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POLICY BRIEFING

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EITC Claims Becoming Increasing Source Of Revenue for Commercial Tax Preparers

As tax season nears, the prospect of quick electronic returns and refund loans will draw many low-income families who are

eligible for the Earned Income Tax Credit (EITC) to commercial tax preparers. A report released last year by the Brookings Institute estimates that more than \$2 billion in refunds intended for poor working families was diverted toward paying fees to these private companies in fiscal year 2000-2001. Among the report's findings:

- An estimated \$1.75 billion was diverted from EITC refunds to pay for tax preparation, electronic filing and high-cost refund loans.
- Fees from refund loans and other "fast cash" services are coming to represent an increasing proportion of total revenues generated by national tax preparation companies. In fiscal year 2000-2001, H&R Block earned approximately \$134 million in refund loan fees, an increase of nearly \$44 million over the prior year. The increased revenues were attributed primarily to a 44% increase in the fees charged per loan.
- In the Washington, D.C. area, an average of more than 10 percent of a \$1,500 refund was spent on fees to a commercial tax preparer. Typical fees were \$60 for preparation of the tax return, \$34 for a state return, \$20 for electronic filing, and up to \$90 for a refund loan, for a total of \$204 in fees.
- A lack of bank accounts leads families to pay for "refund transfers", whereby they agree to have the refund deposited electronically to the tax preparer who then pays the family in cash, minus a fee for the service. Twenty-two percent of families with less than \$25,000 in income lack a bank account of any kind and this group represents the majority of EITC-eligible families.
- Families who file for an EITC are eight times more likely to be audited by the IRS than are higher-income taxpayers. This may encourage the use of paid preparers in the belief that the return will stand up to an audit if completed by a professional.

The report, *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC*, is available at www.brookings.edu.

President Bush Lays Out Plan for Welfare Reauthorization

On January 14, President Bush announced his plans for welfare reauthorization. Most of the announced proposals mirror those contained in the welfare

reauthorization bill passed by the House, and supported by President Bush last Spring. Notable elements of the announced plan include:

- The plan freezes funding at current levels for the next five years, at a time when unemployment and welfare receipt are rising, and nearly every state budget is facing a shortfall.

- More stringent work demands require states to have 70% of their caseload working 40 hours per week by 2007; with no additional funds for child care subsidies. This was unchanged from last year's proposal in spite of the fact that 39 of 44 states surveyed last year by the National Governor's Association and the American Public Human Services Association felt these requirements would be counterproductive, drain stressed budgets, and force them to focus on community service jobs and workfare programs rather than on training and better-paying private jobs. States that fail to comply with the requirements would face stiff sanctions, including a 5% cut in the state TANF grant.
- \$1.5 billion over 5 years is designated for programs that promote marriage. The funds could be allocated as early as 2003.
- Retains the proposal to create federal 'super-waivers' that would allow for sweeping changes across any program under the jurisdiction of Health and Human Resources (with the exception of Medicaid), Labor and Education. The language allowing for the waivers is very broad, and it is therefore difficult to determine the possible effects this kind of proposal would have on people who need state social services. The number of states that could be granted a super-waiver is not limited.

The specific provisions of his proposals are expected to be introduced in early February, and introduced directly to the House for consideration, bypassing committee consideration.

**Custodial Parents Warned
On Use of Private Child
Support Collection Agencies**

A recent Information Memorandum from the U.S. Office of Child Support Enforcement (OCSE) provides guidance that could be useful to custodial parents who are considering entering into a contract with a private child support

collection agency (PCA). Custodial parents and those who work on their behalf should be aware of the several aspects of such contracts, including:

- Private agencies profit from contracts that provide for the payment of a percentage of collected child support for a specified period of time. If a custodial parent is not aware of all of the specific provisions of such a contract, she could be legally obligated to a number of conditions that would be financially harmful.
- Contracts can contain conditions that the custodial parent allow the PCA to retain current child support payments (if the contract allows the PCA to retain its percentage before passing the remainder to the custodial parent), to maintain the contractual obligation with the PCA until all arrearages have been paid by the noncustodial parent, and/or to pay the PCA its percentage even when the state child support agency made the collection.
- If a parent is or has ever been on TANF, had children in foster care, or received Medicaid benefits, the state will be obligated under federal law to continue to pursue child support and will retain its share according to state and federal law of any collected child support, regardless of the fees paid to the PCA for services.

