan some tax preparers offer to filers so they can obtain their tax refund quickly. In tax year 2005, a

**Santina Brown-Payton** and her husband live in Brooklyn and are the parents of two teenagers, Adwoa and Kwado. In 2002, Santina took out a rapid refund from a private preparer, not knowing at the time that it was a loan. Unfortunately, the preparer gave her a loan that was greater than her actual refund, so she ended up *owing* money. Santina had not prepared her tax returns since then because she did not know where to go. This year, a volunteer tax preparer at the Brooklyn Cooperative Federal Credit Union/Black Veterans for Social Justice site told her about the free tax preparation they offer. When CDF-NY staff met Santina, she was waiting for her returns to be completed and anticipating that most of her refund will have to go to “clean up the mess” from the Refund Anticipation Loan in 2002. She hopes there will be some money left over, which she will use to pay bills.

taxpayer purchasing a RAL typically paid \$100 solely to get his or her refund the same day or within a few days, as most RALs offer. Based on the filer’s tax refund, these short-term loans often have interest rates between 70 and 700 percent when annualized. This harsh reality does not demonstrate the severity of some anecdotal evidence. Many families the Children’s Defense Fund – New York meets share that they have paid more than \$200, sometimes even up to \$500, for a RAL. Another problem with RALs is that the loan is based on the *anticipated* refund, not the *actual* refund. If the IRS and state tax department find the consumer’s actual refund is smaller than the amount the tax preparer issued for the RAL, the taxpayer *owes* the difference.

In order to accelerate receipt of their tax refunds, EITC recipients are more than six times as likely to secure a Refund Anticipation Loan as taxpayers who do not file for that credit. According to IRS data, a higher percentage of EITC tax filers who received refunds in tax year 2005 purchased RALs compared to non-EITC filers who received refunds.

- Nationwide, 5.6 million EITC tax filers, or 27 percent, took out RALs, whereas only 4.1 percent of non-EITC taxpayers did.

- In New York, an estimated 225,000, almost 19 percent, of EITC tax filers took out RALs, whereas only 3.2 percent of non-EITC taxpayers purchased RALs for the same year.

This wide disparity is attributable, at least in part, to the aggressive marketing of RALs to the working poor within their communities. Unfortunately, this means that the families most in need of their hard-earned money are targeted with short-term, high-interest loans.

Working families and individuals who received the EITC and purchased a RAL lost a chunk of their hard-earned dollars to the combined cost of RAL and tax preparation fees. Consider the following data:

- Nationally, RAL fees represented a \$565 million loss in EITC benefits. The typical EITC recipient who obtained a RAL lost an estimated 8.1 percent of his or her federal refund to tax preparation and RAL fees.
- In New York, RAL fees represented a \$25.5 million loss in EITC benefits. The typical EITC recipient who obtained a RAL in New York lost an estimated 8.5 percent of his or her federal refund to tax preparation and RAL fees.

**Ana Edwards** is the mother of two children, Ana (age 6) and Edward (age 5), who earns approximately \$8,000 in her job as a housekeeper. Before having her returns prepared for free at East Harlem’s Union Settlement Federal Credit Union, Ana went to a travel agency – Rivas Travel – and paid \$150 for tax preparation. She also spent \$300 on a rapid refund, not knowing at the time that it was a loan. This year, she received a refund of approximately \$4,000, which she will use to pay off debt. About the volunteer tax preparers, Ana said, “The staff was great and willing to assist you in any concern you may have.”

Promising trends are emerging, however. For tax year 2005, nationwide RAL usage among EITC recipients dropped for

the second year in a row. Also, New York’s RAL uptake rate for tax year 2005 is almost 30 percent lower than the national number (nearly 19 percent compared to 27 percent). While the exact reasons for this are not known, likely contributors are better reporting of data, increased education and awareness and anti-RAL advocacy.<sup>7</sup>

