

Fast Cash. Less Filling

Refund Anticipation Loans in North Carolina

A Policy Brief

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Executive Summary

RALs compromise the purpose of the Earned Income Tax Credit (EITC). In 2006, the EITC returned \$1,577,614,579 to North Carolina households - an average credit of \$2,012 per household. While the EITC has been lauded by experts and promoted by legislators, its take-up rate is not increasing. About 20.5 percent of households got the EITC in 2003. The share is 4/10ths of a percentage point lower in 2006. RALs and RACs take money out of EITC recipient refunds. More than 60.1 percent and 57.6 percent of EITC filers used one of these products in 2005 and 2006, respectively. Last, eliminating RALs would reduce the leading source of tax fraud.

The use of RALs has declined in North Carolina.

- About 472,000 filers took out a RAL in 2006. This is a decline from 2003, when more 625,000 used a RAL.
- Fewer low-income filers are using RALs. Whereas almost one in four used one in 2003, only 17.8 percent took a RAL in 2006. The numbers are also trending in a positive direction for EITC recipients. Whereas more than half had a RAL in 2003, in 2006, slightly less than 40 percent took out a RAL.
- Although they cost less, another product – the Refund Anticipation Check (RAC) – also drains significant money from low-income households. Approximately 336,000 North Carolina filers opted for a RAC in 2006.

RALs hurt low-income and minority communities

More than 88 percent of RALs originated in North Carolina in 2006 went to low-income households. Majority-minority census tracts account for almost forty percent of all RALs, even though they only contain 16 percent of the state's population.

Communities with the highest rates of RAL usage are those with more people of color.

This is both a rural and an urban issue.

- Communities with the highest percent of RAL use are most frequently located in rural North Carolina. Zip codes with the highest number of RALs are in our cities. Greenville has the most impacted zip code, but cities including Charlotte, Greensboro, Raleigh, Fayetteville, Raleigh and Lumberton are all witnessing this product draw funds out of their neighborhoods.
- Communities that use RALs in the past are the ones most likely to use them in the future.
- East Spencer, in Rowan County, is consistently the community with the highest rate of RAL use.

The means of addressing this issue are very attainable.

- The RAL depends upon the complicit support of the Internal Revenue Service. There is an administrative solution. A three-day turnaround on the debt indicator would reduce RALs dramatically. More consumers would shift to less-expensive RACs.
- Some of the funders received TARP money. Treasury should place constraints against use of TARP funds for uses associated with RALs.
- VITA sites provide free tax prep, e-filing, and direct deposit. VITA sites are attracting more filers, but they are not catching on with EITC filers. They need better marketing. Develop partnerships with government, social workers, and the Employment Security Commission.
- Cease to allow EITC refunds as collateral for RALs.
- Increase disclosure rules on pricing of RALs and RACs.

Refund Anticipation Loans (RALs) continue to sap dollars from working families in North Carolina. Tax policy has left a gaping hole in the delivery of tax credits for working families, a space that has been filled by private tax preparers. In 2006, more than 472,000 households in North Carolina used a RAL for their tax filing.

RALs compromise the purpose of the Earned Income Tax Credit (EITC). The EITC is arguably the nation's most successful anti-poverty program. It is praised by both the left and the right. In 2006, about two in five EITC recipients took out a RAL. This is actually the lowest rate in four years. However, one in five utilized a refund anticipation check. The result is that RALs and RACs take money out of EITC recipient refunds more often than not – 60.1 percent in 2005 and 57.6 percent in 2006.

The presence of RALs matters because it mutes the value of the EITC. The EITC is a simple system, ingeniously delivered through tax returns, that operates with relatively minimal administrative costs. It targets money where it is needed – mainly to working households with dependent children. More than 88 percent of RALs originated in North Carolina in 2006 went to low-income households. As time passes, the RAL is actually becoming more linked to poor families. In 2003, about 82.4 percent of RALs were for LMI households, but that share has risen in each subsequent year.

In North Carolina, The EITC offers significant opportunities for low-income working families. Federal EITC dollars continue to help these households build wealth. In 2006, the last year for which complete data is available, the EITC returned \$1,577,614,579. This amounts to an average credit, fully refundable, of \$2,012 per household.

Often, RALs are accompanied by stored value card programs. These cards are usually free, but they are attended by transaction fees, even for customer service or balance inquiries.

