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By Stephen Black

As we move into a new tax filing season, America continues to be the richest, most powerful nation on earth. Unfortunately, America also continues to be a nation in which 13 million children live in poverty. Surprising to some, the majority of these children live in families who work hard and play by the rules.

Since its inception in 1975, the Earned Income Tax Credit (EITC) has been championed by both Republicans and Democrats, becoming the single most important federal antipoverty program in the nation. A refundable tax credit for workers with low to moderate incomes, the EITC represents a \$40 billion annual investment in children, families and the communities in which they live and work.

Lifting nearly 5 million individuals, including almost 3 million children, above the poverty line each year, the EITC gives working parents the ability to better support their families. In 2004, the average total refund for Alabama taxpayers claiming the EITC was \$3,200. Often the largest check a lower-income, working family will see all year, this money helps families cover expenses like housing, utilities, food and child care - making it easier for working Alabamians to keep working.

Unfortunately, despite the obvious benefit of the EITC, an estimated 15 percent of eligible families and individuals do not claim the credit. These workers are missing out on thousands of dollars that could help them pay for critical needs. The impact of the EITC is also dramatically undermined because money that was intended for working families is diverted to commercial tax preparers and refund lenders.

Encouraged by clever television ads, and often unaware that they are simply speeding up the refund process by as little as one week, many consumers are convinced to take out a refund anticipation loan - a predatory one-to-two week loan secured by and repaid directly from the proceeds of a consumer's tax refund, offered at exorbitantly high interest rates, ranging from an annual rate of about 50 percent to over 800 percent. Millions of working families pay \$200-\$250 each in fees, essentially borrowing their own money for seven days at extremely high interest rates. In total, commercial tax preparation and loan fees annually strip nearly \$2.9 billion in fees from the EITC paid to working families.

In Alabama, more than 481,000 families annually claim an estimated \$1 billion through the federal EITC. However, with more than 75 percent of EITC recipients in Alabama paying a commercial preparer to complete their taxes, Alabama families lose more than \$72 million annually to tax preparation and refund anticipation loan costs - a figure which places us at 49th in the nation. That extra \$72 million could have made a tremendous contribution to helping lower-income families secure health insurance, pay down debts or put food on the table.

Solution

Not surprisingly, a 2005 Brookings Institution report confirmed that communities instituting broad outreach and public awareness campaigns have successfully convinced a larger number of low-income taxpayers that refund anticipation loans are a terrible deal, and that better options exist for quickly accessing refund dollars.

One of these options is to use IRS-certified, volunteer tax preparation sites. In responding to the overwhelming need for an alternative to costly tax preparation options in Alabama, SaveFirst, an initiative of Impact Alabama, trains college, graduate, and law students to provide free tax preparation services and opportunities for savings and economic improvement to low-income, working families.

In only its second year of operation, more than 300 trained college, graduate and law students from 11 campuses across the state began preparing tax returns for working families at community-based sites in seven cities on Jan. 22. More than 50 students from the University of Alabama are working at sites in Tuscaloosa.

The value of student participation in this effort is not just related to the incredible service provided to Alabama's working families. SaveFirst also cultivates a willingness and desire in students to take responsibility for the well-being and progress of the larger community - empowering them to critically think about the structural causes of the need for their service and take leadership roles to develop innovative solutions to them.

We can be proud of our state's colleges and universities collaborating to serve a united purpose greater than the local interests of any one institution and playing a greater role in preparing students to serve as engaged and ethical citizens. Predatory lending isn't just a legal issue for lower income families to face; it is a moral issue for all citizens to face.

To find a free tax preparation site near you, or to join our cause, call 1-877-578-8778.

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