Additionally, though progress has been slow, modest steps have been taken recently to reduce the negative impact of RALs on low-income families and communities. “Pay stub” or “holiday” RALs – RALs which had additional costs and risks to taxpayers – have been almost entirely eliminated. These RALs were available to taxpayers prior to receiving their W-2s and were taken out against their expected refund. “Pay stub” RALs pose a great risk to both taxpayers and tax preparers because the provider prepares the return without the taxpayer’s complete financial documentation. Therefore, the taxpayer is more likely to receive an inaccurate estimate of his or her refund. If the taxpayer’s actual refund is smaller than the estimated refund, he or she must pay back the difference, and if the taxpayer does not, the lender is stuck with the loss. Due to the greater risk involved, but perhaps more so because of the considerable pressure from community groups and consumer advocates, all of the major RAL banks announced in the spring of 2007 that they would stop offering these types of loans.<sup>8</sup> The major tax preparation chains have also stopped publicizing the availability of “pay stub” RALs. However, the IRS notes that when asked, some tax preparation businesses still provide the service.

More reductions in RAL usage may be on the horizon. On the federal level, the IRS has announced that it is considering restricting the sharing of tax return information with those marketing RALs and other financial products sold to access tax refunds. In New York, several state legislators have introduced legislation aimed at better monitoring and regulating RALs.

Though New York has seen statistical improvement, RALs victimize each and every person who purchases one. They can end up costing a sizeable portion of the taxpayer’s refund. Unfortunately, lower-income working families and individuals who most need their hard-earned income are often sold short-term, expensive RALs.

<sup>7</sup> “Positive Improvements for Tax Refund Loans, but Consumers Still Warned to Avoid Them.” National Consumer Law Center. January 2008. See also Chi Chi Wu, “One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced.” National Consumer Law Center, January 2007.

<sup>8</sup> “Positive Improvements for Tax Refund Loans, but Consumers Still Warned to Avoid Them.” National Consumer Law Center. January 2008.

**Elaine Wright** is a prep cook who earns about \$18,000 per year to take care of herself and her 5-year-old, Chaise. Last year, she went to Jackson Hewitt and spent \$350 in tax preparation fees *plus* \$150 for a Refund Anticipation Loan. She did not know at the time that it was a loan; the tax preparer did not tell her nor offer any explanations. This year, after having her returns prepared at the Brooklyn Cooperative Federal Credit Union/Black Veterans for Social Justice site, she learned she will receive the EITC, Child Tax Credit and child care credits. Elaine plans to use her \$6,000 refund to purchase furniture for a new apartment and repair her credit.

### Other products

Currently, a proportion of EITC recipients purchase other types of financial products, such as Refund Anticipation Checks (RACs), to access their refunds. A RAC is a non-loan product in which an account is temporarily opened for taxpayers to receive their refunds though they do not receive their refund any sooner than the IRS sends it. At an average fee of \$30, this is yet another product targeting lower-income consumers simply so they can access their refunds. New data from the IRS reveals for the first time how many taxpayers received a Refund Anticipation Check in tax year 2005:

- Across the United States, an estimated 19 percent of EITC recipients obtained a RAC, thereby draining \$120 million from their EITC benefits.
- In New York, approximately 19.4 percent of EITC recipients obtained a RAC, draining \$7.9 million from their EITC refunds.

### Maximizing EITC Benefits for New York's Working Families

While hundreds of thousands of lower-income, working families and individuals across New York have benefited immensely from the EITC, these same taxpayers lost in

aggregate an estimated \$196.5 million in fees from commercial tax preparation, RALs and other products used to access tax refunds for tax year 2005 alone. Government officials and community leaders have it within their power to formulate public policies that address the root causes and mitigate the effect of RALs and costly tax preparation fees on lower-income communities.

In addition, many EITC recipients may also be eligible for other tax credits such as the Child Tax Credit (CTC) and credits for child care. Like the EITC, child care credits are offered from the federal, state and New York City governments. A federal and state Child Tax Credit offers benefits for families with children.

Workers who pay for child care may be eligible for the federal and state Child and Dependent Care Credits. Additionally, a New York City Child Care Credit is being offered for the first time in 2008. Families who are eligible for the federal, state and New York City child care credits could get back up to \$6,143.