The Information Memorandum also describes several state efforts to work with PCA's when child support agencies are asked to locate the noncustodial parent, to share case information with these private agencies, or to send the child support payment to the PCA. The following is the hyperlink to the attachment contained in the Information Memorandum: [Examples of Effective IV-D State Agency Practices](#). The custodial parent information is contained in Attachment 3, *Information That Parents Should Consider Before Hiring A Child Support Private Collection Agency (PCA)*.

**Focus Groups with Fathers Provide
Insights on Child Support Policy**

The Social Policy Action Network (SPAN) and the National Practitioners Network for Fathers and

Families (NPNFF) have released a report on the needs of low-income fathers, based on focus groups conducted with fathers and caseworkers in four cities: Columbus, Ohio; Minneapolis, Minnesota; Austin, Texas; and Philadelphia, Pennsylvania. The authors conclude that the needs of this group are similar to those of low-income mothers, but fewer resources are available to support fathers. The focus groups also revealed that:

- Fathers and practitioners in all four cities reported that contact with courts and child support agencies can actually introduce conflict between parents, frequently leading mothers to prevent fathers from seeing their children.
- Almost without exception, fathers found the courts to be unfair and punitive, and disinclined to believe that the fathers could improve their ways. This led fathers to avoid interactions with the courts or any agencies they felt were linked to the courts.
- Mistrust of the court system discourages fathers from filing for child support modifications.
- Fathers fear that if they seek services from a public agency, they could find themselves with a substantial retroactive debt or put themselves at risk of incarceration for nonpayment of child support.
- Caseworkers cited negative attitudes and stereotypes held by the general public and social services staff about noncustodial fathers as the most significant barrier to improving services for noncustodial fathers.

Among the authors' recommendations are: increased flexibility for states to provide services to fathers; child support policies that pass-through a father's payments to his family; the suspension of child support while fathers receive training, education or substance abuse treatment; and increased legal services for fathers.

The report, *Expanding the Goals of "Responsible Fatherhood" Policy: Voices from the Field in Four Cities*, by Juliane Baron and Kathleen Sylvester is available at www.span-online.org.

HHS Funds Used for Marriage Promotion Grants

On January 2nd, the U.S. Department of Health and Human Services (HHS) announced that over \$2.2 million in Child Support Development Projects have been awarded to twelve states. Approximately one quarter of the funds will be awarded to agencies whose purposes include the promotion of marriage, and two of the grants, totaling \$377,000 are to faith-based organizations or collaborations. The funding was announced just one month after President Bush signaled his intent to fund faith-based projects by signing an executive order that allows religious organizations to receive more serious consideration in granting federal contracts. The awards also represent the beginning of a link that the Administration plans to strengthen between child support enforcement funding and marriage promotion. Both actions begin the implementation of these agendas without requiring approval from Congress. The Administration is also attempting to use welfare funds to promote marriage (see above). The grants that include components to promote marriage among families in poverty were awarded to:

- \$199,994 to the Marriage Coalition, a faith-based organization in Cleveland Heights, Ohio, to test a curriculum to provide poor, unmarried parents with knowledge on the importance of establishing paternity and paying child support or the advantages of a healthy marriage.
- \$177,374 to the Community Services for Children, Inc. in Allentown, Pennsylvania, to provide, in collaboration with local faith-based organizations, marriage education, employment and other services to unwed couples involved with Early Head Start or Head Start.