Refund Anticipation Checks, while less costly than RALs, still imposes additional costs on tax filers. The fees for a RAC could be perceived as the cost for the service of deferring payment on the tax preparations. The RAC is not a loan. There is no problem of debt collection. If the refund ultimately comes back less than expected, the borrower would owe the difference with a RAL. Honest errors are possible and not infrequent. A refund that comes in less than planned does not create a problem for the tax filer when using a RAC.

Methodology

This report uses Stakeholder Partnerships Education and Communication (SPEC) data from the Internal Revenue Service. The IRS provides a variety of statistics, aggregated by geographic areas, on returns. The data is updated frequently, to reflect ongoing updates to returns. Reports made from IRS SPEC data over the same period are likely to have slightly different findings. Data for RALs is available for as recently as the 2006 filing season (returns completed in 2007).

In some instances, Census data is appended to cross tabulations of zip code level summaries. Census data comes from Summary File 3.

Background on RALs in North Carolina

Refund Anticipation Loans draw down the impact of our nation's leading anti-poverty benefit, the Earned Income Tax Credit. Refund anticipation loans bear high interest rates, in the context of the short period of their term. Most loans last less than 10 days. For that period, finance charges are at least \$32 and often as much as \$130 (Wu & Fox, 2008). In some cases, there are additional processing fees. Many of the RALs bear other fees driven by additional services required by some customers to gain access to their payment.

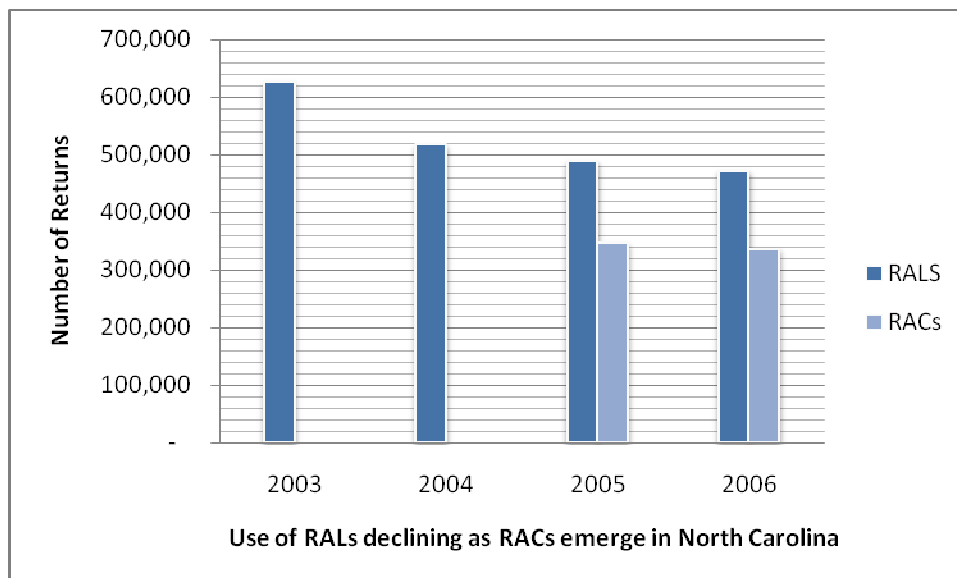
While it is hardly a good deal, the dynamics of living under cash flow constraints explain why so many low-income households opt to get a refund anticipation loan or a refund anticipation check. Consider the moment when a preparer poses the possibility of taking out a RAL. There are two criteria. First, do you want to pay for your tax preparation fees today? Second, do you want your refund in the next 24 hours, or sometime next week, at the earliest? If you are not going use direct deposit, the wait for a paper check could be as long as 6 to 8 weeks. This is a problem, considering how many older and low-income American are less reliant upon electronic banking.

For many low-income families, struggling to make ends meet, the answer is relatively obvious. It comes down to cash flow: it is better to not pay out-of-pocket for tax prep. Second, the sooner I can get money, the better. That explains the short-sighted behavior, seemingly at odds with rational self-interest, that motivates so many people to use RALs.

In North Carolina, use of RALs has declined somewhat. Tax preparers continue to offer a far less expensive and risky product. The Refund Anticipation Check (RAC). While more filers use a RAL, RACs have a significant share of the market. In 2006, approximately 336,000 North Carolina filers opted for a Refund Anticipation Check (RAC).