The Child Tax Credit is an income supplement for those working families with children ages 16 or younger. The combined federal and Empire State CTC can contribute as much as \$1,330 for each child claimed. Overall, it has been estimated that the federal CTC alone adds as much as 40 percent to EITC-eligible taxpayers' refunds.<sup>9</sup>

Nursing student **Lynda Ryland** and her four children reside in Far Rockaway, Queens. Lynda had always gone to H&R Block to have her tax returns prepared. Last year, she paid \$250 for tax preparation and a Refund Anticipation Loan, though she has paid up to \$260 in the past for a RAL. She was applying for food stamps recently when a security guard told her about free tax preparation at the Ocean Bay Community Development Corporation. Lynda said she felt very comfortable there and is "thankful" to have learned about the site. Thanks to the EITC and Child Tax Credit, Lynda will receive a refund of \$4,834, which she will use to buy new beds for her children and put away some savings.

## Recommendations

---

It is essential that low- and modest-income families benefit fully from the existing EITC. To maximize EITC benefits, the Children’s Defense Fund – New York recommends the following key measures:

**1. Strengthen consumer protections.** Over the course of recent sessions of Congress, EITC and RAL legislation has failed to gain solid traction. Low-income families cannot continue to lose significant portions of their intended EITC benefits. This year, lawmakers must take action to adopt policies that protect consumers, such as establishing licensing requirements for commercial tax preparers, ensuring full disclosure of RAL fees and interest rates and placing a cap on the interest rates and fees that banks can charge for RALs.

In New York State, there are a number of bills that would provide important consumer protections but were unfortunately stalled last year in the legislature. Bills were introduced by State Senators Farley, Fuschillo and Savino and Assembly Member Diaz, which varied from requiring mandates such as written disclosures regarding RALs to implementing caps on interest fees to restricting RAL advertisements and providing restitution to consumers. Currently, the most comprehensive bill, S1677 (sponsored by State Senator Liz Krueger), provides all of the above. In addition, S1677 would place a cap on total fees and takes the necessary step of requiring commercial tax preparers to license and bond. New York should enact protections for consumers this legislative session.



**2. Expand access to free and low-cost tax assistance.** A substantial number of taxpayers nationwide still pay to have their taxes completed and filed. Alternatives have emerged to reduce the cost of tax filing for low-income individuals and families. The most important of these are free tax preparation sites – particularly Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs – of which the numbers have grown significantly in recent years. These sites typically offer electronic filing and direct deposit of refunds, allowing taxpayers to get their money in seven to 10 business days without fees. With the money saved, families can enhance their own financial stability by paying bills, purchasing needed household items and/or increasing savings. Substantial scaling up of such efforts is essential. Elected officials and community leaders must find ways to build and maintain free tax preparation networks across the country by investing in the VITA and TCE programs as well as other free tax assistance centers.

Even with the availability of free tax preparation sites, and despite the fact that increased numbers of Americans are using them at tax time, data show that the majority of taxpayers still use a commercial preparer. Reasons may include the lack of local and accessible free tax preparation sites in some cities and neighborhoods, the avoidance of long lines at busy free tax preparation sites, brand loyalty or a greater trust in paid staff than in volunteer tax preparers. With so many New Yorkers choosing to have their returns prepared professionally when a free alternative is available, it is imperative that government and community-based organizations form partnerships with reputable and compliant commercial preparers to offer professional tax preparation to lower-income consumers at a low cost and without predatory marketing and loans.

**3. Connect working families to mainstream financial services.** Improving the financial education of low-income families is of the highest priority. Free or low-cost checking and savings accounts, credit counseling opportunities and financial education programs offer working families the tools to build a better financial future. Public-private partnerships should be promoted and established to ensure

that working families have easy access to these resources. Public education and awareness are also needed to inform working families about these opportunities and resources, and to address any fears or misconceptions about mainstream financial services.

**4. Expand the EITC.** Expanding the federal and/or state EITC would result in an even greater benefit to families. For instance, at current eligibility levels, a family with two children receives the same EITC benefits as a family with four children, even though the larger family accrues significantly larger living expenses. Legislators should expand the EITC to include an additional level for families with three or more children. Increasing the maximum income for eligibility and benefit level for these families will

ensure their ability to put food on the table for their children, pay down debt and establish and grow savings accounts.



