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Tax loans place LR seventh in nation

Arkansas' poor tap 'rapid refund'

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ARKANSAS DEMOCRAT-GAZETTE

More than half of Little Rock's low-income residents who claim the earned-income tax credit also apply for a high-interest "rapid refund" loan, according to a national report issued today.

On the basis of the number of residents eligible for the earned-income tax credit, Little Rock ranks seventh nationally in the percentage of such taxpayers who opt for such loans, according to a study by the Washington-based Brookings Institution.

The report showed that the use of tax refund loans, which can charge an annual interest rate of more than 300 percent, is dropping nationally. But in Little Rock and across the South, the rate of decline is much slower than that in other areas.

"When you look at the cities where low-income taxpayers use refund anticipation loans, across the board they're in the South," said Alan Berube, a Brookings Institution fellow who co-wrote the report.

As tax day approaches, both the Washington think tank and several community and civic groups are urging residents to avoid such refund loans, which on average cost an individual about $130 in interest and fees.

"We are real concerned about predatory lending, and refund anticipation loans are a form of predatory lending," said Neil Sealy, head organizer of the Arkansas chapter of the Association of Community Organizations for Reform Now (ACORN). "We think it's outrageous that people have to pay a high interest rate to borrow their own money."

Refund anticipation loans are originated by tax preparers — such as H&R Block, Jackson Hewitt or any accountant — and funded by their bank partners on the basis of the taxpayer's expected income tax refund. The loans advance the taxpayer's refund, minus fees for the tax preparation and the loan.

"These loans provide poor value for money and take a significant chunk of low-income taxpayers' refund dollars — an estimated $740 million in 2003," the Brookings report said.

The report, an update of a 2002 study, found that, of 122 cities, nearly all reported a decrease in the number of tax refund loans. Milwaukee saw the largest change, down 13 percent from 2001.

Little Rock's rate of refund loans among earned-income tax credit recipients also dropped, from 62 percent in the 2001 tax year (filed in 2002) to 57 percent on returns for the 2002 tax year (filed in 2003). The city, along with several community groups, has urged low-income residents to apply for the tax credit, originally passed by Congress in 1975 to offset Social Security taxes.

An individual with no children who earns $11,490 or less is eligible for the credit. If the taxpayer has one child, he is eligible if he earns $30,338 or less. For more than one child, a recipient's earnings should be $34,458 or less. The tax credit can be worth thousands of dollars.

Little Rock has sponsored free tax clinics to inform residents about the earned-income tax credit program, said W.J. Monagle, operations coordinator for the city's community programs department.

Still, Monagle says, it's troubling that many low-income residents also pay high interest rates on refund loans.

"They see this extra money as a bonus, like Christmas in April," Monagle said. "If they qualify for $3,000, they're happy to pay $500 for it to get the money tomorrow."

HIGH RATE IN PINE BLUFF

Some researchers are stumped as to why Southerners tend to use tax refund loans more than other taxpayers in the country.

The average earned-income tax credit in Little Rock for the 2002 tax year was $1,919, and 57 percent of recipients used a tax refund loan, according to the Brookings report. But in Fresno, Calif., where the average tax credit was $1,952, only 32 percent of recipients opted for a loan.

"If you look at the states taking a close eye at this, many of them don't have big problems," Berube said. "Most Southern states haven't yet picked up on refund anticipation loan usage as a real problem among low-income taxpayers."

Many low-income residents pay tax preparers to complete their returns, Berube said. The Brookings Institution found that commercial tax preparers are more heavily concentrated in low-income areas in the South, Berube said.

Also, many residents don't have the upfront cash to pay tax preparation fees, so they use loans to pay accountants. Other residents don't have bank accounts, so direct deposit or a mailed check from the Internal Revenue Service isn't practical, Berube said.

In Pine Bluff, which was not included in the Brookings study, it is estimated that 65 percent of earned-income tax credit recipients use tax refund loans.

A study issued in September by ACORN and the Marguerite Casey Foundation found that more than 5,900 low-income households in Pine Bluff received their tax refunds through loans. ACORN estimates that low-income Pine Bluff families lost more than $768,000 through such loans.

