ISSUE BRIEF
FINANCIAL STABILITY

OUR REQUEST

- Provide $30,000 to help New Yorkers obtain the more than $825 million left in unclaimed state and federal Earned Income Tax Credits (EITC), to match ongoing Bank of America funding that supports state and local planning, volunteer recruitment and training, marketing, data collection and analysis, and client surveys.
- Further strengthen protections for low-income working New Yorkers from high interest rates and other fees associated with Refund Anticipation Loans (RALs) which are loans against their tax refunds, as well as from other predatory practices.
- Adopt measures that will help low income families build assets through:
  - Expanded use of technology to link families to benefits and
  - Examination of asset limits for certain public benefit programs that may serve as a disincentive to saving.

CASE STATEMENT

Background

The Federal government sets the poverty level at an annual income below $22,025 for a family of four. By that measure, according the US Bureau of the Census, in 2008 14% of New Yorkers were poor. Digging deeper we find that 19.6% of this state's children are poor and our youngest children fare even worse, with 20% of the under 5 population living in poverty. Young children of color bear an even greater burden with poverty rates of 29%, 31% and 32% poverty rates for African American, Latino and Native American children younger than 5-years old, respectively.

Being low-income, defined as between 100% and 200% of the federal poverty level, or an upper level of $44,050 annually for a family of 4, describes the family economic status of an additional 21% of our youngest children and 38% of all children in NYS according to the Anne E. Casey Foundation's Kids Count Databook for 2009.

Helping New York's working poor

The Earned Income Tax Credit (EITC) is the nation's largest and most effective federal aid program for low-income workers. Enacted by Congress, it was intended to offset the burden of social security taxes on low wage workers and has been widely recognized for its success in supporting work and reducing poverty.

GIVE. ADVOCATE. VOLUNTEER.
LIVE UNITED.

This federal credit is further enhanced in NYS, which enacted a state EITC in 1994, with strong support from United Ways. It was subsequently increased to its current value of 30% of the federal credit. According to the NYS Office of Temporary and Disability Assistance (OTDA), $3.3 billion in federal and state EITC are returned to NYS families each year.

Despite this significant progress, low income families continue to face obstacles to financial stability. Three areas in particular require our attention.

1. ***Money left on the table:*** Roughly 25% of EITC-eligible families are not claiming the credit – leaving more than $825 million unclaimed.
2. ***Maximizing the EITC benefit:*** Issues of cash-flow and lack of bank accounts contribute to the high number of EITC claimants using Refund Anticipation Loans (RALs), at a cost to these low-income working families of nearly $21 million dollars.[1]. RALs are offered as loans against tax refunds with interest and fees at rates that may reach an APR of 500%. By lumping tax preparation, loan fees and loan application fees together, RAL providers are able to obscure the true cost of the loan itself. Helping those without bank accounts open them and then encouraging the direct deposit of refund checks into these bank accounts could redirect some of that $21 million to its intended purpose – helping families afford basic needs, enhancing opportunities for their children and building savings toward longer-term financial goals.
3. ***Barriers to building assets:*** Low income families face an array of challenges to becoming financially secure ranging from credit repair to building savings and from linkages to other benefit programs to existing asset limits, which may preclude meaningful savings. CFED's 2009-2010 Assets and Opportunities Scorecard", which assess 92 outcomes and policy measures, gave NYS a "D" for its asset building and asset protection capacity.[2]

Investing in EITC/VITA

United Ways at the state and local level have done extensive work to provide education about the Earned Income Tax Credit, organize and implement Volunteer Income Tax Assistance (VITA) sites, recruit and train local volunteers and market the availability of free tax preparation services. These public/private partnerships have accomplished this with existing or locally developed resources.

In 2009, twenty-five local United Ways and their community partners, serving 39 counties:

- Supported 205 local VITA sites,
- Recruited, trained and placed 2,165 volunteers who gave 110,589 hours,
- Completed 59,682 tax returns,
- Resulted in $34 million in EITC refunds and $99 million in total refunds to low-income workers across the state.

In order to reach to nearly 25% of eligible New Yorkers who do not yet claim the EITC, more is needed to be done to reach out and educate those who can, but do not yet, benefit from the EITC.

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[1]*Avoiding the Pitfalls of Refund Anticipation Loans;* Children's Defense Fund – New York, March 2008.
[2] CFED's (Center for Enterprise Development) scorecard assesses how "how easy or how hard it is for families across the United States to achieve the American Dream."

For the last three tax seasons, these efforts have been supported by a grant from the Bank of America to United Way of New York State to invest in local EITC/VITA efforts. For the fourth year Bank of America is funding these efforts in NYS and in order to maximize this investment ***we are requesting a $30,000 state match for the Bank of America grant.***

Reining in predatory practices

We recommend that NYS ***encourage the development and availability of banking products that are more attractive to low-wage earners*** (no minimum balance, low fees, free check cashing, etc.) and that may provide a lower cost alternative to existing Refund Anticipation Loans (RAL's).

Currently there is only limited IRS ***oversight of the Refund Anticipation Loan industry.*** In NYS, chapter 432 of the laws of 2008 requires paid tax preparers to disclose the terms and cost of RAL's, among other provisions. ***We recommend that NYS consider further RAL legislation or regulation*** to:

- Cap the interest rates that can be charged for these loans, and
- Prohibit the imposition of additional fees such as insurance and check cashing.

Building assets

Aggressive action focused on improving financial literacy, setting longer term financial goals, building savings and removing barriers to asset development is needed if we are to help poor working families escape their paycheck to paycheck reality. We suggest that NYS:

- Aggressively explore means (education and outreach, application and process simplification, expanded use of technology) to ***help families more easily access public and employer benefits for which they are eligible.*** As just one example, MyBenefits – a state initiative to pre-screen and link eligible individuals and families with public benefits offers a promising start but needs to be expanded both in terms of the counties who are using it and the benefits that can be accessed through it.
- ***Examine current asset limits on public benefits*** (TANF and Medicaid in particular) which serve as disincentives to saving and recommend changes modeled on the work of other states.

Addressing the additional needs of persons with a disability

While many of the issues that challenge the financial stability of persons with a disability are captured in the priorities noted above, these individuals face additional barriers. Issues to consider include:

- Expanding the definition of Minority or Women-Owned Business enterprises to include persons with a disability (Article 15-A of the Executive Law of NYS);
- Improving access to tax incentives for employers who hire a person with a disability;
- Working with federal policy makers to ensure stronger compliance with the federal Americans with Disabilities Act (ADA).

Approved – December 1, 2009