The RAC answers "the out-of-pocket problem." Tax filers do not have to pay for their tax prep fees upfront. Tax prep fees might run as high as \$200. If they choose a RAC, tax prep fees are still deducted against the RAC. Since the tax preparer does not advance any funds to the client, and the consumer must come in to pick up their refund, the RAC is both safe for the preparer and convenient for the filer.

The next chart shows the use of RAL and RAC products over the period from 2003 to 2006.



Source: IRS SPEC; no reporting for RACs in 2003 and 2004.

RACs were still used prior to 2005. However, the IRS did not track data on their use until 2005. It is good news to see that the use of RALs is generally trending downwards. That said, they remain very popular: almost half a million households have used one during 2005 or 2006, and more prior to that.

The Complement to RALs are RACs

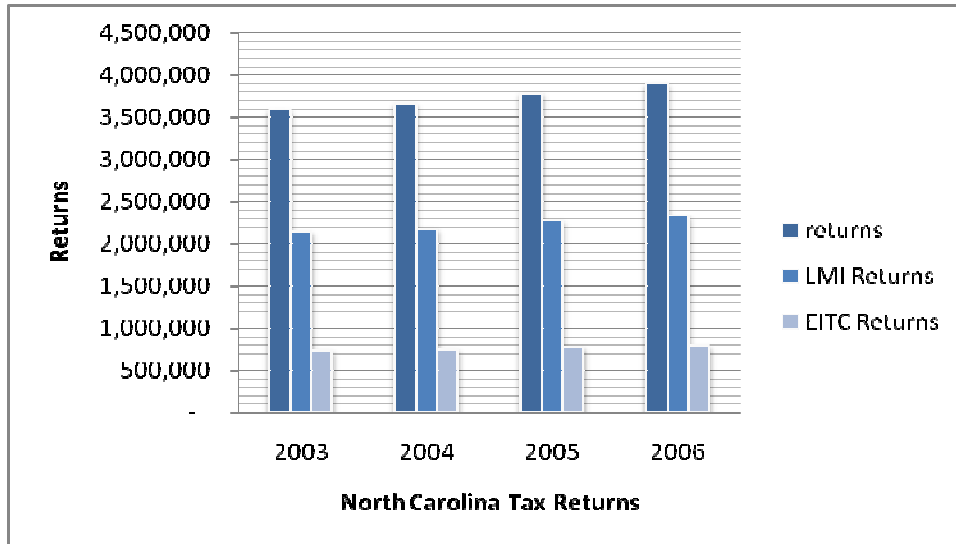
Demand for a RAC is somewhat interdependent with demand for RALs. RACs are the default product for consumers when their application for a RAL is turned down. However, it appears that RACs are probably appealing to other consumers as well. They still allow a borrower to avoid paying an out-of-pocket fee on tax prep at the time of filing. They cost less, because no loan is involved in their issuance. RACs carry a fee. Some would argue that any fee is an unnecessary duty upon a tax filer. Others would counter that such a fee, given its reduced cost, is a “better bad.” Additionally, the lack of a loan means that no debt indicator must be utilized. Tax preparers do not have to transmit tax information to financial institutions, thus reducing one of the avenues for tax fraud.

RAC usage is highly correlated to RAL usage, on the level of zip codes. The statistical correlation is strongly positive - 66.9%. This means that for every additional percentage of point of RALs used in a zip code, about two-thirds of a percentage of all filers instead opt for a RAC.

RACs make sense because many consumers are also unbanked. Many RAL consumers must also apply for an account to deposit their return. They can get a temporary bank account, or in some cases, an electronic stored value card. The H&R Block Emerald Card is free, but it costs \$1.95 for each ATM usage made with the card. Jackson Hewitt has a VISA card with its own fee schedule. It includes fees for balance inquires and for some transactions.

The next chart shows some general statistics on North Carolina’s tax returns. It includes breakouts for returns filed, low-income returns (based upon household size), and EITC returns. We know that the general use of RALs has declined in 2005 and 2006, in part because of RACs.

Table 1: North Carolina Returns, 2003 to 2006



source: IRS SPEC

North Carolina’s population is steadily growing. The number of returns filed reflects that growth. The share of low-income returns is holding steady, with each year fluctuating slightly above or below 60 percent. Although policy efforts have sought to increase EITC participation, the story remains the same for EITCs, too. Each year, between 20.5 and 20.1 percent of all households claimed the EITC.