## Appendix

Extensive usage of tax preparation services, RALs and other commercial products used to access tax refunds also detrimentally impacts local economies across the country. Figure 1 summarizes the total dollars lost in New York's largest cities while Figure 2 features the total dollars lost in the state's largest counties. Figure 3 highlights the losses endured by New York counties with the highest percentage of RAL purchases among EITC claimants. Figure 4 provides an overview of the total dollars lost to the country's largest cities.

**Figure 1: Total Dollars Lost to Tax Preparation Fees, Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs) in New York Cities with the Highest Number of Returns Filed, Tax Year 2005**

City	Number of tax Returns	Number of EITC tax Returns	% of EITC returns who used Paid Preparers	% of EITC returns with a RAL*	Dollars Lost to Tax Preparation RACs and RALs**
NEW YORK	3,384,565	824,724	76.9%	16.1%	\$ 111,910,470
BUFFALO	100,299	30,861	74.2%	33.6%	\$ 4,667,040
ROCHESTER	96,668	23,562	67.8%	29.9%	\$ 3,247,680
SYRACUSE	94,845	20,487	71.7%	28.8%	\$ 2,901,660
YONKERS	76,950	15,129	82.7%	26.5%	\$ 2,363,730
SCHENECTADY	75,158	10,489	73.0%	28.2%	\$ 1,495,800
ALBANY	68,429	11,119	70.8%	33.7%	\$ 1,613,010
GREECE	39,187	5,573	64.4%	19.0%	\$ 672,480
POUGHKEEPSIE	36,543	4,928	74.5%	29.5%	\$ 718,860
WHITE PLAINS	34,574	3,075	73.2%	14.2%	\$ 389,760
<b>N.Y. TOTALS</b>	<b>8,429,982</b>	<b>1,464,896</b>	<b>74.2%</b>	<b>18.7%</b>	<b>\$ 196,110,990</b>
<b>U.S. TOTALS</b>	<b>130,354,745</b>	<b>22,053,667</b>	<b>70.9%</b>	<b>26.8%</b>	<b>\$ 3,029,007,780</b>

Notes:

- \* Of those who receive a refund
- \*\* Calculated based on a \$150 average tax preparation fee, a \$100 average RAL fee and a \$30 average RAC fee

**Figure 2: Percentage of EITC Returns with a RAL in New York Counties with the Highest Number of Total Returns Filed, Tax Year 2005**

County	Number of tax Returns	Number of EITC tax Returns	% of EITC returns who used Paid Preparers	% of EITC returns with a RAL*	Dollars Lost to Tax Preparation RACs and RALs**
ALBANY	133,506	17,069	69.4%	30.3%	\$ 2,377,170
RENSSELAER	73,505	9,511	69.9%	29.6%	\$ 1,324,650
SCHENECTADY	79,932	10,932	72.8%	27.9%	\$ 1,551,690
JEFFERSON	48,694	9,780	64.5%	26.5%	\$ 1,244,550
OSWEGO	52,770	9,467	70.1%	26.1%	\$ 1,278,240
ONEIDA	102,773	17,288	65.5%	24.9%	\$ 2,201,880
ERIE	416,456	59,615	71.0%	24.3%	\$ 8,082,540
ONONDAGA	208,597	30,781	69.3%	24.1%	\$ 4,086,120
MONROE	338,329	49,561	66.0%	23.9%	\$ 6,356,100
NIAGARA	99,057	14,691	72.3%	23.9%	\$ 2,005,530
BRONX	515,737	195,377	79.9%	23.1%	\$ 29,252,370
CHAUTAUQUA	57,600	10,630	66.4%	23.1%	\$ 1,346,640
SARATOGA	100,645	9,278	64.7%	22.7%	\$ 1,145,730
BROOME	91,214	14,134	60.5%	22.6%	\$ 1,671,720
DUTCHESS	133,347	12,769	72.2%	21.1%	\$ 1,695,150
ORANGE	157,579	19,598	69.8%	21.0%	\$ 2,543,580
ULSTER	87,518	11,865	71.6%	20.7%	\$ 1,560,360
WESTCHESTER	436,629	42,864	77.6%	20.3%	\$ 6,025,350
SUFFOLK	688,567	69,890	77.3%	17.7%	\$ 9,547,680
NEW YORK	792,169	131,391	75.6%	16.8%	\$ 17,530,860
NASSAU	649,625	57,847	77.0%	15.5%	\$ 7,744,350
ROCKLAND	131,294	14,059	68.7%	15.0%	\$ 1,687,530
KINGS	950,841	271,001	74.7%	14.3%	\$ 35,561,310
RICHMOND	192,899	24,329	77.8%	13.2%	\$ 3,280,020
QUEENS	929,788	201,839	77.9%	10.9%	\$ 26,192,490
<b>N.Y. TOTALS</b>	<b>8,429,982</b>	<b>1,464,896</b>	<b>74.2%</b>	<b>18.7%</b>	<b>\$ 196,110,990</b>
<b>U.S. TOTALS</b>	<b>130,354,745</b>	<b>22,053,667</b>	<b>70.9%</b>	<b>26.8%</b>	<b>\$ 3,029,007,780</b>

