METROPOLITAN POLICY PROGRAM

Step in the Right Direction:

Recent Declines in Refund Loan Usage Among Low-Income Taxpayers

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"Declines in refund loan usage among EITC earners, while occurring nationwide, varied considerably in magnitude among states and cities."

Findings

An analysis of IRS data from tax years 1999 through 2002 reveals that:

- **After climbing between tax years 1999 and 2001, usage of refund anticipation loans (RALs) declined nationwide in tax year 2002**. While the overall number of EITC recipients who used RALs declined only slightly (1.9 percent), strong overall growth in EITC claims meant that the share of EITC recipients purchasing RALs declined significantly, by 4.6 percent.

- **The percentage of EITC recipients using RALs declined in every region between TY 2001 and TY 2002, most dramatically in the Midwest**. The South continues to dominate the RAL market, as more than half of all EITC recipients who purchased a RAL lived in that region. The largest declines at the state level occurred in Wisconsin, Michigan, Illinois, Nebraska, Arizona, Oklahoma, West Virginia, and Delaware.

- **Among large cities, Milwaukee, WI boasted the sharpest decline in the share of its EITC recipients purchasing RALs between tax years 2001 and 2002.** The trend was less positive in and around New York City, where RAL usage among EITC earners remained steady over that period. Despite drops in most places, more than half of EITC recipients continue to use RALs in several southeastern cities.

- **Most of the change in RAL usage among EITC earners across cities cannot be explained by the changing income profile of credit recipients or the relative presence of paid versus volunteer tax preparers.** However, there is some evidence that cities with greater concentrations of commercial preparers witnessed smaller declines in RAL usage, and that cities with a greater presence of volunteer low-income tax preparation saw larger declines in RAL usage.

The nationwide decline in RAL usage among low-income working families is a promising trend, one that will hopefully accelerate as consumers learn more about the high costs of these products and alternatives for receiving their refund dollars. At the same time, in a number of cities where as many as 60 percent of EITC recipients continue to use refund loans, greater efforts are needed to heighten local awareness of the problem and to monitor the RAL marketplace more closely.

Introduction

Most people pay someone to do their taxes. This is understandable, considering how complicated the federal income tax code has grown. The proportion of tax filers using a paid preparer is especially high among some classes of low-income taxpayers, particularly those who claim the Earned Income Tax Credit (EITC). Some of these filers pay reasonable fees for convenience and professional service, and some receive expert advice and assistance in negotiating complex tax rules that affect lower-income families. Others pay significant sums to file simple returns. A 2002 survey of tax preparers in the Washington, D.C. area revealed that several charged lower-income clients at least $200 for preparing and filing a return that included a claim for the EITC.[1]

More troubling than the prices EITC earners pay for tax preparation, however, is their frequent use of refund anticipation loans (RALs). RALs are loans originated by tax preparers, and funded by their bank partners, based on the taxpayer's anticipated income tax refund. Typically, RALs advance to the taxpayer the proceeds of her tax refund, minus fees for the tax preparation and the loan, within one to two days. Recent evidence suggests that for the average EITC-related refund claimed by a family with children, the price of a RAL hovers around $130.[2] In light of the short time period in which the IRS processes refunds for e-filed returns (typically one to two weeks), the annualized interest rates on these loans generally exceed 200 percent, and can be much higher in some cases. These loans provide poor value for money, and take a significant chunk of low-income taxpayers' refund dollars (including those related to the EITC)—an estimated $740 million in 2003.[3]

Recently, RALs have attracted increasing attention from researchers, legislators, consumer advocates, and the media. In addition, class-action lawsuits filed against major commercial tax preparers, charging that they failed to disclose the true costs of RALs, have lifted the visibility of these products and led to some changes in the way they are marketed and sold.

In light of these developments, this report offers an in-depth look at recent trends in RAL usage, especially among the EITC recipient population. After discussing various reasons why people may use RALs, the report examines RAL trends at the national, regional, state, and city levels. Furthermore, it explores whether the variation in recent patterns of RAL usage across the United States relates to prevailing differences in the characteristics of taxpayers and the places they live. The report concludes with brief thoughts on what these trends imply for future efforts to provide low-income taxpayers with affordable access to their refund dollars.

Methodology

The primary data source for this analysis is the IRS–Stakeholder Partnerships, Education, and Communication (SPEC) Return Information Database, which contains data extracted annually by the IRS's Wage and Investment Research Unit from the Electronic Tax Administration Marketing Database. Original return data are summarized to provide counts of individual income tax return characteristics for all U.S. ZIP codes, and then grouped for higher geographic levels, including places, counties, and states. The analysis draws on databases for tax years 1999–2002, which correspond to returns filed in calendar years 2000–2003.[4]

The IRS-SPEC database contains return information aggregated within each geography by "market segment," one of which pertains to returns claiming the EITC. Within each segment, the database provides counts of "estimated RALs," which correspond to the number of returns for which a tax preparer made a debt inquiry in advance of issuing a refund anticipation loan. The Debt Indicator (DI) Program was initiated by IRS during the year 2000 filing season. Under that program, in exchange for agreeing to report information to the IRS regarding "fraudulent" or "potentially abusive" returns, tax preparers can receive from the IRS an indicator that a return's refund amount will be paid and not offset by other taxpayer obligations collectible by the federal government (e.g., back taxes, child support, student loan debt).[5] If the IRS indicates to the tax preparer that the anticipated refund will be offset for any reason, the preparer will generally not sell the taxpayer a RAL, and in many cases will "default" her into a non-loan financial product such as a refund anticipation check (RAC).[6] The DI Program has thus greatly reduced the non-payment risk assumed by tax preparers and their bank partners in connection with making these loans.[7]

In 1993, under the DI Program's predecessor (the Direct Deposit Indicator), the approval rate for RAL applications was 92

percent.[8] This report, however, generally treats the number of preparer debt inquiries as equivalent to the number of originated RALs associated with those returns. It makes this assumption because: (a) the IRS data may not capture a number of tax refund loans arranged by non-tax preparation firms that are not EROs, and thus do not participate in the DI Program, such as Indian Country trading posts and used car and furniture stores;[9] and (b) the IRS data do not report ZIP code preparer debt inquiry totals of less than ten, causing the analysis to miss perhaps several thousand inquiries and associated RALs.

The market segmentation of these RAL data within the IRS database permit one to view separately RAL usage among EITC filers and other filers. The report focuses largely on RAL trends among the EITC claimant population, because the nationally applicable guidelines for the credit help to control for income variation across geographies that may result in different levels of RAL usage.[10] The share of EITC filers (and other filers) receiving their refunds via RALs is generally expressed here as a percentage of those taxpayers who received a tax refund, since those with a remaining tax obligation to the IRS at filing time would not qualify for the product.

In investigating the factors that may help to explain the RAL trend in recent years, the analysis draws on a few other variables in the IRS–SPEC database, including the amount of EITC claimed, and the number of returns prepared by volunteer income tax assistance (VITA) programs. In addition, it also draws on an IRS national database of electronic return originator (ERO) name and address information to quantify the presence of paid tax preparers at the local level.[11]

Background—Why Do People Use RALs?

To many people, RALs simply look like a terrible deal financially. The circumstances facing low-income taxpayers, however, suggest several reasons why millions purchase these products, year after year:

- *Real or perceived need for immediate cash.* Many low-income taxpayers live, literally, from paycheck to paycheck. They lack the financial reserves to cover economic contingencies, and any unexpected expenses may leave them with new debt and/or in delinquency for other budget items. Accumulated debt and consequences of delinquency, which could include eviction or loss of utilities, may boost demand for quick cash at tax time. Some taxpayers may actually "spend ahead" during the holidays on gifts or travel, knowing that the tax refund they receive in the first part of the new year will help them cover those arrears. The need for quick cash can become especially great among taxpayers who lack a bank account, and who must therefore wait weeks for the IRS to process a tax refund check.

- *Lack of information about the product*. Taxpayers who purchase a RAL may generally understand that they are opting to get their money with 1-–2 days. However, they may possess less-than-perfect information about other aspects of the product and the purchase. First, some survey evidence suggests that many RAL users are unaware that the product is actually a loan, due to the way in which it is marketed, or to an inability to understand the various disclosures that accompany a RAL application.[12] Second, they may have only a limited understanding of what the product costs, since the fees are often bundled together with those for tax preparation. Third, they may not know about other options for receiving their refund dollars quickly from the IRS, which can process a return and direct deposit a refund to the taxpayer's bank account within eight to 15 days (and even more rapidly early in the filing season).