Geographic Impacts

Consumers are most likely to use a RAL in Eastern North Carolina, the areas near Charlotte, and in Cherokee. All of these communities have higher percentages of minority residents. In Cherokee, the impetus may also stem from the presence of Harrah’s Casino.

For this report, CRA-NC has prepared four maps. Each one shows a slightly different characteristic of the geographic dispersion of RALs or the EITC. The first map depicts the percentage of RALs utilized among filers in various zip codes in North Carolina. The same story that will portray all of the maps about rates of RAL utilization is evidenced here. Filers in poor communities get more RALs.

Table 1: Where RALs are most prevalent, percentages in 2006

ZIP	Community	County	Percent RALs	Percent RACs	Total Returns	Total RALs	Poverty*
28362	Marietta	Robeson	42.72%	13.59%	103	44	25.0
28039	East Spencer	Rowan	41.79%	19.13%	481	201	21.2
28119	Morven	Anson	41.60%	10.44%	1,149	478	39.9
27867	Potecasi	Northampton	41.53%	9.32%	118	49	43.8
27890	Weldon	Halifax	38.80%	9.91%	1,080	419	40.7
27821	Edward	Beaufort	38.10%	8.93%	168	64	48.8
27823	Enfield	Halifax	37.48%	12.08%	3,311	1241	44.6
27849	Lewiston	Bertie	37.47%	12.53%	726	272	40.6
27831	Garysburg	Northampton	37.15%	12.66%	1,319	490	45.0
28007	Ansonville	Anson	36.56%	8.87%	372	136	27.0

Source: Census 2000, SF3. Percent in Poverty: Households under 150 percent of Poverty Line

Table 1 confirms impressions that RALs are coincident in communities where rates of poverty are very high. For the most part, this shows how RALs are particularly a problem in rural areas.

Then again, parts of big cities have their own challenges from RALs. Some of the places with highest counts of RALs are in low-income neighborhoods in our big cities. It affects all of North Carolina’s big cities: Charlotte, Raleigh, Greensboro, Winston-Salem, and Fayetteville. The next table shows the zip codes where the most RALs were originated in 2006.

Table 2: Zip Codes with the Most RALs, 2006

Geography			LMI				EITC		
ZIP	City	County	RALs	RALs	RACs	Returns	RALs	RACs	EITCs
27834	Greenville	Pitt	4,502	4,236	1,894	13,857	3,634	1,251	6,742
28208	Charlotte	Mecklenburg	4,441	4,199	2,032	11,005	3,582	1,464	6,499
27893	Wilson	Wilson	4,218	3,902	1,357	11,175	3,338	891	5,716
27610	Raleigh	Wake	3,983	3,523	2,755	15,971	2,782	1,716	7,112
27105	Winston-Salem	Forsyth	3,793	3,544	1,966	12,020	2,842	1,316	5,900
28215	Charlotte	Mecklenburg	3,725	3,240	2,284	14,156	2,501	1,454	6,077
27406	Greensboro	Guilford	3,696	3,299	2,152	14,824	2,586	1,286	6,002
27405	Greensboro	Guilford	3,677	3,334	2,059	12,908	2,595	1,308	5,849
28216	Charlotte	Mecklenburg	3,593	3,131	2,039	12,111	2,554	1,306	5,516
28358	Lumberton	Robeson	3,448	3,194	979	9,128	2,709	700	4,649

Source: IRS SPEC

So in spite of the high percentage concentrations that seem to plague rural areas, Table 2 demonstrates that RALs are still something that matters in urban areas. Of note, examine how many EITC recipients are getting either a RAL with their return. In some of these zip codes, more than half of EITC recipients spend a part of their refund on a high-cost RAL. Again, this drains an otherwise well-intended benefit.

The other aspect of RALs is that they are habit forming. The communities that have used RALs in the past are the same ones that are likely to use them in the future. While this means that fighting RALs can be targeted by looking at data, even data from as far back as the latest SPEC database. SPEC data is generally more than a year behind current events. For this report, written in 2009, the latest complete year of SPEC data is 2007 and the latest year with RAL data is 2006.

The next table shows the zip codes ranked in the top 10 among North Carolina zip codes in each of the last four years. The point of this table is to demonstrate the relative lack of change among this group.

