

*"We believe that, when armed with appropriate resources,  
Native peoples hold the capacity and ingenuity to ensure  
the sustainable, economic, spiritual and cultural  
wellbeing of their communities."*

# USE OF EITC AND PREDATORY TAX PRODUCTS IN NEW MEXICO:

## 2008 TAX FILING YEAR

NATIVE ASSETS RESEARCH CENTER  
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## USE OF EITC AND PREDATORY TAX PRODUCTS IN NEW MEXICO 2008 TAX FILING YEAR

### EXECUTIVE SUMMARY

1. Over the past four years, New Mexico has seen a steady increase in the amount of money brought into the state by people participating in the Earned Income Tax Credit (EITC) program. In 2008, 204,565 tax filers claimed the EITC and brought \$407,219,554 into the state's economy. This is an increase of \$14,394,534 from 2005 in terms of real dollars (adjusted for inflation).
2. Use of Refund Anticipation Loans (RALs) among EITC filers in the state has hovered right around 25% over the past four years.
3. RALs cost New Mexico taxpayers over \$19 million in 2008, and drained \$12,794,250 from the pockets of tax filers claiming the EITC, reducing the impact of this tax credit for the intended recipients.
  - 67% of the dollars spent on RAL products were spent by EITC filers, even though they made up only 22% of filers in 2008.
4. Use of Refund Anticipation Checks (RACs) among EITC filers in the state has hovered right around 17% over the past three years.
5. RACs cost all tax filers \$10,220,860 in 2008, and drained \$4,426,500 from the pockets of tax filers claiming the EITC, reducing the impact of this credit for the intended recipients.
  - 43% of the funds spent on RACs came from EITC filers, even though they made up only 22% of filers in 2008.
6. Use of RALs among EITC filers appears to be highest in Guadalupe, Cibola, Eddy, Chaves and McKinley counties.
7. County level analysis does not indicate that residents of Native American communities are more likely to use RALs or RACs. However, zip-code level analysis suggests very high RAL use among EITC filers in some Native American communities, including residents of the Navajo Nation near Gallup and people living on the reservation of the Mescalero Apache Tribe.
8. There is still work to be done to provide alternatives to high priced tax services and educate consumers about the high cost of RALs and RACs. Volunteer Income Tax Assistance sites, low cost alternative RALs offered by credit unions and Community Development Financial Institutions (CDFIs), and other efforts to reduce the demand for RALs and RACs should be supported.



## USE OF EITC AND PREDATORY TAX PRODUCTS IN NEW MEXICO 2008 TAX FILING YEAR

### I. INTRODUCTION

This analysis of Earned Income Tax Credit data in the state of New Mexico was produced by First Nations Development Institute with funding from the Annie E. Casey Foundation. The first section of this report provides an overview of county level data from the 2008 tax filing year (2007 tax year), the latest year for which data are available. This is followed by an analysis of zip code level data. The source of these data is the Brookings Institution's *EITC Interactive* tax data set, a downloadable tax data set which is accessible at <http://www.brookings.edu/metro/EITC/EITC-homepage.aspx>.

The Earned Income Tax Credit (EITC) is a federal government program designed to provide financial support for the working poor. Created in 1975 to reduce taxes for low-income families and provide an incentive to pursue wage labor, the EITC is a refundable tax credit that supplements low-to-moderate income workers' earnings. The refund a recipient receives is based on income level and number of children, among other criteria. The EITC has grown to be one of the largest income support programs for low-to-moderate income families, far surpassing food stamps and Temporary Assistance to Needy Families (TANF). In 2007, 23.1 million eligible families and individuals claimed the EITC amounting to over \$44.6 billion returned to their communities. For many families, the income support gained from the EITC can be significant. According to the Annie E. Casey Foundation, in 2006 the EITC lifted 5 million people above the poverty line. Unfortunately, many tax preparers have reduced the economic impact of the EITC by charging high fees for tax preparation and offering high-cost Refund Anticipation Loans (RALs) or Refund Anticipation Checks (RACs) for filers who want quick access to their EITC refund.