- *"Windfall" effect.* For most taxpayers who receive the EITC, tax refunds are the largest cash infusion they experience all year long. Even though these individuals would presumably hesitate to pay $100 to $150 out-of-pocket for a financial product like a RAL, in the context of a $2,000 tax refund, RAL fees may not look as expensive. By contrast, in 2004, only 4 percent of individual income tax filers who had a balance due to the IRS at tax time used a credit card to pay that balance—presumably because they hesitated to part with the 2.5 percent transaction fee for using the card.[13] In this sense, some low-income working families who use RALs may treat their EITC and related refund as a "bonus," rather than a pay raise.

- *Inability to pay for tax preparation out of pocket*. A taxpayer claiming the EITC can expect to pay at least $100 to $150 for the preparation and filing of her tax forms, whether or not a RAL is purchased. However, many low-income taxpayers lack the up-front cash to pay these expenses. RALs and other tax refund financial products permit fees for tax preparation to be deducted from the refund proceeds, obviating the taxpayer's liquidity issues. Unfortunately, those constraints effectively result in a doubling of the taxpayer's fees when a RAL is purchased.

- *Peer effects*. The significant variation in RAL usage from community to community suggests that the experience of friends and neighbors may affect a taxpayer's perceptions of and propensity to use RALs. The concentration of tax preparation firms and refund loans in some areas may indicate that low-income taxpayers in those neighborhoods know little about ways other than via a RAL to receive their tax refunds, or that they have learned to distrust conventional methods for receiving refund dollars.

Some combination of these reasons probably convinces the typical RAL user to purchase the product. However, even if it is understandable why low-income taxpayers opt for these products, the fact remains that the sale of RALs exploits the precarious financial circumstances and limited information possessed by many of these individuals, and deserves continued scrutiny by policy makers and the public.

Findings

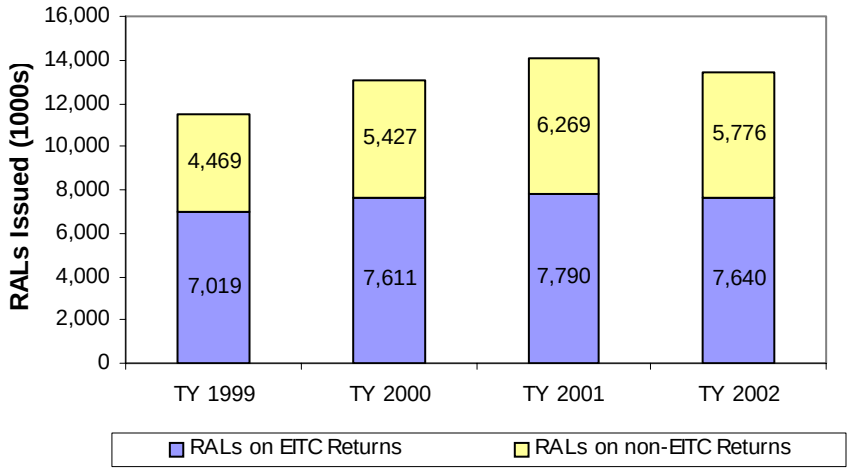
A. After climbing between tax years 1999 and 2001, usage of refund anticipation loans (RALs) declined nationwide in tax year 2002.

In tax year 1999, the introduction of the Debt Indicator Program reduced tax preparers' risk in making RALs, and the product's use began to proliferate. H&R Block, the nation's largest commercial tax preparation firm, had fewer than 3 million RAL customers during the 1999 filing season, but in 2001 processed nearly 4.5 million RALs.[14] Not surprisingly, the national trend in RALs followed Block's trend. Between tax years 1999 and 2000, the number of RALs purchased by all taxpayers grew rapidly, by more than 13 percent (Figure 1). The following tax year, RALs rose by a further 8 percent, so that more than 14 million were issued. As Figure 1 demonstrates, more than half (55 percent) of all RAL users in tax year 2001 were EITC recipients, while those filers made up only 15 percent of all taxpayers.

After this growth spurt, though, RAL usage nationwide declined slightly from 14.1 million to 13.4 million (4.6 percent) between tax years 2001 and 2002. This was consistent with the pattern seen at Block, where RALs dropped by a little less than 1 percent over that period. The overall decline in RAL usage among non-EITC taxpayers (7.6 percent) surpassed that among the EITC population (1.9 percent).

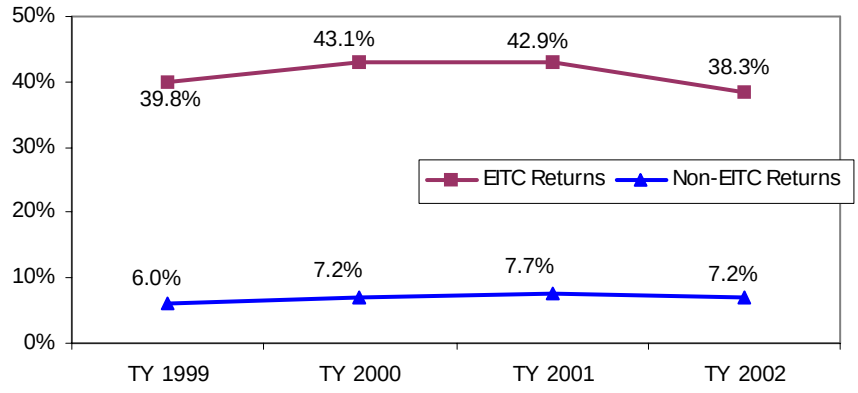
Between these tax years, however, the number of taxpayers claiming the EITC increased by almost 10 percent, largely in response to weak economic conditions that made more people eligible for the credit. Therefore, even though RALs issued to EITC recipients declined only slightly between tax years 2001 and 2002, the percentage of EITC refund recipients using a RAL declined by an impressive 4.6 percentage points over that one-year period (Figure 2).

Figure 1. RALs Issued to Taxpayers by Receipt of EITC, Tax Years 1999-2002



Source: Brookings analysis of IRS data.

Figure 2. Percentage of Refund Returns with RAL, by EITC Receipt, Tax Years 1999-2002



Source: Brookings analysis of IRS data.

Figure 3a. RALs Issued to EITC Recipients by Region, Tax Years 1999-2002

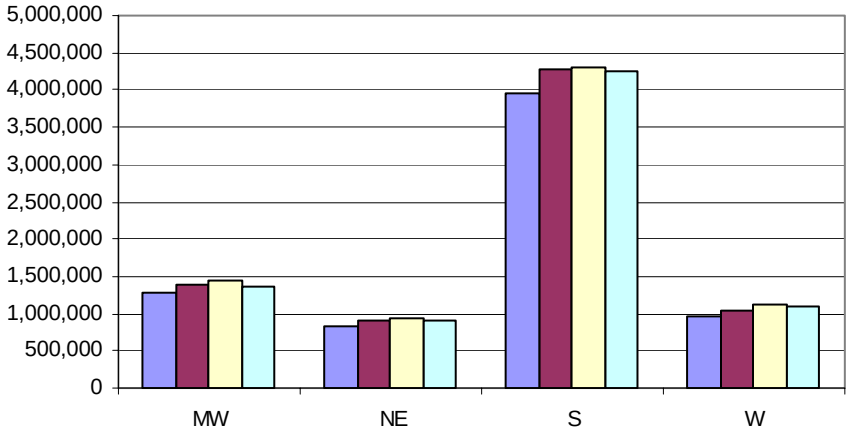
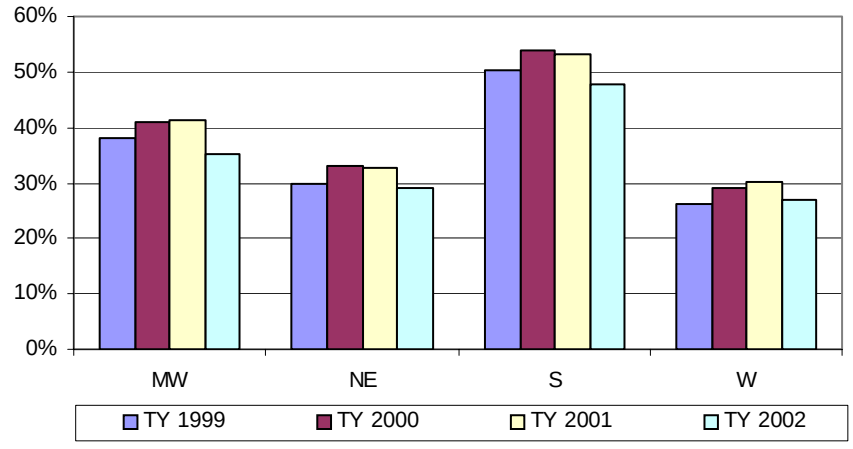


Figure 3b. Percentage of EITC Refund Recipients with RALs by Region, Tax Years 1999-2002



Source: Brookings analysis of IRS data.