Table 3: Top 10 communities for highest percent RAL use, over the last four years in North Carolina, by zip code

rank	Zip in County	Tier	2003	2004	2005	2006	2003 pct	2004 pct	2005 pct	2006 pct
1	Rowan	2	28039	28039	28039	28362	55.5%	51.1%	48.0%	42.7%
2	Anson	1	28543	28119	28119	28039	51.1%	42.9%	45.2%	41.8%
3	Richmond	1	28367	27849	28362	28119	50.0%	42.3%	43.2%	41.6%
4	Robeson	1	28362	27881	27887	27867	48.7%	41.0%	39.7%	41.5%
5	Anson	1	28119	27847	27890	27890	47.1%	39.9%	39.3%	38.8%
6	Bertie	1	27849	27867	28330	27821	45.4%	39.6%	38.5%	38.1%
7	Mecklenburg	3	28206	28330	27849	27823	43.8%	39.5%	37.8%	37.5%

8	Richmond	1	28330	28310	27847	27849	43.6%	39.3%	37.7%	37.5%
9	Bertie	1	27847	28378	27823	27831	42.5%	39.3%	37.7%	37.1%
10	Mecklenburg	3	28208	28206	27867	28007	42.4%	38.6%	37.4%	36.6%

Source: IRS SPEC, Tier Data from North Carolina Department of Commerce

Zip code 28039, for example, was “tops” in the state from 2003 to 2005, and second highest in 2006. This community is East Spencer, in Rowan County. Zip Code 28119, covering the small community of Morven in Anson County, is another perennial leader.

Tier Data reflects assessments of economic health among North Carolina’s 100 counties. Most distressed counties are labeled with a “1” rating, whereas least distressed earn a “3” rating. Mecklenburg is very well off, but the majority of these counties are locations for high poverty, fewer jobs, and more entrenched economic problems.

The fact that communities turn to RALs, tax year after tax year, shows how marketing efforts to make RALs amenable to households have been successful. Many families expect to go to a tax preparer and to use a RAL. Efforts to convince consumers to use rapid-return e-file, in conjunction with waiting 9 to 15 days for their refund, must overcome this perceived disadvantage in the minds of consumers.

Impacts on the Working Poor

RALs (and RACs) are dependent upon the use of the EITC as an anti-poverty program. RALs and RACs are utilized by low-income households. More often than not, these families rely upon one asset for income – their wages. The EITC rewards their work with a refundable credit.

Withholding allows families to designate their tax liability on wages throughout the year. Fewer low-income families itemize, opting instead for the standard deduction. Taxes are relatively straightforward.

The driving force on high dollar refunds is the EITC. In 2006, 783,956 households claimed an EITC, bringing pocket books in the state a total of \$1.577 billion. On average, households that claimed the EITC got a credit of \$2012.

RALs coincide with poverty. This study called upon Census data (Summary File 3) that shows the percentage of households living at 150 percent or less of the federally defined poverty level. These numbers control for family size. The dollar amounts are the same regardless of MSA income. In 2000, the poverty rate for a household with four people was \$17,000 (Department of Health and Human Services, 2000). Thus, this analysis captures households with for people with incomes below \$25,500.

The data reveals a very high correlation with low income (150 percent of poverty). For every additional percentage point of households living at or below 150 percent of the poverty level, an additional 0.67 percent of filers applied for RAL. (Correlation coefficient equals 0.6658)

Race and Refund Anticipation Loans

Many of the communities with the highest rates of RAL usage are those with more people of color. The statistical relationship is fairly strong. For each additional percentage point of African-American residents in the population of a zip code, an additional 0.71 percentage

point of filers used a RAL (correlation coefficient equals 0.71). When accounting for minority status, the relationship is even higher – a correlation coefficient of 0.74.

In all, more than 175,000 RALs were originated in majority minority zip codes in North Carolina. This means that RALs are highly concentrated in majority minority zip codes. Those zip codes only account for about 16 percent the population in North Carolina, but they are the location for 38.8 of all RALs.

There are some worrisome marketing efforts under way at some of the corporate tax preparation chains. At Jackson Hewitt, the “tax experts” on its web site are all white. The consumers are people of color. The spokespersons (Magic Johnson, Tyra Banks) at Jackson Hewitt are also African-American.