Notes:  
 \* Of those who receive a refund  
 \*\* Calculated based on a \$150 average tax preparation fee, a \$100 average RAL fee and a \$30 average RAC fee

*"There is nothing new about poverty. What is new is that we now have the techniques and the resources to get rid of poverty. The real question is whether we have the will!"*

Dr. Martin Luther King, Jr.

**Figure 3: New York Counties with the Highest Percentage of Refund Anticipation Loan (RALs) Purchases, Tax Year 2005**

County	Number of tax Returns	Number of EITC tax Returns	% of EITC returns who used Paid Preparers	% of EITC returns with a RAL*	Dollars Lost to Tax Preparation RACs and RALs**
FULTON	22,340	4,297	73.7%	31.9%	\$ 630,240
ALBANY	133,506	17,069	69.4%	30.3%	\$ 2,377,170
RENSSELAER	73,505	9,511	69.9%	29.6%	\$ 1,324,650
MONTGOMERY	26,602	4,860	74.1%	29.3%	\$ 707,370
SCHENECTADY	79,932	10,932	72.8%	27.9%	\$ 1,551,690
CORTLAND	19,949	3,506	69.7%	27.7%	\$ 477,000
WASHINGTON	27,692	4,668	68.6%	27.6%	\$ 622,260
CHEMUNG	37,398	6,702	71.7%	27.1%	\$ 935,250
JEFFERSON	48,694	9,780	64.5%	26.5%	\$ 1,244,550
SULLIVAN	27,023	5,153	74.9%	26.3%	\$ 738,990
YATES	10,836	1,869	63.9%	26.2%	\$ 232,920
OSWEGO	52,770	9,467	70.1%	26.1%	\$ 1,278,240
ONEIDA	102,773	17,288	65.5%	24.9%	\$ 2,201,880
WAYNE	43,991	6,639	69.4%	24.9%	\$ 881,820
CAYUGA	32,643	5,274	69.9%	24.5%	\$ 703,770
SCHUYLER	8,381	1,510	65.2%	24.5%	\$ 190,260
ERIE	416,456	59,615	71.0%	24.3%	\$ 8,082,540
SAINT LAWRENCE	42,193	7,922	63.9%	24.2%	\$ 980,100
ONONDAGA	208,597	30,781	69.3%	24.1%	\$ 4,086,120
SENECA	13,766	2,182	64.6%	24.1%	\$ 272,760
WARREN	32,421	4,609	65.0%	24.0%	\$ 574,650
NIAGARA	99,057	14,691	72.3%	23.9%	\$ 2,005,530
MONROE	338,329	49,561	66.0%	23.9%	\$ 6,356,100
MADISON	31,508	4,509	69.3%	23.5%	\$ 591,480
FRANKLIN	20,390	3,821	68.8%	23.4%	\$ 493,140
<b>N.Y. TOTALS</b>	<b>8,429,982</b>	<b>1,464,896</b>	<b>74.2%</b>	<b>18.7%</b>	<b>\$ 196,110,990</b>
<b>U.S. TOTALS</b>	<b>130,354,745</b>	<b>22,053,667</b>	<b>70.9%</b>	<b>26.8%</b>	<b>\$ 3,029,007,780</b>

SOURCE:  
Internal Revenue Service SPEC Information Database, Tax Year 2005 (December, 2007). CDF calculations.

