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User Beware: Refund Anticipated Loans Target Working Families at Tax Time
High Fees Draw Tax Credits Away from Deserving Families and Local Economies

Madison – Consumers beware, states a new report on Refund Anticipation Loans (RALs) from the Wisconsin Council on Children & Families. An RAL is a short-term loan secured by a tax filer's expected refund and aggressively marketed to the poor by many paid tax preparation firms.

"Refund Anticipated Loans are targeted to low income families. The price they pay for getting their refund a few days or weeks earlier than they otherwise would is considerable for the working poor in Wisconsin," stated Charity Eleson, Executive Director of Council.

Nearly 114,000 RALs were taken out in Wisconsin in 2003 (for tax year 2002). Over half of those – 61,356 – were taken out by recipients of the federal Earned Income Tax Credit. The costs of RALs to EITC recipients and the communities in which they live are the focus of the report, written by Council research analyst John Keckhaver.

RAL fees average \$130, with much more being paid for tax preparation and check cashing, resulting in astronomical interest rates for these loans. An estimated 8 million dollars was diverted from federal EITC recipients last year from RAL fees alone.

The economic effects can be significant for communities where usage is high. The report estimates that due to the economic "multiplier effect", \$3 million dollars paid in RAL fees in Milwaukee by federal EITC recipients actually produced a total economic loss of between \$4.5 million and \$6 million. The report also contains data on many other areas of the state where RAL usage is high, including in and near several of the state's Indian reservations.

"Everyone loses with the proliferation of RALs," argued Keckhaver, "the consumer pays exorbitant fees, the effectiveness of the EITC is diluted, and local economies lose out on a significant inflow of cash."

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Reasons for RAL use cited in the report are tax code complexity, heavy marketing by tax preparation firms in poor communities, a desire on the part of tax filers to receive their refunds more quickly, and the fact that many EITC recipients do not have bank accounts into which they could have their refunds directly deposited (thereby making RALs less attractive).

The Wisconsin Council on Children and Families makes the following public policy recommendations in their report:

- Increase tax preparation assistance for low-income filers
- Expand current efforts to increase bank accounts among low income residents
- Simplify the EITC tax forms and instructions

The Council's report also highlights a recent effort by the Department of Revenue and the Wisconsin Credit Union League in which credit unions are being recruited to staff tables at Volunteer Income Tax Assistance (VITA) sites, explaining the benefits of and allowing people to apply for savings accounts. These efforts have several benefits including reducing the need for RALs and helping low-income families open savings accounts.

The Council applauds the efforts of the Department and the League, and urges them and others interested in stemming the tide of RAL use in the state to focus on those specific areas where EITC and RAL use is highly concentrated.

In preparing the report, the Council examined recently released data from the Brookings Institution's Metropolitan Policy Program relating to EITC and RAL usage in and across Wisconsin. The complete report, "Refund Anticipation Loans" in Wisconsin: Little Gained and Much Lost for Low-Income Workers and Local Economies can be seen on the Council's website, www.wccf.org.

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