At Liberty Tax Service, all but one screen on its web site feature people of color. That screen revolves in a series, and most of the people in that series are still people of color. The franchisee page features a white couple. Likewise, the featured “Liberty Tax” costumed person is an African-American. While this is a staff person, it is hardly a job that confers the prestige of an accountant.

H&R Block is the exception to the industry standard. There is a mix of minority and Caucasian persons throughout the site. The asset-focused services available through Block Bank (banking, investments) include minorities on most screens.

The EITC

The EITC is the light at the end of the tunnel for low-income families working to make ends meet. For many households, it a one-time opportunity to put away savings or to purchase a much-needed household item like an appliance or a used car. Communities with high numbers of low-income households benefit from the EITC. It has a stimulus effect, by increasing demand for local goods.

Table 4: Areas Receiving the Most Federal EITC Dollars, 2006

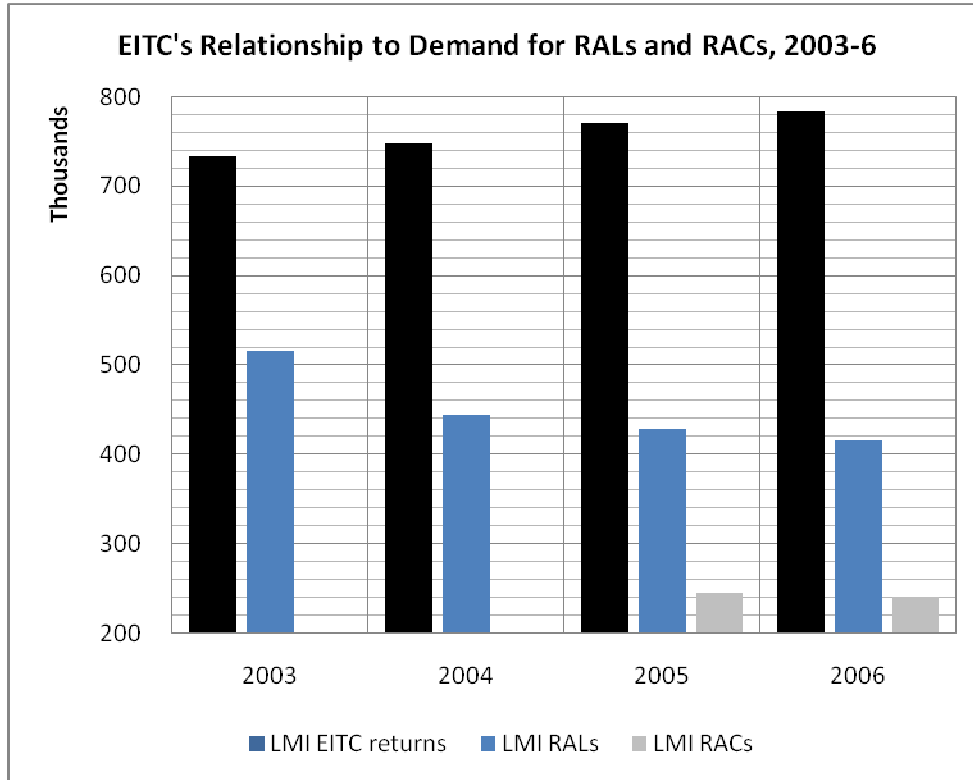
Zip Code	City	EITC Dollars	EITC Recipients
27834	Greenville	\$15,264,594	6,742
27610	Raleigh	\$15,070,884	7,112
28208	Charlotte	\$15,051,511	6,499
28215	Charlotte	\$13,090,289	6,077
27105	Winston-Salem	\$12,925,969	5,900
27893	Wilson	\$12,873,750	5,716
28314	Fayetteville	\$12,564,553	6,058
27405	Greensboro	\$12,350,222	5,849
27406	Greensboro	\$12,335,197	6,002
28216	Charlotte	\$11,914,367	5,516

Source: IRS SPEC

This table (areas receiving most EITC dollars) shows that urban areas have zip codes with highest impacts of EITC recipients.

This is a paper about refund anticipation loans first and foremost. The important point for this paper to make, in this case, is that there is a relationship between the supply of dollars from the Earned Income

Tax Credit and the demand for refund tax services. From 2003 to 2006, both data on EITC use and refund tax use are available in North Carolina. The next chart documents the rate of use by both for low-income filers.