Still, RALs remain a prominent fixture in the low-income taxpayer marketplace. Taxpayers claiming the EITC remain more than five times as likely to use RALs as other taxpayers. Moreover, the total number of RALs purchased in TY 2002 continued to exceed totals for tax years 1999 and 2000. At the same time, although IRS data on RALs for TY 2003 are not yet available, signs do continue to point in a positive direction. H&R Block, for instance, reported that it issued 8 percent fewer RALs in the 2004 filing season than in 2003.[15] Meanwhile, Jackson Hewitt, the nation's second-largest commercial tax preparer, facilitated 10 percent more RALs in 2004 than 2003, but this was closely in line with overall growth in the firm's offices and total tax returns prepared.[16] In light of the trends at these industry leaders, additional declines in the share of taxpayers using RALs in TY 2003 might be expected.

B. The percentage of EITC recipients using RALs declined in every region between TY 2001 and TY 2002, most dramatically in the Midwest.

Previous research has demonstrated that RAL usage is highly uneven across the United States, even among similar taxpayers.[17] In this and subsequent sections, we focus on RAL usage among the EITC recipient population. RAL usage among these families is especially concerning, since it drains the benefits of an important wage subsidy. In addition, for purposes of the analysis, studying these particular filers helps to control for the income differences across places that may drive varying levels of RAL usage.

In TY 2002, as in previous years, most EITC earners who purchased RALs lived in the

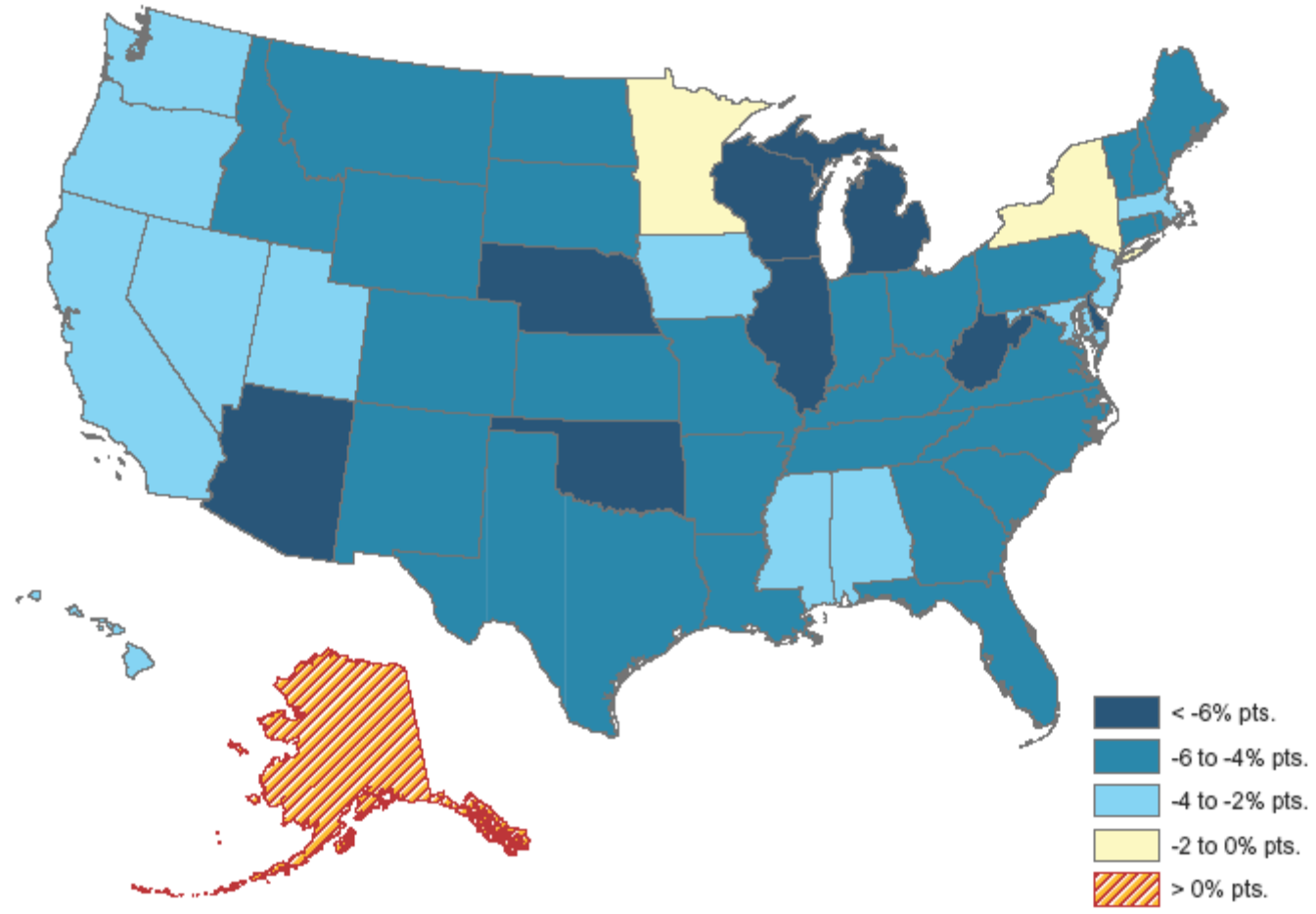
South. More than half of all EITC recipients (4.3 million, or 56 percent) who used a refund loan lived in the South (Figure 3a).

The South also led all other regions in the frequency with which these low-income filers accessed their tax refunds via a RAL. In the most recent tax year, 48 percent of EITC recipients in the South used a refund loan, much higher than in the other regions (Figure 3b). Midwestern EITC earners were the next most likely to use RALs, followed by those in the Northeast and those in the West.

Over time, the four regions have tended to mirror the nation itself in their RAL usage, with growth from tax years 1999 to 2001, followed by decline from 2001 to 2002. That decline was strongest in the Midwest, where the share of EITC refund recipients using refund loans dropped nearly 6 percentage points from tax year 2001 to 2002. The South was not far behind, with a decline of 5 percentage points. The Northeast and West experienced smaller reductions, though they started from lower baseline RAL usage. Still, stark disparities remain among regions in the propensity of EITC earners to use RALs.

Some states clearly outpaced the pack in the degree to which refund loan purchases fell among EITC filers. Four states in the Midwest (Wisconsin, Michigan, Nebraska, and Illinois) saw the share of their EITC recipients who used RALs drop by at least 6 percentage points from tax year 2001 to 2002 (Figure 4). States joining them in that category included Oklahoma, Delaware, West Virginia, and Arizona. About half the states saw a decline of between four and six percentage points in this measure. The fall-off in RAL usage was somewhat less dramatic in the Pacific coastal

Figure 4. Change in Percentage of EITC Refund Returns with RALs, TY 2001 to TY 2002



Source: Brookings analysis of IRS data

states, and in New York and Minnesota, though EITC recipients in all those states exhibited below-average usage of refund loans. Alaska was the only state in which EITC recipients grew slightly *more* likely to purchase a RAL between tax years 2001 and 2002. Overall, however, declines in RAL usage among low-income working families were significant and widespread.

C. Among large cities, Milwaukee, WI boasted the sharpest decline in the share of its EITC recipients purchasing RALs between tax years 2001 and 2002.