The goal of this report is to provide some basic information about the use of EITC, RALs, and RACs in New Mexico. In addition, some information is provided about the use of EITC, RALs, and RACs in Native American communities in New Mexico.

### II. OVERVIEW

Over the past four years, New Mexico has seen a steady increase in the amount of money brought into the state by people participating in the EITC program. In 2008, 204,565 tax filers claimed the EITC and brought \$407,219,554 into the state's economy. This is an increase of \$14,394,534 from 2005 in terms of real dollars (adjusted for inflation). Because of a local multiplier effect as each EITC dollar is spent many times over in New Mexico's economy, the total contribution to the economy is much greater. See Table 1 for more information.



**Table 1: EITC Filers in New Mexico 2005-2008**

Tax Filing Year	Total Tax Returns filed in New Mexico	Total Tax Returns Claiming the EITC	EITC Filers as a Percent of Total Filers	Total EITC Amount Received (in 2008 dollars – adjusted for inflation)
2005	804,168	194,682	24%	\$392,825,020
2006	821,707	195,128	24%	\$393,114,730
2007	860,655	195,249	23%	\$393,818,760
2008	949,607	204,565	22%	\$407,219,554

### III. USE OF REFUND ANTICIPATION LOANS AND REFUND ANTICIPATION CHECKS IN NEW MEXICO

Tables 2 and 3 provide an overview of the use of Refund Anticipation Loans and Refund Anticipation Checks in the state over the past three years. A Refund Anticipation Loan (or RAL) is a 1-2 week loan made by banks on behalf of filers, facilitated by tax preparers, and secured by a taxpayer’s expected tax refund.<sup>1</sup> RALs are marketed as a way to “get your money quickly” and result in users paying substantial fees to access their tax refunds usually only 5-10 days faster than they would if they filed electronically. The average expense of the 1-2 week loan can be the equivalent of 50-500 percent annual percentage rate, depending on the total fee and loan term. RALs differ from Refund Anticipation Checks. Refund Anticipation Checks (or RACs) are non-loan products offered by paid tax preparers that, like RALs, allow relatively quick access to tax refund money. RACs allow households without bank accounts to benefit from directly-deposited refunds into temporary bank accounts opened by the tax preparer. Once the refund has been received, the tax preparer closes the temporary bank account and provides the refund payment to the tax filer. RACs usually cost significantly less than RALs.

**Table 2: Use of RALs in New Mexico 2005-2008<sup>2</sup>**

Tax Filing Year	Total Filers Taking a RAL	Percent of Total Filers Taking a RAL	Total EITC Filers Taking a RAL	Percent of EITC Filers Taking a RAL	Total Cost of RALs for all tax payers (in 2008 dollars – adjusted for inflation)	Total Cost of RALs for EITC tax payers (in 2008 dollars – adjusted for inflation)	Percent of RAL dollars spent by EITC filers
2005	68,013	11%	47,484	25%	\$17,916,324	\$12,508,472	70%
2006	69,816	11%	48,363	26%	\$17,942,712	\$12,429,291	69%
2007	67,836	10%	46,583	25%	\$16,959,000	\$11,645,750	69%
2008	76,528	8%	51,177	25%	\$19,132,000	\$12,794,250	67%

<sup>1</sup> Because the IRS has decided to stop issuing the debt indicator in 2011, tax preparation firms may have difficulty gaining access to credit to offer RALs, which would lead to a significant decline in RALs in future years. We will continue to monitor these trends.

<sup>2</sup> RAL numbers represent the number of people applying for a RAL. Up to 10% of RAL applications can be denied, but are usually rolled over into a RAC product.