Even if this is only a chart of descriptive data, this chart should lead to a few conclusions. The raw numbers of EITC returns among low and moderate income filers are on the increase. Unfortunately, it also demonstrates that a very high percentage of LMI EITC recipients are sapping the return on their tax credit through the use of a RAL.

The RAC data, which was only begun to be collected and distributed by SPEC in 2005, adds more clarity. The table does not indicate that RAC use was non-existent prior to '05, but rather that it was not collected. Nonetheless, the percent of filers using either a RAL or a RAC exceeded 87 percent in 2005 and more than 83 percent in 2006.

Looking forward

More can be done. North Carolina is not addressing take up rates of the EITC. In fact, the share of low-income filers getting the EITC has actually declined since 2003, albeit by a very small amount. The fact remains that North Carolinas leave money on the table, and continue to do so, in spite of the obvious advantages of utilizing the credit.

Federal policy could quickly impact the use of RALs. Before preparers write a refund anticipation loan, they check the federal government to make sure that there are no outstanding blocks against the filer.

These obstructions can include tax liens, federally guaranteed student loans that are in default, unpaid child support, etc. The debt indicator reduces the risk for the private lender.

Congress has the power to make RALs less enticing, without prohibiting their use. If the government ceased to provide the debt indicator service, tax preparers would still provide RALs. They would just do so at a higher price, in order to reflect the increased risk.

Alternatively, Congress could instruct the IRS to develop administrative rules that would lessen the appeal of the RAL. For example, if the IRS utilized a three-day turnaround on a debt indicator response, the immediacy of the RAL would be lost. To perform the debt indicator rapidly is to enhance the attractiveness of RALs, particularly to consumers with high discount rates.

In this scenario, tax preparers would still be able to offer the RAC. This is an outcome that meets the needs of consumers to have a prompt refund without paying cash out of their pockets.

There are privacy concerns with the debt indicator. The filer's tax information, having been commented upon by the government, becomes the property of the private corporation that submitted the debt indicator request. That information is no longer subject to the control of the filer. Instead, it is governed only by the data policies of the company. In most cases, the information is saleable and transferable.

Treasury's TARP program has unfortunately invested approximately \$180 million in Pacific Capital Bancorp. This bank has a subsidiary, Santa Barbara Bank & Trust, which acts as the source of liquidity for many tax refund anticipation loan providers. Santa Barbara provides money for Jackson Hewitt, as well as many independent tax preparers.

There are several reasons not to put taxpayer money into RALs. One reason is fraud. A survey of news reports in 2008 indicated 69 instances where RALs were associated with tax fraud (Wu & Fox, RALs, Tax Fraud, and Fringe Preparers, 2009). The IRS said much the same about RALs in 2004, when it noted that 80 percent of fraudulent returns were connected to a RAL or some other kind of refund financial product (Kenney, 2004). The GAO, in a 2006 "mystery shopper" survey, found that the most frequent form of fraud involved RAL refunds generated by false claims of additional dependents, in order to generate a refundable credit through the EITC (General Accounting Office, 2006). While it is certainly not true that all RALs are fraudulent, it is evident that RALs do often become the place for fraudulent schemes. Going back to Pacific Capital, in 2007, they recognized loan losses on their RAL portfolio of \$116 million. Many of those losses stem from fraud.

Second, PCBC depends far too much on RALs for its business. It is hard to give money to a bank to make loans and to imagine that it won't be for RALs. In 2006 and 2007, the portions of PCBC's business that were outside of its RALs and refund transfer businesses lost money. This is a \$7.3 billion bank, but it makes almost \$6 billion per year in RAL loans. RALs and refund transfers, even after loan losses, still account for more than \$100 million in net income (Pacific Capital Bancorp, 2008).

Refund Anticipation Checks present a less expensive alternative for RAL consumers. They are not without utility. Many consumers who go to private tax preparers need not just a return, but also some

kind of deposit account in order to accept their refund. RACs can be made in a check or through a stored value card. Jackson Hewitt uses a VISA card, while H&R Block has a MasterCard. In either event, it represents a realistic means of meeting the needs of the unbanked, without imposing the additional costs of the RAL. Moreover, customers who get RACs can still use their refund to pay for their tax prep. The consumer's tax prep fees are deducted from the RAC, which usually arrives in less than two weeks. For consumers who do not have \$200 in walking around money, that feature makes a big difference.