- \$200,000 to the Alabama Child Abuse and Neglect Prevention Board to provide services to help low-income, ethnically diverse, unmarried parents learn practical skills to promote healthy marriage, improve employment and increase paternity establishment rates and child support payments.

For more information on these or the other grants, go to <http://www.hhs.gov/news>. A complete listing of state policies that have been implemented to promote marriage is available at <http://aspe.hhs.gov/hsp/marriage02f/>.

Child Support News.

- One implication of widespread state budget shortfalls may be felt by custodial parents seeking the services of child support enforcement. Citing a shortfall in federal revenues to the state child support enforcement division, Gail Gray, Director of **Montana's** Department of Public Health and Human Services is pushing for passage of a bill to implement a \$7 fee for each child support payment processed by the child support agency. Gray said that thirteen other states also overestimated their federal revenues. State Senator John Cobb, sponsor of the bill, blamed the state's financial woes for the need to charge fees to custodial parents rather than using the general fund to make up the shortfall in federal revenue. A federal lawsuit, filed against a short-lived earlier version of the policy, is likely to be filed again.
- President Bush's 2004 budget plan will include a proposal to garnish gambling winnings. The plan would establish \$40 million web-based system that allows gambling institutions to check government-provided lists of people who are behind in child support payments. Anyone who wins more than \$5,000 would have their name checked against the Federal Parent Locator Service before they could collect their winnings.
- Maryland Child Support Enforcement Administration Executive Director **Teresa L. Kaiser** was fired by newly elected Republican Governor Robert L. Ehrlich, Jr. on January 16. Kaiser was critical last year of Maximus, Inc., a private company that contracts with Baltimore to administer the child-support program there. Kaiser came under pressure from the chairman of the Maryland House Appropriations Committee, Howard Rawlings, after ordering an audit of Maximus last year. Maximus' chief lobbyist, Bruce Bereano, is a friend and supporter of Governor Ehrlich and Maximus donated \$10,000 to his inaugural fund.

Educational Attainment Of Prison Inmates Assessed

A report from the Bureau of Justice Statistics analyzes the educational attainment and participation in educational programs of correctional populations nationally. Among the report's findings:

- Of state prison inmates, 68% had not received a high school diploma. About 41% of these had not completed a General Educational Development (GED) high school equivalency test. This percent stayed roughly the same from 1991 to 1997. Twenty-seven percent of federal inmates, 47% of inmates in local jails, and 31% of those serving probation sentences had not completed high school or its equivalent, compared to about 18% of the general population.
- About 44% of black state prison inmates and 53% of Hispanic inmates had neither a high school degree nor a GED, compared to 27% of whites. Sixty-six percent of state prison inmates with a learning disability and 47% of drug offenders did not have a high school degree or GED.
- Of those state and federal inmates with a GED degree, at least 7 in 10 obtained the degree while incarcerated.

- About 77% of state prison inmates without a high school degree or a GED had been sentenced to prison prior to their current sentence.
- From 1995 to 2000, the percent of state prisons offering educational programs to inmates increased, from 88% in 1995 to 91% in 2000. Only college courses as a category dropped during this period, from 31% to 27%. During this period, all federal prisons offered educational courses.
- In 1997, about 52% of state prison inmates, 57% of federal prison inmates, 14% of jail inmates and 23% of probationers reported that they had taken advantage of education classes during their period of sentencing. The percentage of inmates participating in educational programs dropped from 1991 to 1997, although the actual number of participants increased. This is because the prison population itself expanded rapidly during this period.

The report, *Education and Correctional Populations*, January 2003, is available at www.ojp.usdoj.gov/bjs/.

Did You Know That:

- Most Americans believe that between 1 and 5 million people live in poverty in the United States, when the actual number is nearly 33 million. <http://www.povertyusa.org>.
- At the same time that President Bush is calling on welfare recipients to work longer with fewer government support services, he is proposing tax cuts that will allow people who make over \$1 million per year to get average tax cuts of \$90,000. www.cbpp.org.