At increasingly lower levels of geography, variation in the usage of RALs generally becomes greater. While EITC recipients earn incomes below the same threshold regardless of their location, place-specific characteristics can influence the degree to which these filers purchase refund loans. Some cities have poorer EITC recipients than others, which may correlate with higher average refund amounts and higher RAL demand. Some cities—and the neighborhoods where their EITC earners live—are heavily saturated with commercial tax preparers, which may induce further demand for the products. Others may be more successful at "spreading the word" about RALs, and encouraging their low-income filers to seek other options for accessing their refund dollars. This section examines the trends across cities in tax years 2001 and 2002, and the subsequent section probes the factors that could explain these patterns.

Across the 122 large cities identified for this report, RAL usage among the EITC population in TY 2002 ranged dramatically, from 10 percent at the low end (San Francisco) to 64 percent at the high end (Memphis) (Table 1—the Appendix contains information on trends in all 122 cities).[18] These city-level statistics hewed to broader regional patterns. All ten of the cities with the highest percentages of EITC recipients using RALs were located in southeastern and Deep South

Table 1. Top Ten and Bottom Ten Large Cities, by Percentage of EITC Refund Claimants with RALs, TY 2002

Rank	City	EITC Refund Claimants	EITC Refund Claimants with RAL	Percentage with RAL	Average EITC Amount
1	Memphis, TN	102,194	65,948	64.5%	$2,045
2	Birmingham, AL	48,262	29,213	60.5%	1,969
3	Norfolk, VA	25,786	15,089	58.5%	1,890
4	Greenville, SC	16,096	9,363	58.2%	1,735
5	Atlanta, GA	76,773	44,320	57.7%	1,929
6	Newport News, VA	18,458	10,646	57.7%	1,875
7	Little Rock, AR	20,567	11,734	57.1%	1,919
8	Columbia, SC	26,284	14,699	55.9%	1,826
9	Jacksonville, FL	73,278	40,912	55.8%	1,812
10	Charleston, SC	14,155	7,731	54.6%	1,797
113	Arlington, VA	6,722	1,222	18.2%	1,448
114	San Jose, CA	35,805	5,871	16.4%	1,512
115	Thousand Oaks, CA	2,131	345	16.2%	1,397
116	Sunnyvale, CA	2,972	458	15.4%	1,283
117	Fremont, CA	5,354	811	15.1%	1,415
118	Livonia, MI	2,105	318	15.1%	1,325
119	Santa Clara, CA	2,705	396	14.6%	1,296
120	Bellevue, WA	2,842	400	14.1%	1,326
121	Cambridge, MA	3,414	448	13.1%	1,238
122	San Francisco, CA	33,308	3,741	11.2%	1,216
All large cities		**5,792,354**	**2,318,673**	**40.0%**	**$1,803**

Source: Brookings analysis of IRS data.

states. There, average EITC amounts claimed were generally $100 to $300 higher than the national average. At the bottom of the list, EITC recipients in higher-income California cities used RALs rather infrequently, as did their counterparts in suburban cities like Livonia, MI (outside Detroit), Bellevue, WA (outside Seattle), and Cambridge, MA (outside Boston). This lower RAL usage in these places tracked the smaller average credits claimed by their families and workers.

Regional patterns were less plain, but still apparent, in changing RAL usage across cities from tax year 2001 to 2002 (Table 2). Milwaukee far outpaced other cities in the degree to which RAL purchases fell among its EITC earners, from 49 percent in TY 2001 to 36 percent in TY 2002. A few additional midwestern cities ranked among the top 10 decliners, including Madison, Omaha, and Detroit. In Detroit, more than half of EITC earners purchased a RAL in TY 2002, but this represented a significant decline from the prior year. The remaining cities that boasted the largest declines were scattered around the United States, from Bakersfield, CA to New Haven, CT.

In the ten cities at the bottom of the list, the percentage of EITC recipients using RALs generally fell by one percentage point or less from tax year 2001 to 2002. Most of these cities already exhibited below-average RAL usage—four ranked among the bottom ten in Table 1. Some sub-regional patterns were apparent; Minneapolis and St. Paul saw declines of only one percentage point, and EITC recipients in New York and Newark showed no change in their propensity to use RALs amid the broader national decline. Only Oxnard, CA, in Ventura County, witnessed a significant increase in the proportion of EITC filers purchasing a RAL in TY 2002.

Table 2. Top Ten and Bottom Ten Large Cities, by Change in Percentage of EITC Refund Claimants with RALs, TY 2001-2002

Rank	City	Percentage with RAL, TY 2001	Percentage with RAL, TY 2002	Change in percentage with RAL
1	Milwaukee, WI	50.1%	36.8%	-13.4%
2	Bakersfield, CA	46.9%	37.2%	-9.7%
3	Madison, WI	35.9%	26.3%	-9.6%
4	Raleigh, NC	57.9%	48.5%	-9.4%
5	New Haven, CT	52.3%	43.0%	-9.3%
6	Omaha, NE	44.7%	35.6%	-9.1%
7	Pittsburgh, PA	43.0%	34.2%	-8.8%
8	Poughkeepsie, NY	43.5%	34.8%	-8.8%
9	Rochester, NY	50.4%	41.7%	-8.7%
10	Detroit, MI	61.0%	52.6%	-8.4%
113	Minneapolis, MN	34.6%	33.3%	-1.2%
117	Bellevue, WA	15.2%	14.1%	-1.1%
118	Arlington, VA	19.3%	18.2%	-1.1%
114	Santa Ana, CA	26.0%	25.0%	-1.1%
116	Sunnyvale, CA	16.5%	15.4%	-1.0%
115	Saint Paul, MN	28.5%	27.5%	-1.0%
119	Thousand Oaks, CA	17.0%	16.2%	-0.8%
120	Newark, NJ	50.6%	50.2%	-0.3%
121	New York, NY	25.5%	25.8%	0.3%
122	Oxnard, CA	20.2%	24.9%	4.7%
All large cities		**42.9%**	**38.3%**	**-4.5%**

Source: Brookings analysis of IRS data.

D. Most of the change in RAL usage among EITC earners across cities cannot be explained by the changing income profile of credit recipients, or the relative presence of paid versus volunteer tax preparers.

Declines in RAL usage among EITC earners, while occurring nationwide, varied considerably in magnitude among states and cities. Several factors could hypothetically explain this variation.

- The number of taxpayers claiming the EITC rose from TY 2001 to TY 2002, and an increased number of credit recipients had incomes in the "phase-out" range of the credit, where income exceeded $20,000. This may have owed to the state of the national economy, with more families facing unemployment or reduced employment that lowered their incomes into the EITC-eligible range. In addition, changes to tax law that extended the income eligibility range for married couples took effect in TY 2002.[19] Both factors could have increased the average income of EITC filers, and reduced the average refund for which they qualified. RALs may be less attractive for taxpayers expecting smaller refunds, as Table 1 demonstrates. Thus, changes in the income profile of the EITC recipient population may have dovetailed with decreases in demand for, and usage of, RALs.

- The early part of this decade witnessed new efforts in hundreds of localities to make eligible families aware of the availability of the EITC and other tax credits, and to provide them with access to free tax preparation and filing services.[20] The share of tax returns completed by VITA volunteer programs increased from TY 2001 to TY 2002, though overall numbers remained small. Even if those programs served a limited number of taxpayers, however, broader outreach campaign messages may have convinced a larger number of low-income taxpayers that RALs were a poor deal financially, and that better options existed for accessing refund dollars. Media represented one potentially important medium for spreading these messages, and the number of news articles nationwide that discussed RALs or "rapid refunds" increased nearly 50 percent between the 2002 and 2003 filing seasons.[21]

- Commercial tax preparers are not spread evenly across U.S. cities. Some cities contain up to double the number of paid tax preparers per filer as other cities. In addition, the degree to which preparers cluster in neighborhoods with the largest presence of EITC filers varies as well, with Southern cities exhibiting especially high concentrations in high-EITC areas. Taxpayers in cities with high numbers of preparers may face more intense marketing and advertising around RALs; alternatively, preparers may choose to locate and stay in places where taxpayer demand for RALs was higher in the first place. Either way, their presence may affect—or reflect—the degree to which RAL usage declined among the EITC population.

