



COLORADO FISCAL POLICY INSTITUTE

Justice and Economic Security for *all* Coloradans

THE GREAT DRAIN GAME: The Earned Income Tax Credit, Refund Anticipation Loans, and how lower-income Coloradans get hurt by rapid refunds at tax time

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For millions of Americans and more than 250,000 Coloradans, tax season brings a much needed boost through an earned income tax credit (EITC) refund. The EITC is one of the few income tax breaks available to people who work, but earn low wages. In 2006, the federal earned income tax credit could be as high as \$4,536 for a single parent with two kids earning less than \$14,000 per year. The average refund is about \$1,200. Most families desperately need these refunds to catch up on household bills, pay down debt or repair the things that have broken over the past year. Unfortunately, that desperation often drives families to fall prey to the temptation of a “rapid refund” from paid tax preparers like H&R Block or Jackson Hewitt.

Thousands of cash-strapped Coloradans rush to paid tax preparers who promise EITC refunds in a few days rather than the few weeks it might take the IRS. What these people are really getting is a “refund anticipation loan” or RAL, a short-term loan backed by a tax refund. And these loans don’t come cheap. People pay a fee for the tax preparation, which usually runs around \$120, a fee to process the RAL (application or document preparation fees) and a loan fee to the lender ranging from about \$30 to over \$100. According to the National Consumer Law Center (NCLC) and Consumer Federation of America (CFA), the typical charge for a RAL in 2002 was \$130.

RALs siphon substantial amounts of federal refunded tax dollars intended to support low-wage working families to the coffers of tax preparation companies who aggressively market these products in low and moderate income neighborhoods. In 2002 across the nation, RALs diverted an estimated \$1.59 billion in fees and charges from families who receive the EITC.¹ In Colorado, 259,545 taxpayers qualified for the federal EITC and more than 21% (56,556) paid for a RAL to get their EITC refund. This translates into millions of lost dollars for Colorado. At an average cost of \$130 per RAL, Colorado families lost over \$7 million in federal tax refunds and their communities lost even more as the families had less money to purchase local goods and services.

RALs by Colorado House District					
District	Representative	Total # RALS	Total EITC w/ RALS	Percent of RALS going to EITC recipients	Percent all EITC recipients Getting RALS
District 1	Labuda (D)	1,923	1,154	60.0%	25.8%
District 2	Cerbo (D)	2,229	1,391	62.4%	27.9%
District 3	McGihon (D)	1,052	555	52.7%	18.9%

¹ Wu, Chi Chi and Jean Ann Fox. “All Drain, No Gain: Refund Anticipation Loans Continue to Sap the Hard Earned Tax Dollars of Low-Income Americans.” National Consumer Law Center and Consumer Federation of America. (2004).

District 4	Frangas (D)	2,178	1,468	67.4%	29.6%
District 5	Judd (D)	2,013	1,237	61.4%	26.1%
District 6	Romanoff (D)	1,279	703	55.0%	20.5%
District 7	Carroll, T. (D)	3,024	1,842	60.9%	29.7%
District 8	Marshall (D)	2,125	1,428	67.2%	29.3%
District 9	Borodkin (D)	1,352	757	56.0%	20.9%
District 10	Madden (D)	317	145	45.7%	6.1%
District 11	Pommer (D)	996	550	55.3%	15.8%
District 12	Wiessmann (D)	923	513	55.6%	15.0%
District 13	Levy (D)	358	141	39.2%	5.6%
District 14	Lambert (R)	902	437	48.4%	15.7%
District 15	Cadman (R)	2,124	1,179	55.5%	23.0%
District 16	Liston (R)	1,953	1,156	59.2%	26.4%
District 17	Hicks (R)	4,383	2,385	54.4%	36.4%
District 18	Merrifield (D)	2,149	1,330	61.9%	26.9%
District 19	Looper (R)	2,364	1,298	54.9%	25.2%
District 20	Stephens (R)	413	164	39.8%	8.5%
District 21	Gardner, B (R)	1,637	912	55.7%	24.3%
District 22	Summers (R)	876	414	47.2%	17.4%
District 23	Green (D)	1,202	690	57.4%	23.4%
District 24	Jahn (D)	1,865	1,123	60.2%	27.1%
District 25	Witwer (R)	348	132	38.1%	7.4%
District 26	Kerr, A (D)	1,347	724	53.8%	20.9%
District 27	Gagliardi (D)	999	521	52.1%	18.3%
District 28	Kerr, J (R)	499	211	42.2%	11.7%
District 29	Bennefield (D)	1,012	453	44.8%	16.6%
District 30	Hodge (D)	2,598	1,613	62.1%	29.1%
District 31	Solano (D)	1,613	711	44.1%	18.6%
District 32	Cass (D)	3,265	1,850	56.7%	29.9%
District 33	Primavera (D)	878	391	44.5%	14.4%
District 34	Soper (D)	2,407	1,354	56.3%	28.5%
District 35	Peniston (D)	1,994	1,130	56.7%	26.6%
District 36	Carroll, M. (D)	2,198	1,211	55.1%	25.6%
District 37	Swalm (R)	541	241	44.6%	12.7%
District 38	Rice (D)	977	490	50.2%	18.1%
District 39	Balmer (R)	833	368	44.2%	13.4%
District 40	Stafford (R)	1,120	513	45.8%	15.3%
District 41	Todd (D)	1,873	1,059	56.5%	24.8%
District 42	Garcia (D)	2,817	1,797	63.8%	32.2%
District 43	McNulty (R)	296	92	31.0%	6.7%
District 44	May, M (R)	485	159	32.8%	8.4%
District 45	Mitchell, V (R)	841	384	45.6%	13.5%
District 46	Butcher (D)	3,015	2,149	71.3%	32.5%
District 47	McFadyen (D)	1,893	1,157	61.1%	25.5%
District 48	Vaad (R)	1,625	922	56.8%	20.5%
District 49	Lundberg (R)	879	453	51.5%	13.3%
District 50	Riesberg (D)	2,903	1,966	67.7%	31.3%
District 51	Marostica (R)	1,099	631	57.5%	16.5%
District 52	Kefalas (D)	1,040	553	53.1%	16.4%
District 53	Fischer (D)	827	432	52.2%	15.2%

