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## **Children's Defense Fund Texas Finds Tax Refund Loans Cost Low-income Texans Over \$111 Million in Unnecessary, Unjust Fees**

**Texas' working families lost an estimated \$294 million dollars due fees from to commercial tax preparers**

Texas – Cashing in on the promise of a quick fix, millions of low-income Texas workers paid more than \$111 million in unnecessary fees and excessive interest when they filed their taxes in 2004 to expedite collection of their tax refunds. An analysis of IRS data by the Children's Defense Fund (CDF) found that millions of dollars are lost to families and communities nationwide through Refund Anticipation Loans (RALs), high-interest loans that tax filers take out against their expected tax refunds, commonly marketed as "Rapid Refunds" or "Fast Money." Approximately 70 percent of families claiming the EITC use commercial tax preparers, unaware of other choices available to them, including free tax preparation at Volunteer Income Tax Assistance (VITA) sites.

In Texas, 2.1 million taxpayers claimed \$4.2 billion in the EITC but they lost an estimated \$294 million to tax preparation and high-interest loans during the 2003 tax year. Much more needs to be done on the national, state, and local levels to ensure that EITC dollars make it into the pockets of the needy recipients who the program was designed to help.

RALs are repaid from the tax refund, but the fees associated with them end up costing individuals a significant percentage of their refunds. Meanwhile, tax refunds from the federal government impose no fees or interest charges and if e-filed and deposited into an account are usually paid within two weeks of filing. In reducing the value of the refund taxpayers receive, RALs undermine the very purpose of the EITC, which is to help lift low-income families out of poverty.

The average Texas EITC family purchasing a RAL paid \$130---equal to a loan with Annual Percentage Rate (APR) of about 166.6 percent---just to get their refund one or two weeks sooner. This means needy Texas families lose an additional \$111 million in RAL fees. When tax preparation fees are included, the typical family getting a RAL loses nearly five percent of its federal refund. Between \$183 million in tax preparation fees and an additional \$111 million in RAL fees, Texas working families, and their communities, are deprived of \$294 million.

"We want working low-income Texas families to keep more of the money that they earn by informing them about unnecessary fees associated with commercial tax preparation, and how they can receive free tax preparation services through VITA sites" said Martha Martinez Gomez, Deputy Director, Children's Defense Fund Texas. "We want to make certain that more working Texas families keep every dollar that they are eligible for, to help cover basic living expenses like food, rent, utilities, and health care," Martinez Gomez added.

For example, Dallas (46.9%), Corpus Christi (46.7%), Fort Worth (45.1%), San Antonio (43%), Houston (42.5%), and Arlington (40.8%) had the highest percentages of EITC Returns with RALs of ten major Texas cities. In the Rio Grande Valley working families in Brownsville, McAllen, Pharr, and Harlingen spent more than 6.8 million dollars in commercial tax preparation and lost over 4 million dollars in purchasing RALs. Forty-two percent of EITC families in Texas receive their refund with a RAL----a rate higher than the national average of 34.2 percent. Hardworking families and local economies lose millions in of dollars to commercial tax preparation and other fees.

CDF Texas is again participating in the VITA free tax preparation program this year with coalition partners, helping low-income families learn about and prepare their taxes free of charge so that can save or spend their refund----all of it---as they see fit.

To read CDF's report on Texas and ten of the state's cities with the highest total number of tax returns filed, and to find details on free tax preparation services in these areas please visit the Children's Defense Fund web site at [www.childrensdefense.org](http://www.childrensdefense.org).

For assistance in locating a VITA site in Texas, contact Martha Martinez at (713) 664-4080.

To access the full report, see

[http://www.childrensdefense.org/benefits/dc/Rals\\_reprot\\_national.pdf](http://www.childrensdefense.org/benefits/dc/Rals_reprot_national.pdf)

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

**Children's Defense Fund Texas** offices in Houston, Austin and the Rio Grande Valley work to ensure every child a *Healthy Start* in life and access to affordable health coverage.