"Any loan, you end up paying more," said Maxine Nelson, ACORN's state co-chairman and a Pine Bluff resident. "The important thing to convince [taxpayers] is that they didn't have this money before now so it won't hurt to wait another week. You're going to have more money when you get it."

LEGISLATIVE OPTIONS

Some states, such as Minnesota, have passed laws calling for more disclosure from the commercial

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Tax Refund Loans

Many low-income Southerners eligible for tax credits also apply for refund anticipation loans, which often carry high interest rates. Nationally, the number of rapid refund anticipation loans dropped from 2002 to 2003.

RANK	CITY	EARNED INCOME TAX CREDIT CLAIMANTS	PERCENTAGE WITH TAX REFUND LOANS
1	Memphis	102,194	64.5%
2	Birmingham, Ala.	48,262	60.5%
3	Norfolk, Va.	25,786	58.5%
4	Greenville, S.C.	16,096	58.2%
5	Atlanta	76,773	57.7%
6	Newport News, Va.	18,458	57.7%
7	Little Rock	20,567	57.1%
8	Columbia, S.C.	26,284	55.9%
9	Jacksonville, Fla.	73,278	55.8%
10	Charleston, S.C.	14,155	54.6%
113	Arlington, Va.	6,722	18.2%
114	San Jose, Calif.	35,805	16.4%
115	Thousand Oaks, Calif.	2,131	16.2%
116	Sunnyvale, Calif.	2,972	15.4%
117	Fremont, Calif.	5,354	15.1%
118	Livonia, Mich.	2,105	15.1%
119	Santa Clara, Calif.	2,705	14.6%
120	Bellevue, Mass.	2,842	14.1%
121	Cambridge, Mass.	3,414	13.1%
122	San Francisco	33,308	11.2%

SOURCE: Brookings Institution analysis of 2002 IRS data — Arkansas Democrat-Gazette

tax preparers, Berube said.

Also, in 2001 a federal court ordered H&R Block to stop using the term "rapid refund" to describe its loans. Now commercial preparers refer to the loans as "refund anticipation loans."

The Brookings report suggests several factors that could curb the number of tax refund loans. Providing more information to taxpayers about the loans — including the interest rates — could help, as well as informing them about free tax clinics or direct deposit, Berube said.

In Pine Bluff, only one free tax clinic was offered, Nelson said. ACORN, which holds a free clinic at its Little Rock office, hopes to work with Pine Bluff officials to increase the number of free tax services next year, Nelson said.

Attorney General Mike Beebe warned in a statement against the refund loans, saying some carry annual percentage rates of 1,700 percent.

Beebe urged residents to open bank accounts and to receive their refunds through direct deposit. Arkansans who can't afford tax preparation service can call (800) 829-1040 to find a free clinic nearby, Beebe said.

"The companies that broker these 'refund anticipation loans' target those taxpayers who can least afford them but are drawn in by the promise of receiving their refunds faster."

State lawmakers have tried to set sanctions for lenders that issue loans with interest rates higher than 17 percent. Senate Bill 968, sponsored by Rep. Jay Martin, D-North Little Rock, and Sen. Tim Wooldridge, D-Paragould, which would fine lenders, did not advance from committee in the current legislative session.

Martin said he hoped lawmakers in future sessions could pass the bill, known as the Act to Create the Offense of Unlawful Consumer Loans. The bill called for a $300 fine on each loan with more than 17 percent interest.

Another bill dealing with high-interest loans, SB948, sponsored by Sen. Tracy Steele, D-North Little Rock, also failed to advance this legislative session. Steele said Monday that he has submitted a proposal for an interim study on the issue and that he plans to introduce legislation next session.

Steele said he hoped to work with local, state, federal and banking authorities to draft legislation that could regulate "payday lenders."

"It's time, in the state of Arkansas, that we deal with this issue of charging people an exorbitant amount of interest in order to get their own money," Steele said. "As long as you have these type of industries that are taking advantage of people, it proves that it costs more to be poor."