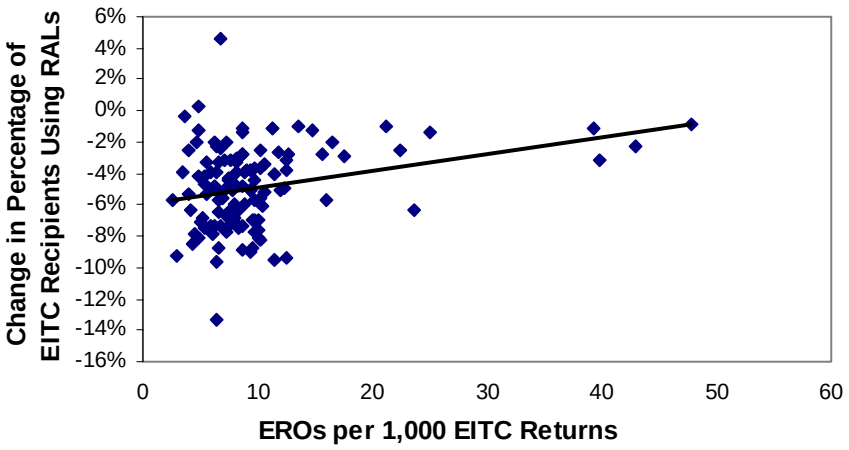
This section exploits the variation in these three factors across cities to investigate whether they bore any relationship to changes in the usage of RALs among EITC earners at the city level, from TY 2001 to TY 2002.

- The role of income changes in the EITC population is explored using the percentage change in average EITC amount between those two years.
- The effects of EITC outreach campaigns and free tax preparation within cities is tested using the ratio of tax returns completed by volunteers to all EITC returns.[22]
- The influence of commercial tax preparers is measured using the number of EROs per 1,000 filers claiming the EITC.

Including these variables in a multiple regression equation, along with dummies for U.S. region, yields a model that explains only 15 percent of the variation among large cities in the decline of EITC recipients who used RALs from TY 2001 to TY 2002. This suggests that the majority of the decline, and its variation across places, was driven by larger economic or informational factors not captured by simple city or taxpayer characteristics.

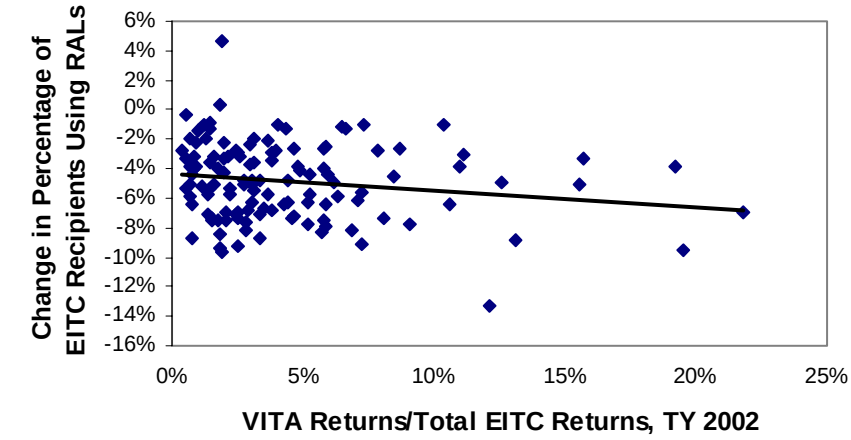
One possibility is that changes in how RALs were sold in the early part of this decade stemmed demand for them. In 2001, pursuant to a U.S. District Court ruling, H&R Block was ordered to stop using the term "rapid refund" to describe its RAL

Figure 5. Tax Preparer Concentration Versus Change in EITC-RAL Usage, TY 2001 to TY 2002



Source: Brookings analysis of IRS data.

Figure 6. VITA Market Share Versus Change in EITC-RAL Usage, TY 2001 to TY 2002



Source: Brookings analysis of IRS data.

product.[23] Subsequently, Block and other large commercial chains like Jackson Hewitt began to refer to their RAL products as "loans" in their advertisements. Today, the advertised name for the conventional RAL at both chains is, in fact, "refund anticipation loan." These changes likely rippled through the marketplace over time, and modified the way that the products were advertised and sold at tax preparation firms of all sizes. To the extent that these nationwide marketing changes made some consumers more aware of the nature of these products, they may have brought about a broad decline in RAL demand among EITC recipients.

Although the factors we identified explained only a minority of the variation in RAL decline across cities, the model indicated that they did exert some influence at the margin. Cities with a higher presence of paid tax preparers per EITC filer experienced smaller declines in RAL usage among EITC recipients, holding all else constant. Figure 5 shows that the two raw measures exhibit a positive association—the more preparers per filer, the smaller the decline in the percentage of EITC recipients purchasing RALs.[24] While statistically significant, the magnitude of the relationship is small; an additional 7 tax preparers for every 1,000 EITC filers (the standard deviation among cities on this measure) was associated with only a 0.7 percentage point increase in EITC-RAL usage, holding other factors constant. Again, this may reflect a higher latent demand for refund loans in cities where preparers are concentrated, or it may signal that preparers kept RAL demand higher in the places where they were most clustered.

In addition, cities with a larger VITA presence typically saw larger RAL declines. The ratio of VITA-prepared returns to EITC returns was negatively associated with the change in refund loan use among EITC recipients (Figure 6). Considering the small "market shares" for VITA in many cities, this might indicate that the proportion of returns completed by volunteers serves as a proxy for the scale of EITC-related outreach campaigns at the municipal level. Those campaigns, rather than actual volunteer return preparation, were likely the mechanisms influencing EITC filers at the margin to access their refund dollars through vehicles other than RALs. The magnitude of this relationship was small as well; an increase of 4 percentage points in the VITA/EITC ratio (the standard deviation among cities) was associated with a half-percentage point decline in EITC-RAL usage, holding other factors constant.[25]

While these factors may have influenced RAL trends at the margin, the majority of the variation across places could not be explained by these city-level factors. Much of the decline may simply reflect a "reversion to the mean," wherein cities with very high levels of RAL usage among EITC earners—perhaps associated with fleeting economic circumstances—saw the product's sales drop farther than places with small market penetration of RALs.

Conclusion

In the end, the trend in RAL usage among low-income working families explored here is positive news. The product seems to have decreased in popularity between tax years 2001 and 2002. This means that a greater proportion of EITC dollars were likely directed to claimants, rather than tax preparers and their bank partners.

The positive news should not, of course, overshadow the fact that roughly 40 percent of low-income taxpayers—and even greater proportions in the South—still use refund loans to access the EITC and related tax benefits. Leaders at the national, state, and local levels should continue to mount efforts aimed at reducing both the demand for, and supply of, high-cost financial products that drain valuable refund dollars from workers who can least afford them. This analysis indicates that states and cities concerned with achieving further reductions in RALs should consider:

- Examining closely the way in which these products are marketed and sold, to ensure that taxpayers have maximum information as to product costs and the menu of options for receiving refund dollars;

- Targeting messages about the costs of RALs to low-income filers in places and neighborhoods where commercial preparers are most concentrated; and

- Continuing to support low-income taxpayer outreach and volunteer tax preparation campaigns that assist filers while they spread messages about alternatives to high-priced commercial tax products and services.

Future trends bear monitoring as well. Data from the largest firms indicate that RAL usage probably continued to decline in TY 2003. Other non-loan products, such as refund anticipation checks (RACs), may be growing in importance. The IRS is still working on technological updates that would deliver most refunds via direct deposit within 48 to 72 hours, and perhaps obviate the need for RALs among many low-income taxpayers with bank accounts. Also worthy of ongoing attention are the effects of legislation in some states and cities, adopted after the 2003 filing season, that aimed to provide consumers with better disclosures about RALs. Finally, some within the low-income taxpayer outreach world have argued that banks, credit unions, and tax preparers should partner to build "better RALs" that are less expensive and provide a gateway to basic transaction accounts.[26] Local researchers should monitor growth in these types of market-based alternatives, and whether they affect local RAL demand.

