



Testimony of Tom Feltner Vice President, Woodstock Institute:

Illinois Commission on the Elimination of Poverty

Good evening. My name is Tom Feltner and I am Vice President of Woodstock Institute, a nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. My comments address the need to provide free income tax preparation services as an alternative to high-cost tax preparation and refund anticipation loans that often accompany this service.

Refund anticipation loans are loans arranged by tax preparers for the estimated amount of a borrower's income tax refund. The borrower pays a high fee to receive the money within one to three days of filing his or her tax return, instead of waiting the ten days it would usually take to receive the refund from the IRS via direct deposit. The loan is repaid when the tax preparer receives the borrower's refund from the IRS. However, if the refund turns out to be lower than the loan—because of unpaid child support or taxes, for example—the borrower is still required to pay back the full amount of the loan, plus interest.

Woodstock Institute's research has shown that RALs are costly and have a disproportionate impact on low-wealth communities and communities of color. In 2006 (the most recent year data is available for analysis), Illinoisans spent \$114 million on RAL fees and interest. That's \$114 million that could have been saved or spent on education, badly-needed repairs, or getting out of debt. Additionally, nearly a quarter of tax filers in African-American communities used RALs, which is 3.5 times more than the state average. Statewide, 7 percent of tax filers received refund anticipation loans. Among low-wealth tax filers eligible for the Earned Income Tax Credit, however, 27 percent—more than 1 in 4—received RALs.

While numerous banks that previously arranged these high-cost loans have ceased this line of business, one large RAL provider remains in the market and we expect RALs to be available during the 2012 tax season.

Woodstock has worked in conjunction with advocates across the country for years to end RAL practices that drain wealth from communities of color by documenting RALs' negative impact, meeting with banks, regulators and the IRS, conducting public education and media outreach, and commenting on proposed policies. While increased regulatory scrutiny is needed in the short term, we look forward to the RAL product's obsolescence.

We need alternatives that create wealth-building opportunities. Free tax preparation is the best alternative to paid tax preparation and refund anticipation loans. It is also a low-cost strategy to ensure that low-wealth people are receiving the full extent of tax credits and deductions to which they are entitled.

These credits and deductions often require additional worksheets or documentation. The low-wealth families that depend on these credits and deductions should not be forced into high-cost preparation and refund anticipation loans when free tax preparation services are or could be available.

Tax refund anticipation loans disproportionately strip wealth from taxpayers qualifying for the federal and Illinois Earned Income Tax Credits. We look forward to the speedy processing of tax returns by the IRS, the development of new mechanisms to help low-wealth people prepare and file tax returns, and most importantly, expanded access to free tax preparation services.

I appreciate the opportunity to discuss the impact of paid tax preparation services and refund anticipation lending in Illinois and respectfully request that the Commission accept my written comments for the record.