RALs continue to be an outsized problem among rural communities and in neighborhoods of color. The use of RALs is concentrated in these zip codes. Poor communities are also hurt. The impact is one that thwarts our government's intentions to reduce poverty. It is a loophole that depends upon the debt indicator.

Policy Recommendations

- *Enhance Federal Regulatory Oversight:* The regulatory bodies governing the financial institutions that oversee these banks (OCC, FDIC, OTS) should pay attention to concerns over both consumer protections and safety and soundness. The FDIC and the OTS have led. The OCC should follow their lead.
 - The FDIC has issued an enforcement order, requiring Republic Banks to cease and desist with aspects of their refund anticipation loan business. Republic applied for an OTS charter in August 2008 and had its hearing in December 2008. There were many consumer protests. The OTS did not approve or deny the request. Republic withdrew its application in February 2009. To the extent that not approving the application reflected substantive concerns, then both the OTS and the FDIC deserve credit for providing enforcement. Going forward, the OCC (which regulates the other RAL lenders) should follow in the path set by the OTS and the FDIC.
 - Regulatory enforcement should enhance oversight actions to prevent tax fraud from a safety and soundness perspective.
- *Increase disclosure on pricing for RALs and RACs.*
- *Enhance State Regulation:* North Carolina requires RAL providers to register and disclose information with the North Carolina Commissioner of Banks. Other states have disclosure requirements. Most have nothing (United States General Accounting Office, 2003). This step should be supplemented with more oversight. Elsewhere, other states should catch up to North Carolina's leadership.
- *Shore up both the marketing and funding of VITA sites.* VITA sites are a great resource and an excellent concept. In reality, many lag in their reach in the community. Many go underutilized. The problem may be in marketing. It may also reflect the challenges with upfitting locations for tax prep with a volunteer staff. VITA sites, right now, are not part of the solution for maximizing the EITC.
 - The good news is that more people are using VITA sites. Total returns filed my VITA sites in North Carolina almost doubled from 2003 to 2006.
 - The gains have been made among low-income families, but not among those that would qualify for the EITC. In 2006, only about 10 percent of VITA returns got the EITC. This could be an issue of marketing. Perhaps more outreach needs to be done through pathways associated with working. The Employment Security Commission might have a good contact list of people. As well, county governments employ a large number of lower-income workers.
- *Pass the IRS' Proposed Rule Making on Disclosure of Tax Information.* The IRS rules that taxpayers can consent to giving their financial information to preparers. The policy focus should center on how that data is handled afterwards. Prohibit transmission of taxpayer information from tax preparers to third-party financial institutions. This data is utilized by banks (Pacific Capital, JP Morgan Chase, Republic Bank of Kentucky, River City) to generate a debt indicator report from the IRS. Subsequently, the financial institution can keep the data and utilize it for its own marketing. They can also sell the data to other parties.
- *Change the turnaround time on the debt indicator.* Federal policy could quickly impact the use of RALs. Congress could instruct the IRS to develop administrative rules that would lessen the

appeal of the RAL. For example, if the IRS utilized a three-day turnaround on a debt indicator response, the immediacy of the RAL would be lost.

- The IRS could make this change without Congressional action.
- *Do not provide TARP funds for RAL providers.* Santa Barbara Bank & Trust is one of the five banks that provide the funds for individual and corporate tax preparer's RALs. It is a subsidiary of Pacific Capital Bancorp. Santa Barbara received \$182 million in TARP funds. The company's income stream is largely dependent upon its highly profitable RAL business. JP Morgan Chase also received TARP funds. As a giant financial institution, RAL business represents a microscopic sliver of their business. Potentially, such a rule might convince them to exit entirely.
- *Pass proposed Federal Legislation*
 - *Prohibit the use of the EITC as collateral against RALs.* This bill has not been sponsored, but merely discussed. It is an element of policy actions supported by Charles Schumer (D-NY).
 - *Cap interest rates at 36 percent.* This bill is sponsored by Dick Durbin (S-IL).
 - *Use the workplace to encourage use of the EITC and VITA sites:* The Earned Income Tax Credit Information Act of 2008 (S3190) was sponsored by Rep. Rahm Emanuel (D-IL) and Sen. Charles Schumer (D-NY). It would simultaneously enhance VITA sites, where RALs are not provided and tax preparation is free. California has already implemented its own notification law.

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