Appendix. City-Level Data on RALs and EITC, TY 1999-TY 2002

	Percentage of non-EITC Returns with RAL*				Percentage of EITC Returns with RAL*				EITC Returns**	EROs***	VITA Returns	Avg EITC ($)
	TY 1999	*TY 2000*	*TY 2001*	*TY 2002*	*TY 1999*	*TY 2000*	*TY 2001*	*TY 2002*	*TY 2002*		*TY 2002*	*TY 2002*
Akron, OH	*6.1%*	*7.4%*	*8.2%*	*7.3%*	*44.4%*	*47.6%*	*49.3%*	*44.0%*	*23,097*	160	134	1,720
Albany, NY	4.3%	5.5%	6.4%	6.6%	44.9%	49.4%	52.1%	47.5%	10,108	82	879	1,644
Albuquerque, NM	4.4%	6.3%	7.0%	6.9%	31.0%	33.9%	35.2%	31.3%	44,911	378	8,923	1,658
Alexandria, VA	4.1%	5.8%	6.3%	6.4%	31.7%	33.7%	32.1%	29.6%	14,782	164	1,396	1,589
Allentown, PA	5.4%	7.2%	8.1%	6.9%	42.9%	51.6%	49.4%	42.9%	13,006	87	100	1,770
Arlington, TX	9.2%	10.7%	12.5%	12.2%	50.5%	51.1%	52.4%	47.4%	24,838	242	181	1,808
Arlington, VA	1.8%	2.9%	3.7%	3.9%	17.2%	18.7%	19.3%	18.2%	6,722	85	775	1,448
Atlanta, GA	7.8%	10.2%	11.1%	9.6%	60.3%	64.3%	64.8%	57.7%	76,773	772	2,661	1,929
Aurora, CO	4.3%	6.5%	7.6%	7.1%	33.0%	36.2%	38.8%	32.6%	18,636	202	1,381	1,652
Austin, TX	6.5%	8.8%	9.8%	9.0%	48.3%	51.4%	51.8%	43.5%	44,746	485	2,686	1,639
Bakersfield, CA	11.9%	11.4%	12.0%	10.1%	42.4%	44.4%	46.9%	37.2%	37,691	249	760	2,007
Baltimore, MD	8.8%	10.8%	11.4%	11.6%	52.9%	56.6%	55.6%	53.6%	72,008	349	921	1,796
Baton Rouge, LA	7.4%	8.9%	9.7%	8.7%	61.4%	65.0%	61.3%	54.2%	37,776	299	969	2,115
Bellevue, WA	1.2%	2.7%	3.2%	3.7%	8.9%	13.4%	15.2%	14.1%	2,842	121	199	1,326
Birmingham, AL	8.4%	11.0%	12.1%	11.6%	60.1%	64.0%	63.7%	60.5%	48,262	354	1,036	1,969
Boston, MA	4.0%	4.9%	6.0%	5.4%	24.8%	26.8%	29.0%	21.6%	39,479	259	3,320	1,544
Bridgeport, CT	8.4%	10.2%	12.7%	11.1%	40.5%	45.6%	46.6%	41.3%	14,062	59	214	1,705
Buffalo, NY	5.1%	5.7%	6.0%	5.0%	42.0%	45.5%	46.1%	38.8%	44,048	303	2,064	1,728
Cambridge, MA	1.2%	1.8%	2.5%	2.6%	13.5%	14.9%	16.1%	13.1%	3,414	30	411	1,238
Charleston, SC	7.8%	8.9%	9.8%	9.2%	58.2%	60.3%	59.0%	54.6%	14,155	141	866	1,797
Charlotte, NC	9.2%	12.1%	11.8%	10.9%	57.9%	65.8%	57.2%	53.6%	49,155	496	747	1,804
Chicago, IL	9.1%	11.1%	11.5%	10.6%	50.3%	54.2%	52.8%	45.5%	267,815	0	13,196	1,862
Cincinnati, OH	6.7%	8.0%	8.5%	7.5%	55.1%	57.6%	58.2%	50.8%	57,191	508	1,493	1,747
Clearwater, FL	4.6%	6.4%	6.8%	6.9%	42.3%	46.0%	44.0%	40.3%	10,707	115	351	1,635
Cleveland, OH	5.9%	7.0%	7.7%	6.7%	46.8%	50.0%	50.8%	43.4%	73,334	398	1,550	1,818
Colorado Springs, CO	5.8%	7.6%	8.6%	7.7%	35.7%	38.1%	40.4%	33.5%	27,394	289	6,199	1,655
Columbia, SC	8.7%	10.7%	11.6%	10.6%	58.7%	61.9%	61.0%	55.9%	26,284	252	812	1,826
Columbus, OH	7.2%	9.0%	9.6%	8.8%	51.1%	54.8%	54.4%	49.3%	62,146	453	1,769	1,732
Dallas, TX	10.4%	12.6%	14.1%	13.7%	55.4%	58.6%	58.2%	53.0%	117,111	957	1,959	1,865
Dayton, OH	9.7%	11.9%	12.3%	11.1%	51.1%	54.9%	56.1%	53.5%	19,003	78	905	1,783
Denver, CO	4.4%	6.0%	7.5%	6.5%	31.8%	34.7%	39.0%	31.3%	55,981	570	5,304	1,578
Detroit, MI	16.3%	19.0%	20.6%	18.3%	58.2%	62.0%	61.0%	52.6%	101,130	450	1,882	1,983
El Paso, TX	11.3%	12.6%	12.3%	11.2%	45.8%	48.4%	47.4%	39.3%	95,895	471	6,744	2,144
Fort Lauderdale, FL	4.9%	7.0%	8.3%	8.1%	34.9%	39.3%	39.6%	35.9%	62,668	600	1,951	1,757
Fort Worth, TX	10.1%	11.7%	13.1%	12.4%	55.4%	57.3%	56.9%	51.2%	64,790	440	896	1,875
Fremont, CA	5.9%	3.7%	4.4%	4.3%	16.2%	16.3%	17.7%	15.1%	5,354	130	343	1,415
Fresno, CA	7.2%	7.0%	7.7%	7.0%	29.0%	33.0%	34.6%	32.2%	48,968	348	1,527	1,952
Grand Rapids, MI	5.0%	6.4%	7.2%	6.3%	40.2%	43.1%	42.5%	35.0%	22,697	235	401	1,708
Greensboro, NC	10.5%	12.4%	12.9%	11.2%	58.5%	61.1%	59.3%	53.7%	21,614	230	702	1,741
Greenville, SC	11.6%	12.5%	12.5%	11.0%	63.5%	65.2%	63.4%	58.2%	16,096	176	190	1,735
Harrisburg, PA	5.8%	7.3%	7.8%	7.3%	51.8%	53.7%	53.7%	48.9%	12,402	80	422	1,655
Hartford, CT	7.6%	9.1%	11.4%	10.5%	29.0%	35.2%	41.7%	36.0%	15,916	43	853	1,774

