

# Help working poor get what they're due

By Robert C. Embry Jr.  
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This is tax season. Predictably, we are being bombarded with advertisements for same-day tax refunds by commercial tax-preparers selling high-priced refund loans and predatory tax preparation products.

If only the advertising for the earned income tax credit (EITC) were as powerful and far-reaching as these commercial offerings, thousands of eligible taxpayers could receive the EITC and enjoy access to free tax preparation. EITC-eligible taxpayers filing their 2006 returns can receive a federal tax refund of up to \$4,536 and a state tax refund of up to \$907. For low-wage workers, a refund of that size can help pay for housing, a car or college tuition.

Although many have never heard of or received the EITC, it is arguably the nation's most effective anti-poverty tool for children. Enacted into the federal tax code in 1975, and into Maryland's tax code in 1987, the refundable tax credit rewards work; only those who have earned income are eligible to receive it. For Maryland, the federal and state EITC help to spur the economy. Last year, 341,052 Maryland households received the federal EITC, returning about \$600 million to Maryland families.

Despite its value to families and to Maryland, many eligible families are not receiving the federal or the state EITC, and many who do receive it forfeit a significant portion of their tax refund by paying for costly tax services and loans. Largely, this failure of eligible citizens to take advantage of the EITC is a failure of government agencies to communicate the program strongly enough to the people who most need it.

For more than a decade, the state has funded the Maryland Earned Income Credit Campaign, a collaborative EITC outreach effort that reaches low-income workers statewide through public agencies, private businesses and nonprofit organizations. For the past six years, the Baltimore CASH Campaign has been developing a network of organizations to inform Baltimore taxpayers about the EITC, to provide free, quality tax preparation assistance and to offer financial opportunities to stabilize families and communities.

However, even with these efforts, much work remains to help Baltimore residents realize the full potential of the credit:

- Outreach: About 20 percent of Maryland's EITC-eligible tax filers are not receiving the credit. This amounts to a potential loss in purchasing power of more than \$110 million to the state and a huge financial loss to those families. Maryland needs to do more work to

ensure that the most vulnerable members of the hardworking poor know about the credit and how to access it.

- **Quality tax preparation:** Most low-income filers use a paid tax preparer to complete their return. Tax preparation companies have long marketed the "refund anticipation loan" - an extremely high-cost, short-term loan that is secured by people expecting a tax refund. These predatory loans drain money out of the hands of low-income residents of Maryland and target those who can least afford to pay the high interest rates and fees. The legality of these loans is questionable and should be investigated. More free tax preparation sites should be supported as an alternative so low-income taxpayers can keep the entire value of their tax refund.
- **Increasing wealth:** Taxpayers' refund checks are often the largest checks they receive all year - bigger than any paycheck most low-income working families earn. Without adequate financial tools and education, too often the money is quickly spent. Baltimore's free tax preparation sites also serve to connect low-income taxpayers with financial-education and asset-development opportunities, thereby supporting family economic success. These organizations are developing better products and programs to serve low-income people's financial needs.

More eligible taxpayers are going to take advantage of the program if they know about it. It's everybody's job - the city's, the state's, the federal government's - to tell them.

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