District 54	King (R)	1,741	1,011	58.1%	19.7%
District 55	Buescher (D)	2,226	1,306	58.7%	25.0%
District 56	Gibbs (D)	828	372	45.0%	12.1%
District 57	White (R)	1,319	581	44.1%	15.4%
District 58	Rose (R)	1,240	762	61.4%	15.1%
District 59	Roberts (R)	1,347	741	55.0%	15.5%
District 60	Massey (R)	985	588	59.7%	13.5%
District 61	Curry (D)	986	401	40.6%	12.7%
District 62	Gallegos (D)	1,818	1,370	75.3%	19.9%
District 63	Garnder, C (R)	1,148	728	63.5%	15.3%
District 64	McKinley (D)	1,854	1,336	72.1%	23.0%
District 65	Sonnenberg (R)	1,242	723	58.2%	15.2%

RALs by Colorado Senate District					
District	Senator	Total # RALS	Total EITC w/ RALS	Percent of RALS going to EITC recipients	Percent all EITC recipients Getting RALS
District 1	Brophy (R)	1,887	1,187	62.9%	14.4%
District 2	Kester (R)	2,907	1,955	67.2%	21.3%
District 3	Tapia (D)	5,390	3,697	68.6%	31.2%
District 4	Wiens (R)	1,281	587	45.8%	11.7%
District 5	Schwartz (D)	1,799	1,191	66.2%	12.4%
District 6	Isgar (D)	2,415	1,410	58.4%	15.6%
District 7	Penry (R)	3,784	2,169	57.3%	23.3%
District 8	Taylor (R)	2,159	913	42.3%	15.3%
District 9	Schultheis (R)	1,790	909	50.8%	16.8%
District 10	May, R (R)	3,826	2,155	56.3%	23.7%
District 11	Morse (D)	4,909	3,131	63.8%	31.0%
District 12	McElhany (R)	5,116	2,526	49.4%	28.7%
District 13	Renfroe (R)	4,220	2,743	65.0%	27.2%
District 14	Bacon (D)	1,746	912	52.2%	15.6%
District 15	Johnson (R)	1,963	1,097	55.9%	15.5%
District 16	FitzGerald (D)	862	349	40.4%	7.5%
District 17	Shaffer (D)	1,888	1,049	55.6%	16.2%
District 18	Tupa (D)	543	239	44.1%	5.7%
District 19	Windels (D)	1,865	901	48.3%	17.6%
District 20	Keller (D)	2,533	1,445	57.1%	23.7%
District 21	Boyd (D)	2,617	1,462	55.9%	22.9%
District 22	Kopp (R)	929	383	41.3%	11.3%
District 23	Mitchell, S (R)	2,542	1,294	50.9%	18.1%
District 24	Tochtrop (D)	4,363	2,303	52.8%	25.9%
District 25	Takis (D)	5,129	3,007	58.6%	28.4%
District 26	Ward (R)	1,911	1,001	52.4%	20.0%
District 27	Spence (R)	1,381	598	43.3%	13.1%
District 28	Williams (D)	2,751	1,419	51.6%	20.7%
District 29	Hagedorn (D)	4,933	3,027	61.4%	30.6%
District 30	Harvey (R)	734	235	32.1%	7.7%

District 31	Veiga (D)	3,730	2,125	57.0%	25.3%
District 32	Romer (D)	2,697	1,518	56.3%	22.0%
District 33	Groff (D)	5,237	3,376	64.5%	30.5%
District 34	Sandoval (D)	4,150	2,750	66.3%	29.4%
District 35	Gordon (D)	2,605	1,493	57.3%	21.5%

RALS in Colorado

		Total # RALS	Total EITC w/ RALS	Percent of RALS going to EITC recipients	Percent all EITC recipients Getting RALS
Colorado		98,593	56,556	57.4%	21.8%

Source: The Brookings Institution, Metropolitan Policy Program 2007

Data Tax Year 2004