

MEASURE: HB 3640
EXHIBIT: M
HOUSE REVENUE COMMITTEE
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SUBMITTED BY: SARAH HOLTZCLAW

April 22, 2011

Representative Phil Barnhart, Co-Chair
Representative Vicki Berger, Co-Chair
House Revenue Committee Members



RE: Support of House Bill 3640

Dear Representatives Barnhart, Berger and Members of the Revenue Committee,

The Partnership to End Poverty, a nonprofit organization dedicated to finding innovative solutions to poverty, would like to provide this written testimony in support of HB 3640. This bill provides transparency in the offering of refund loan products by licensed tax practitioners. The Partnership is active in helping low-income families both to save for their future and to avoid traps that negate those savings. Our goals are to help everyone in our region become economically stable.

Two of our initiatives, Volunteer Income Tax Assistance and Bank on Central Oregon, are directed specifically toward avoiding Refund Anticipation Loans (RALs) and other refund products. Oregon has progressive pay-day loan legislation in place that has helped curb predatory lending; however, this legislation does not cover refund anticipation products. These products, whether an actual loan or a check, can be costly and tend to target low-income tax payers.

Refund Products Primarily Target Low-Income Tax Payers

Across the country, refund products target low-income tax filers. In Oregon, 45 percent of all refund loans go to EITC filers. The federal Earned Income Tax Credit (EITC) is a demonstrated catalyst for bringing a low-income working family out of poverty. Research shows that the EITC is used to pay rent, utilities and clothing. Though only 19 percent of tax filers nationally receive the EITC, 45 percent of all refund products go to EITC recipients. Yet, the EITC refund itself provides a tempting financial target to some of the country's largest tax preparers. It is company practice for some of the larger tax practitioners to locate their offices in neighborhoods with annual incomes of \$30,000 or less. Families in these neighborhoods have a propensity to need their refunds faster, often times do not understand their taxes or the loan process, are more intimidated by the person preparing their taxes and too often simply sign on the dotted line when told.

Taxes are intimidating for everyone, regardless of income. However, for people in poverty or with very low-income, tax preparation fees are yet another unaffordable and unavoidable expense. The opportunity for a loan or refund product that will help defray required tax preparation costs can be alluring. Many don't understand what is involved. Unfortunately, the dollars that are diverted to these fees are the same dollars as those which should be spent on rent, utility payments, transportation expenses, clothing, or savings for a future emergency, all of which productively and immediately benefit local economies..

Refund Products Will Continue to Exist

Though there have been recent changes in both administrative rules by the IRS, refund products are not going away as some in the industry might want you to believe. For now, H & R Block is no longer offering a loan

521 SW 6th St.
Post Office Box 147
Redmond, Oregon 97756

(541) 504-1389 phone
(541) 504-1399 fax
www.partnershiptoendpoverty.org

product; however, Jackson Hewitt and Liberty Tax Services, the nation's second and third largest tax preparers continue to offer and promote the loans. In fact, according to a U.S. Treasury Report, 35 percent of Jackson Hewitt's customers receive a RAL. Thirty-seven percent of Liberty Tax Services receive a RAL with another 37 percent receiving a Refund Anticipation Check. Additionally, H & R Block continues to offer other high cost refund products that take the place of the loan, such as their Emerald Card and refund checks.

According to the Brookings Institute, EITC recipients are 6.5 times more likely to get a refund product. In 2007, over 164,000 Oregonians received a refund loan or check. Added together, the \$150-\$350 tax preparation fee, bank fees and the refund product filing fees, consume a large percentage of the refund that a client is to receive, effectively negating the benefit of the credits that the state and federal government offer and depriving the communities that you represent of opportunities for economic stimulus

HB 3640 Will Create More Transparency

HB 3640 does not limit or regulate the offering of the products. It has three main parts:

1. Licensing those offering of refund loan products
2. Requiring transparency or disclosure of fees in a public place
3. Establishing fines that the Board of Tax Practitioners can levy on violators of the law

The intent of the law is to offer a point of comparison for tax filers so that they can understand the financial consequences of the fees being offered prior to accept a particular product. It is not the intent of this legislation to unduly burden on the tax practitioners but rather to offer information to the public and to users of these products who are, by far, low-income people. It is also the intent of this legislation to regulate a predatory practice, and to create regulatory oversight of a potentially unscrupulous practice which does not currently exist and to offer legal recourse for aggrieved taxpayers. Addressing these refund products now is important to shield our most vulnerable tax payers from predatory lending practices not addressed in earlier legislative efforts. It is the right thing to do, considering that all taxpayers who are engaging in a transaction of this nature are trying to do is to follow the law by filing taxes.

Please send HB3640 to the House Floor this session. Thank you for your help with this important matter,

Sincerely,

Sarah Holtzclaw

Sarah Holtzclaw
Director of Policy and Communications
Partnership to End Poverty
sarah@partnershiptoendpoverty.org
541-504-1389