Appendix. City-Level Data on RALs and EITC, TY 1999-TY 2002

	Percentage of non-EITC Returns with RAL*				Percentage of EITC Returns with RAL*				EITC Returns**	EROs***	VITA Returns	Avg EITC ($)
	TY 1999	*TY 2000*	*TY 2001*	*TY 2002*	*TY 1999*	*TY 2000*	*TY 2001*	*TY 2002*	*TY 2002*		*TY 2002*	*TY 2002*
Honolulu, HI	3.2%	3.8%	4.7%	3.9%	17.4%	19.9%	23.5%	20.2%	22,770	201	3,838	1,446
Houston, TX	8.5%	11.1%	12.5%	12.3%	48.3%	51.8%	50.6%	47.8%	254,436	2,305	6,427	1,946
Indianapolis, IN	9.9%	11.8%	12.5%	11.5%	57.6%	60.5%	59.7%	53.3%	72,602	563	3,158	1,757
Jacksonville, FL	10.4%	13.1%	13.6%	12.7%	58.7%	61.8%	61.4%	55.8%	73,278	520	5,436	1,812
Joliet, IL	8.3%	10.3%	10.1%	9.7%	52.7%	56.9%	52.1%	47.3%	9,549	0	294	1,772
Kansas City, MO	6.7%	8.0%	8.3%	7.0%	45.9%	51.0%	48.9%	41.5%	41,192	316	649	1,726
Knoxville, TN	6.7%	7.6%	8.0%	7.7%	46.6%	47.8%	46.1%	43.3%	23,376	210	1,912	1,635
Las Vegas, NV	6.4%	8.8%	9.7%	9.8%	41.0%	44.6%	45.9%	43.0%	81,177	708	3,209	1,670
Little Rock, AR	8.6%	10.3%	10.0%	9.2%	63.2%	65.3%	61.8%	57.1%	20,567	183	569	1,919
Livonia, MI	2.0%	3.1%	3.5%	3.2%	14.6%	14.8%	18.3%	15.1%	2,105	90	58	1,325
Long Beach, CA	6.9%	6.9%	7.9%	6.9%	29.1%	32.3%	32.3%	28.9%	38,433	270	227	1,894
Los Angeles, CA	7.5%	7.2%	7.9%	7.1%	27.6%	30.5%	30.3%	28.0%	229,061	1,587	2,286	1,883
Louisville, KY	6.9%	8.4%	9.1%	8.3%	48.8%	52.0%	53.9%	46.2%	54,876	411	1,583	1,678
Madison, WI	2.4%	3.2%	4.0%	3.5%	33.5%	36.2%	35.9%	26.3%	9,792	118	1,995	1,358
McAllen, TX	9.4%	12.0%	13.7%	12.2%	45.6%	49.3%	52.8%	49.6%	15,765	126	137	2,231
Memphis, TN	13.0%	15.7%	17.3%	16.4%	66.4%	69.0%	69.8%	64.5%	102,194	576	2,264	2,045
Mesa, AZ	4.8%	6.4%	7.7%	7.5%	34.4%	37.6%	40.1%	32.0%	25,103	263	742	1,702
Metairie, LA	3.3%	4.5%	5.3%	4.9%	35.1%	40.4%	38.4%	32.7%	9,086	155	215	1,676
Miami, FL	6.3%	8.5%	10.0%	9.8%	32.5%	36.7%	36.1%	31.9%	73,175	383	1,574	1,907
Milwaukee, WI	4.7%	6.1%	7.0%	5.1%	47.8%	50.7%	50.1%	36.8%	64,614	424	8,001	1,773
Minneapolis, MN	1.7%	2.9%	3.7%	4.3%	28.4%	31.8%	34.6%	33.3%	47,935	747	3,325	1,521
Naperville, IL	1.3%	2.8%	3.0%	3.2%	16.8%	21.0%	22.0%	19.7%	2,363	0	52	1,393
Nashville-Davidson, TN	9.5%	11.2%	11.4%	10.3%	56.4%	58.8%	56.9%	49.4%	47,077	406	2,843	1,686
New Haven, CT	8.9%	10.0%	11.3%	10.1%	46.3%	49.1%	52.3%	43.0%	11,496	35	298	1,681
New Orleans, LA	8.5%	10.2%	11.3%	10.1%	58.8%	62.7%	59.7%	51.9%	72,271	331	4,317	2,147
New York, NY	5.0%	6.4%	6.5%	6.8%	24.1%	28.4%	25.5%	25.8%	731,454	3,852	14,246	1,825
Newark, NJ	14.3%	18.0%	18.8%	19.5%	47.5%	53.5%	50.6%	50.2%	34,674	132	182	1,888
Newport News, VA	13.3%	14.6%	15.5%	14.4%	59.7%	62.9%	62.4%	57.7%	18,458	100	829	1,875
Norfolk, VA	15.5%	17.2%	18.1%	15.1%	59.8%	62.9%	65.4%	58.5%	25,786	138	750	1,890
Oakland, CA	6.3%	6.4%	7.0%	6.5%	30.4%	34.7%	34.0%	30.2%	24,344	246	1,250	1,620
Oklahoma City, OK	6.6%	8.3%	9.3%	8.6%	45.7%	48.6%	47.3%	41.4%	53,870	493	3,520	1,823
Omaha, NE	4.0%	5.2%	6.2%	5.5%	40.5%	43.2%	44.7%	35.6%	27,627	266	2,061	1,664
Ontario, CA	9.4%	9.0%	10.0%	9.3%	28.7%	32.4%	31.3%	29.3%	14,542	95	109	1,893
Orlando, FL	7.1%	9.5%	10.3%	10.0%	45.5%	48.5%	47.5%	43.5%	80,029	529	715	1,891
Oxnard, CA	9.0%	7.9%	7.9%	7.0%	26.5%	29.2%	20.2%	24.9%	16,627	118	329	1,872
Philadelphia, PA	6.6%	8.4%	9.8%	8.9%	42.7%	47.2%	48.1%	41.8%	153,140	644	6,900	1,792
Phoenix, AZ	5.7%	7.6%	9.2%	9.2%	40.3%	43.5%	45.5%	38.6%	91,933	757	3,600	1,837
Pittsburgh, PA	3.7%	4.5%	5.0%	4.4%	38.1%	42.0%	43.0%	34.2%	39,361	357	5,349	1,560
Portland, OR	1.9%	3.1%	3.8%	4.0%	20.4%	23.8%	23.7%	20.8%	41,959	563	170	1,473
Poughkeepsie, NY	4.5%	5.3%	6.4%	5.6%	38.2%	41.7%	43.5%	34.8%	4,633	46	35	1,618
Providence, RI	6.7%	8.6%	9.9%	8.8%	38.2%	42.2%	43.4%	42.1%	19,725	100	292	1,873
Raleigh, NC	6.8%	9.2%	9.7%	8.7%	54.2%	57.7%	57.9%	48.5%	20,778	269	400	1,683

