



FIRST NATIONS DEVELOPMENT INSTITUTE

Educating Grassroots Practitioners – Advocating Systemic Change – Capitalizing Indian Communities

“We believe that, when armed with appropriate resources, Native peoples hold the capacity and ingenuity to ensure the sustainable, economic, spiritual, and cultural well being of their communities.”

Native Financial Education Coalition (NFEC) Policy Priority Five Earned Income Tax Credit (EITC) and Free Tax Preparation Programs

Specific Action Required

This factsheet supports NFEC’s recommendations that Congress:

- #1 Give funding priority to support Native EITC awareness campaigns and free tax preparation programs such as Volunteer Income Tax Assistance, Low-Income Tax Clinics, and Tax-Counseling for the Elderly.
- #2 Enact legislation to provide consumer protections against the practice of issuing high-cost RALs.

Further, and more specifically, it recommends that Congress:

- Enact the Taxpayer Protection and Assistance Act (S832)
- Urge the Administration to allow for ‘split-refunds’
- Support legislation that curbs predatory tax preparation practices
- Increase support for the EITC and free tax preparation programs

Background Information

The EITC, a federal income tax credit that benefits low-income workers, can reduce the amount of tax an eligible individual owes and may be returned in the form of a refund. It has been an effective tool in assisting families out of poverty, paying debts, seeding savings, and offer a ‘teachable moment’ for individuals where access to financial education is available. Federally funded free tax preparation programs like the Volunteer Income Tax Assistance (VITA) program have offered community organizations an important chance to partner with the federal government in helping low- and middle-income people get the most out of their tax return. Efforts to better fund those with the best interests of taxpayers in mind, such as those of Senator Durbin’s ‘Dear Colleague’ letter supporting the appropriation of \$10 million to assist Low Income Tax Clinics in providing services to working families and S832 sponsored by Senators Bingaman, Smith, Baucus, Grassley, Akaka, Shumer, and Pryor, are to be supported as important steps in the right direction.

Unfortunately, many Native families and individuals do not claim the EITC because they do not know about it. And, if they do claim it, they are more than twice as likely as the general population to use a paid, commercial tax preparation company.¹ Many of these companies charge inflated fees and offer high-interest rapid refund loans called Refund Anticipation Loans (RALs), resulting in a significant reduction in the amount of the much-needed refund received by the low-income taxpayer.² Just as predatory mortgage lending can have long-term negative effects on asset ownership, and payday lending plays a significant role in trapping people in a cycle of poverty,

1 First Nations Development Institute, (forthcoming 2006) EITC Chapter for *Asset Development Report*, based on initial analysis by the Brookings Institution

2 First Nations Development Institute, (2005) *A Tribal Leaders’ Guide to Launching an Earned Income Tax Credit (EITC) Campaign*

predatory tax preparation practices stop people from utilizing an annual ‘windfall,’ and taking steps to address their economic situation in a positive manner. We support vigorous regulation to ensure that all tax payers are made aware of the high cost of refund anticipation loans and that tax preparers are held to stricter standards in general. The more pronounced economic development needs of Native communities require a funding priority as overall program dollars are allocated.

According to the New America Foundation, the Administration has signaled support for the implementation of a change to the tax process for the 2007 tax filing year to allow for ‘split refunds.’³ Under this proposal, people could deposit part of their tax return into an account of their choosing, including IRAs, 529 college savings plans, or other products. This change would allow tax filers to put part of their tax return toward immediate needs while still saving some for longer term goals. We urge the Administration to keep to the implementation schedule and use this change as one of many tools to promote saving.

This factsheet was prepared at the request of the Native Financial Education Coalition with significant contributions to the content by the National Congress of American Indians (NCAI) and First Nations Oweesta Corporation.

³ Boshara, Cramer, Parrish and Stuhldreher, (2006) *The Assets Agenda 2006: Policy Options to Broaden Savings and Assets Ownership by Low- and Moderate-Income Americans*

