



September 8, 2011

State of Illinois
Human Services Commission

Members of the commission:

This letter serves as written testimony for the commission hearing held in Chicago on September 8, 2011. The Center for Economic Progress (CEP) respectfully submits this testimony as public record of our comments.

For 20 years, CEP has helped hard-working, low-income families move from financial uncertainty to financial security. CEP is a national leader in providing free community-based tax preparation, financial education and asset-building opportunities. Since 1994, CEP has helped over 300,000 clients receive over \$441 million in refunds and has provided financial services in conjunction with tax preparation, giving families the tools and knowledge to make sound financial choices.

For the 2012 fiscal year, CEP was informed that our contract with DHS was reduced by nearly 50% to \$159,918. Consequently, CEP has made difficult but necessary service adjustments corresponding to the dramatic reduction in funding. Sites closing include Champaign, Decatur, Peoria, and Bloomington. CEP will also transition the Rockford tax site over to our local partner, Goodwill Industries.

In addition to service cuts, CEP has absorbed the contract reduction by reducing staff, including the elimination of two positions in the Springfield office. The position of Vice President, Local Programs will remain unfilled until at least January 2012. This is important to note because some of the expertise lost with outgoing staff cannot be easily replaced. Without the continuity of funding CEP cannot retain staff who have expertise on the services we provide or the clients and communities we serve. Further reductions in staff may imperil the program itself. More serious cuts can have a spiraling effect that can impact the organization's viability altogether.

Using conservative estimates, we have calculated the impact to the community. In the areas with site closures, over 2000 taxpayers (based on 2011 clients served) will not have the benefit of free tax preparation, potentially costing them several hundred dollars each to have their return prepared. The IRS has indicated to us, for example, that Champaign has no other VITA (Volunteer Income Tax Assistance) program in the community. The estimated cost is \$413k based on \$200 per return for preparation fees. The typical taxpayer who we serve earns about \$14,000 in annual income. The savings in tax prep fees means CEP's services boost their annual incomes by 1.4%. In addition, taxpayers may now be lured by high cost refund loans offered by some paid preparers.

Many taxpayers may choose not to file, denying them the benefit of their refund. However, the economic benefit of a tax refund extends to the community as a whole, since low to moderate income

taxpayers tend to spend their refund in the communities where they live. Using data from the Brookings Institution, CEP calculates that every dollar generated by the Earned Income Tax Credit, and other credits, results in about \$1.33 of economic activity in the community. Total refund value in the 3 communities was \$3.65M in 2011. That amounts to \$4.85M in total economic activity.

Another way to look at it is this: CEP's tax service brings federal dollars back to Illinois communities. In total about \$2B of federal EITC money makes its way to the state of Illinois. These dollars are now at risk of being left on the table. This is true not only because of the lack of services themselves, but because of the outreach conducted jointly every year by CEP and DHS around awareness of tax credits, especially the EITC.

In addition CEP provides access to bank partners and FAFSA (Free Application for Federal Student Aid) services, as well as referrals to the our Tax Clinic and ITIN processing (Peoria), and services offered by our site host partners. During the 2011 filing season, CEP encouraged taxpayers to open 1,269 bank accounts throughout the state and assisted students in preparing 610 FAFSAs. Those services will no longer be available in the communities with closed sites.

As we move forward with our work plans for the upcoming tax season, we want to make sure the commission is fully aware of the situation. Additionally, we will keep DHS apprised of any changes as our operations progress. We also would like to add what a strong partner DHS is in providing this service to Illinois residents. They've been a great supporter of the program, especially in our marketing and outreach efforts.

Sincerely,

David Marzahl
President

Rolando Palacios
Director, Tax and Financial Services