Appendix. City-Level Data on RALs and EITC, TY 1999-TY 2002

	Percentage of non-EITC Returns with RAL*				Percentage of EITC Returns with RAL*				EITC Returns**	EROs***	VITA Returns	Avg EITC ($)
	TY 1999	*TY 2000*	*TY 2001*	*TY 2002*	*TY 1999*	*TY 2000*	*TY 2001*	*TY 2002*	*TY 2002*		*TY 2002*	*TY 2002*
Richmond, VA	6.7%	8.6%	9.0%	9.0%	54.1%	57.4%	56.8%	52.4%	39,978	307	304	1,732
Riverside, CA	8.4%	8.0%	8.7%	7.8%	29.1%	32.2%	33.2%	29.3%	26,661	249	490	1,839
Rochester, NY	5.2%	6.0%	6.4%	5.2%	47.7%	50.8%	50.4%	41.7%	37,435	252	1,281	1,743
Sacramento, CA	8.5%	7.8%	8.6%	7.4%	36.8%	38.0%	40.0%	33.1%	51,198	513	1,114	1,765
Saint Louis, MO	5.5%	7.0%	7.2%	6.6%	51.5%	55.1%	55.2%	48.4%	82,969	626	2,941	1,818
Saint Paul, MN	1.3%	2.3%	3.0%	3.5%	21.8%	26.2%	28.5%	27.5%	31,070	440	2,372	1,534
Saint Petersburg, FL	6.2%	8.3%	8.3%	8.2%	48.8%	52.0%	49.7%	45.4%	28,664	224	1,573	1,672
Salt Lake City, UT	3.9%	5.3%	6.5%	6.1%	28.2%	31.4%	32.2%	28.2%	34,024	406	2,042	1,635
San Antonio, TX	8.3%	10.7%	12.2%	11.1%	50.7%	54.5%	55.4%	50.5%	145,050	937	18,808	1,951
San Bernardino, CA	10.9%	11.3%	12.1%	10.9%	41.3%	46.2%	41.7%	38.4%	25,310	143	514	2,085
San Diego, CA	6.9%	5.8%	6.7%	6.2%	23.4%	25.5%	27.3%	22.4%	67,958	901	4,497	1,619
San Francisco, CA	4.0%	2.9%	3.6%	3.6%	11.7%	13.0%	14.0%	11.2%	33,308	582	1,478	1,216
San Jose, CA	5.2%	4.5%	5.5%	5.2%	13.9%	15.4%	18.4%	16.4%	35,805	640	1,401	1,512
Santa Ana, CA	5.9%	6.2%	7.2%	7.2%	24.2%	26.3%	26.0%	25.0%	29,000	265	361	1,890
Santa Clara, CA	5.1%	3.5%	4.3%	4.6%	12.6%	13.2%	16.0%	14.6%	2,705	75	129	1,296
Sarasota, FL	3.7%	5.5%	5.3%	5.3%	32.6%	38.3%	37.1%	33.9%	12,125	163	208	1,533
Scottsdale, AZ	1.8%	3.0%	3.7%	3.8%	22.7%	24.1%	24.8%	18.4%	7,211	190	415	1,297
Scranton, PA	5.2%	6.8%	7.2%	7.3%	38.1%	40.8%	41.6%	39.6%	6,649	50	216	1,611
Seattle, WA	3.2%	4.6%	5.3%	5.7%	25.9%	28.9%	30.4%	27.0%	34,454	390	1,420	1,338
Springfield, MA	5.7%	7.5%	7.7%	7.1%	32.9%	38.0%	37.9%	34.0%	14,493	51	100	1,766
Stamford, CT	3.0%	3.5%	4.1%	3.9%	24.0%	25.7%	25.5%	22.9%	4,472	58	284	1,477
Stockton, CA	11.8%	10.8%	11.6%	9.6%	35.3%	39.5%	42.5%	35.0%	27,477	169	423	1,849
Sunnyvale, CA	4.5%	2.9%	4.0%	4.2%	14.4%	13.9%	16.5%	15.4%	2,972	69	131	1,283
Syracuse, NY	5.2%	6.2%	5.8%	4.9%	44.0%	47.1%	46.1%	38.3%	18,761	116	1,002	1,766
Tacoma, WA	8.2%	11.5%	13.0%	12.1%	40.2%	44.2%	45.9%	42.0%	21,512	130	2,426	1,661
Tampa, FL	7.7%	10.1%	10.5%	10.3%	50.8%	53.4%	50.1%	43.8%	63,026	538	1,989	1,781
Thousand Oaks, CA	2.7%	2.4%	3.1%	3.2%	18.6%	17.6%	17.0%	16.2%	2,131	116	36	1,397
Toledo, OH	7.5%	9.2%	10.0%	8.7%	47.1%	51.4%	53.5%	46.3%	28,959	148	726	1,760
Tucson, AZ	4.2%	5.8%	6.8%	6.0%	35.3%	38.9%	40.4%	34.0%	58,701	467	3,579	1,763
Tulsa, OK	6.7%	8.6%	9.5%	9.0%	44.5%	48.3%	48.7%	43.7%	33,147	411	5,328	1,750
Vancouver, WA	3.8%	5.7%	6.4%	6.4%	24.9%	28.9%	31.4%	27.5%	14,910	194	139	1,645
Ventura, CA	6.6%	5.2%	5.7%	4.8%	22.6%	22.7%	23.9%	21.0%	5,002	95	136	1,519
Virginia Beach, VA	11.5%	12.6%	11.6%	10.4%	46.6%	49.2%	49.1%	42.8%	28,889	249	3,145	1,692
Warren, MI	5.2%	6.5%	7.3%	6.5%	30.8%	33.4%	35.7%	29.8%	7,595	63	54	1,583
Washington, DC	7.5%	9.3%	9.7%	9.4%	49.3%	52.1%	51.9%	47.8%	48,966	270	2,473	1,696
Wichita, KS	5.7%	7.2%	8.0%	6.9%	38.5%	42.5%	43.3%	37.6%	25,937	260	972	1,687
Worcester, MA	3.7%	4.8%	5.7%	5.6%	21.9%	25.3%	26.4%	25.0%	11,864	107	119	1,663
Youngstown, OH	4.6%	5.6%	6.2%	5.3%	41.5%	44.6%	46.3%	39.2%	13,726	113	195	1,748
All Large Cities	**6.6%**	**8.0%**	**8.7%**	**8.2%**	**41.8%**	**45.3%**	**44.7%**	**40.0%**	**5,792,354**	**42,750**	**241,039**	**$1,803**

* Percentages as a proportion of all refund returns.

** Due to differences in how cities were identified, these totals may differ from those shown on the Brookings Interactive EITC Data website.

*** Electronic Return Originators—tax preparers registered with the IRS to e-file tax returns, as of 7/2004

Source: Brookings analysis of IRS data.

Endnotes

[1] Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns, "The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC" (Washington: Brookings Institution, 2002).

[2] This price includes both the "loan fee" and other administrative fees charged by preparers for processing RALs. Chi Chi Wu and Jean Ann Fox, "Picking Taxpayers' Pockets, Draining Tax Relief Dollars: Refund Anticipation Loans Still Slicing Into Low-Income Americans' Hard-Earned Tax Refunds" (Boston and Washington: National Consumer Law Center and Consumer Federation of America, 2005). H&R Block eliminated administrative fees for its RALs in the 2005 filing season.

[3] Ibid.

[4] "SPEC Return Information Database: Technical Documentation and Data Dictionary" (IRS W&I Research Group 2, July 2004).

[5] David A. Lifson, "AICPA Views on the IRS Electronic Filing Debt Indicator Program" (February 29, 2000).

[6] For instance, H&R Block notes that its Refund Anticipation Check Service includes the delivery of direct deposit refund checks in connection with denied RAL applications. H&R Block, "Second Amended and Restated Refund Anticipation Loan Operations Agreement," July 16, 2003 (online at www.sec.gov).

[7] Legislation introduced in the 109th Congress (S. 324 and H.R. 969) would, if adopted, instruct the IRS to terminate the Debt Indicator Program.

[8] George Guttman, "IRS Reinstates Debt Indicator to Increase Electronic Filings." 85 *Tax Notes* 1125 (November 25, 1999).

[9] Chi Chi Wu and Jean Ann Fox, "The High Cost of Quick Tax Money: Tax Preparation, 'Instant Refund' Loans, and Check Cashing Fees Target the Working Poor" (Boston and Washington: National Consumer Law Center and Consumer Federation of America, 2003).

[10] For information on who is eligible for the credit, see Alan Berube, "Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities" (Washington: Brookings Institution, 2005).

[11] The data used here are drawn from the Authorized IRS *e-file* Provider database, updated as of July 2004. Thus, the tax preparer data may incorporate some changes in ERO location that took place after the 2003 filing season, though it is expected that these would have a negligible effect on the results reported here.

[12] Wu and Fox, "Picking Taxpayers' Pockets, Draining Tax Relief Dollars."

[13] Four percent figure based on 950,000 individual income taxpayers using credit card in 2004, and estimated 25 million balance due returns filed in 2004. IRS Data Book: 2004.

[14] Berube and others, "The Price of Paying Taxes."

[15] Form 10-K filed by H&R Block, Inc. (2004).

[16] Form 424B1 filed by Jackson Hewitt Tax Service, Inc. (2004).

[17] Berube and others, "The Price of Paying Taxes"; Alan Berube, "Rewarding Work: The Power and Potential of the Earned Income Tax Credit in 27 Cities and Rural Areas" (Washington: Brookings Institution, 2003).

[18] These 122 cities include those that: (a) are located in Metropolitan Statistical Areas (MSAs) that had populations of at least 500,000 in 2000; and (b) are the first city named in the MSA name; or (c) are named in the MSA name and had a population of at least 100,000 in 2000. Paradise, NV, an unincorporated township in the Las Vegas-Paradise, NV MSA, is collapsed into the city of Las Vegas for this analysis. Newark, NJ was also identified as a city in the New York-Northern New Jersey-Long Island, NY-NJ-CT-PA MSA.

[19] Anne Kim and Jeff Lemieux, "2001 Tax Cut Contains Tax Breaks for Working Families" (Washington: Progressive Policy Institute, 2001).

[20] Berube, "Rewarding Work Through the Tax Code."

[21] Citations in U.S. Newspapers and Wires increased from 230 in 2002 to 350 in 2003. Brookings Nexis search, March 2005.

[22] Though a majority of returns prepared through VITA programs do not include an EITC claim, this variable attempts to capture a VITA "market share" by selecting for its denominator those returns filed by low-income families whose income mirrors eligibility guidelines for VITA.

[23] David Cay Johnston, "Block is Ordered to Stop Advertising 'Rapid Refunds' of Taxes." *New York Times*, February 28, 2001, p. C1.

[24] Note that Figures 5 and 6 display the association of two measures, and not the regression-controlled magnitude of the relationship.

[25] The percentage change in the average EITC amount at the city level from TY 2001 to TY 2002 was found to have no statistically significant relationship to EITC-RAL usage. Cities in the Midwest were found to experience an additional 1.5 percentage point decline in the measure, holding other factors constant.

[26] Amy Audetat, Bill Myers, Susan Cocciarelli, and Yolanda McGill, "Building a Better Refund Anticipation Loan: Options for VITA Sites" (Washington: Center for Responsible Lending, 2004).

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