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MEASURE: HB 3640
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House Revenue Committee
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Testimony in Support of HB 3640
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According to the wisdom of founding father Ben Franklin, the only certainties in life are death and taxes. Unfortunately, there's an entire industry that thrives off taking advantage of the latter certainty. With tax day last week, you've undoubtedly heard the onslaught of advertisements promising "instant refunds" or fast cash.

Marketed as easy access to quick cash, these products are actually high-cost, short-term loans loaded with extra fees and APRs ranging from 50 percent to 500 percent. Like payday loans, the tax loans — also known as Refund Anticipation Loans — are sold through storefront shops that pop up in working-class neighborhoods. The fees associated with RALs are a burden that low-wage workers cannot afford.

Refund Anticipation Checks are another booming tax product. They are a way to have the customer's tax refund diverted to a temporary account, allowing the tax preparer to withdraw fees from the refund before returning the remainder to the customer. The benefit of deferring the fees for tax preparation services comes at a steep cost – upwards of $30 for the payment instrument, with additional fees that may be charged for cashing the check or using a debit card. Additionally, these fees are often unclear at the time a taxpayer enters into the agreement.

RAC and RAL users are disproportionately younger, low-income, more likely to have children and be single parents.[1] For many of these families, a significant portion of their annual income is delivered through their tax refund. Thanks to tax credits such as the Earned Income Tax Credit, low-wage working

[1] "Characteristics of Users of Refund Anticipation Loans and Refund Anticipation Checks," U.S. Department of Treasury and Urban Institute, 2010.

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households may receive as much as 40% of their annual income at tax time. This is also the primary target for RALs and RACs; EITC recipients make up 64% of RAL consumers and 42% of RAC consumers.[2]

The median refund amount for non-tax refund product users is around $1,500. The median refund for RAL and RAC users is more than double that at $3,100.[3] This disparity creates two problems – the first is that receiving such a large refund check can make these taxpayers less sensitive to the fees associated with the products. The second is that it makes them a potential windfall group for unscrupulous brokers to nickel and dime at tax time.

The fees charged for temporary accounts, repackaged refund checks and short-term loans provide limited value to taxpayers but add up to big profits for brokers. A 2008 report estimated that Oregonians lost $23 million through tax refund products and preparation fees. Taxpayers paying a disproportionate amount of the fees are Earned Income Tax Credit recipients. It's estimated that EITC workers nationwide spent $507 million just to have access to their refunds through RALs, and that figure does not even include the cost of tax preparation fees or RACs.[4] This is money being siphoned by tax preparers from the country's largest means-tested anti-poverty program.

Although some much-needed federal pressure has brought the number of RALs down in recent years, RACs have been increasing. In 2009, RALs had declined to 6.9 million users, while RAC use grew to 12.9 million users.

It's been suggested that HB 3640 is unnecessary due to actions at the federal level. However, there are several reasons state reform is still imperative.

• First, the industry has shifted its business model to offer more Refund Anticipation Checks. While the new federal changes address RALs, they do nothing to rein in RACs.

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[2] Ibid

[3] Ibid

[4] Wu, Chi Chi, and Jean Ann Fox, "Major Changes in the Quick Tax Refund Loan Industry," National Consumer Law Center and Consumer Federation of America Refund Anticipation Loan Report, 2010.

• Second, the federal crackdown was aimed at drying up the flow of money available for risky Refund Anticipation Loans, but the prohibitions only apply to banks. Tax preparers could partner with non-bank lenders to continue offering RALs.

• Finally, the reforms that have almost brought an end to Refund Anticipation Loans were administrative changes and could be reversed without a vote of Congress. As a matter of fact, the IRS has gone back and forth on this issue in the past. In 1994, the IRS eliminated the debt indicator, the screening tool lenders use as a credit check. The IRS reinstated the debt indicator in 2000 and it remained in use until 2010.

All of these reasons are why Oregonians still need you to act. This is why Economic Fairness Oregon supports HB 3640. The bill offers several common-sense protections, including:

• Increasing industry oversight by requiring RAL and RAC facilitators to register with the Oregon Board of Tax Practitioners.

• Protecting Oregonians' tax refunds by prohibiting add-on fees that facilitators charge for RAL and RAC products.

• Increasing transparency by banning deceptive sales practices and improving disclosures regarding the true cost of all tax preparation products and services.

We urge your support of HB 3640, which would reinforce Oregon's legacy of strong consumer protection laws by ensuring that taxpayer refunds are protected at the state level.