Notes:  
\* Of those who receive a refund  
\*\* Calculated based on a \$150 average tax preparation fee, a \$100 average RAL fee and a \$30 average RAC fee

**Figure 4: Total Dollars Lost to Tax Preparation Fees, Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs) in U.S. Cities with the Highest Number of Returns Filed, Tax Year 2005**

County	Number of tax Returns	Number of EITC tax Returns	% of EITC returns who used Paid Preparers	% of EITC returns with a RAL*	Dollars Lost to Tax Preparation RACs and RALs**
New York, NY	3,384,565	824,724	76.9%	16.1%	\$ 111,910,470
Chicago, IL	1,132,144	277,041	73.8%	27.3%	\$ 40,030,170
Houston, TX	1,093,046	293,452	76.9%	28.8%	\$ 44,115,990
Los Angeles, CA	883,651	233,721	83.0%	15.5%	\$ 33,846,930
San Antonio, TX	611,971	162,765	66.5%	29.3%	\$ 21,909,150
Philadelphia, PA	594,580	162,738	64.3%	26.4%	\$ 21,106,440
Las Vegas, NV	561,704	92,214	74.6%	31.1%	\$ 13,556,820
San Diego, CA	537,792	70,113	72.3%	16.5%	\$ 8,937,960
Dallas, TX	498,753	127,442	76.6%	39.5%	\$ 20,259,660
Miami, FL	493,334	126,958	75.4%	12.7%	\$ 16,534,950
<b>U.S. TOTALS</b>	<b>130,354,745</b>	<b>22,053,667</b>	<b>70.9%</b>	<b>26.8%</b>	<b>\$ 3,029,007,780</b>

SOURCE:  
Internal Revenue Service SPEC Information Database, Tax Year 2005 (December, 2007). CDF calculations.

Notes:  
\* Of those who receive a refund  
\*\* Calculated based on a \$150 average tax preparation fee, a \$100 average RAL fee and a \$30 average RAC fee

The Children's Defense Fund (CDF) Leave No Child Behind® mission is to ensure every child a Healthy Start, a Head Start, a Fair Start, a Safe Start and a Moral Start in life and a 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 attention to the needs of poor and minority children and those with disabilities. CDF educates the nation about the needs of children and encourages preventive investments before they get sick, into trouble, drop out of school or suffer from family breakdown.

CDF began in 1973 and is a private, nonprofit organization supported by foundation and corporate grants and individual donations. We have never taken government funds.

In 1992, the Children's Defense Fund established an office in New York City. In 1998, the Children's Defense Fund — New York (CDF-NY) expanded our community education and organizing efforts statewide. Our unique approach to improving conditions for children by combining sound research, public education, policy analysis and development, community organizing and advocacy activities has made CDF-NY an innovative and tireless leader for New York's children.

## Acknowledgements

This report was prepared by Diana Breen and Maria Aguirre. Thank you to Emma Jordan-Simpson, Jennifer Marino Rojas, Robyn Furman, Karen Lashman and Catherine Crato who contributed editorial suggestions and Gabriela Silverio, Julie Novas and Marlo Paventi who interviewed clients at free tax preparation sites.

Thank you to our hard-working partners who manage the free tax preparation sites and allowed us to visit and interview their clients: Shira Markoff, Mildred Keel Williams, Hamid Kechar and Delmy Sabio at Seedco, Melissa Grober at New York City Financial Network Action Consortium (NYCfNAC), Kathryn Lightner and Evadyne Smith at the Brooklyn Cooperative Federal Credit Union, Jason Weekes at the Union Settlement Federal Credit Union, Pat Simon and Bernadette Luina at the Ocean Bay Community Development Corporation, Jennifer Thomson at the Lower East Side People's Federal Credit Union, Parvin Begum at Grand Street Settlement and Victoria Romano at ACORN.