As can be seen in Table 2, use of RALs among EITC filers in the state has hovered right around 25% over the past four years, but use of RALs among all filers declined to 8% in 2008 from 11% in 2005. RALs costs New Mexico taxpayers over \$19 million in 2008, and drained \$12,794,250 from the pockets of tax filers claiming the EITC, reducing the impact of this tax credit.<sup>3</sup> Sixty-seven percent of the dollars spent on RAL products were spent by EITC filers, even though they made up only 22% of filers in 2008. This corroborates other research that suggests that RALs are more likely to be used by low-income tax filers.

**Table 3: Use of RACs in New Mexico 2005-2008<sup>4</sup>**

Tax Filing Year	Total Filers Taking a RAC	Percent of Total Filers Taking a RAC	Total EITC Filers Taking a RAC	Percent of EITC Filers Taking a RAC	Total Cost of RACs for all tax payers (in 2008 dollars – adjusted for inflation)	Total Cost of RALs for EITC tax payers (in 2008 dollars – adjusted for inflation)	Percent of RAL dollars spent by EITC filers
2005	NA	NA	NA	NA	NA	NA	NA
2006	72,501	11%	33,097	18%	\$10,057,217	\$4,591,160.24	46%
2007	72,395	10%	32,880	17%	\$9,768,981	\$4,436,827.20	45%
2008	78,622	8%	34,050	17%	\$10,220,860	\$4,426,500.00	43%

Data on use of RACs were not available for the 2005 tax filing year. However, data from 2006, 2007 and 2008 seem to indicate that use of RACs is holding steady among EITC filers but declining for all tax filers. RACs cost all tax filers \$10,220,860 in 2008, and drained \$ 4,426,500 from the pockets of tax filers claiming the EITC, reducing the impact of this credit. Forty-three percent of the funds spend on RACs came from EITC filers, even though they made up only 22% of filers in 2008.

These data suggest that unfortunately RAL use among lower-income EITC filers has held steady in New Mexico over the last four years. In addition, it appears that RACs are not used as often as RALs by EITC filers. If RALs offerings decline in the next few years because the IRS will not issue debt indicators, use of RACs may increase.<sup>5</sup>

We examined the use of EITC by tax filers for each county in New Mexico (see Table 4). In some counties, EITC brings a considerable amount of money into the local economy. For example, in Bernalillo County, one of the highest population counties in the state, EITC contributed \$103,088,471 to the local economy in 2008.

<sup>3</sup> The total cost of RALs is estimated by multiplying the total number of RAL filers by an estimated cost of \$250.00 per RAL (\$100 tax prep fee and \$150 RAL fee).

<sup>4</sup> RAC numbers represent the number of people applying for a RAC.

<sup>5</sup> See footnote 1.



**Table 4: Use of EITC in New Mexico, 2008 tax filing year**

County	Total Number of EITC Returns	Total amount of money EITC brings into the community	Total Number of EITC Filers-Self Prepared	Percent of EITC Filers-Self Prepared	Total Number of EITC Filers Using Paid Preparer	Percent of EITC Filers Using Paid Preparer	Total Number of EITC Filers Using a VITA Site	Percent of EITC Filers Using a VITA Site
Bernalillo	55,409	\$ 103,088,471	20,839	38%	30,398	55%	3,965	7%
Catron	294	\$ 443,682	103	35%	149	51%	0	0%
Chaves	7,608	\$ 15,997,482	2,545	33%	4,957	65%	81	1%
Cibola	2,802	\$ 5,583,335	691	25%	2,047	73%	24	1%
Colfax	1,339	\$ 2,504,761	450	34%	878	66%	0	0%
Curry	5,356	\$ 11,106,170	1,490	28%	3,410	64%	419	8%
De Baca	211	\$ 409,233	48	23%	146	69%	0	0%
Dona Ana	25,263	\$ 57,323,390	6,117	24%	18,032	71%	951	4%
Eddy	4,912	\$ 9,817,302	1,568	32%	3,185	65%	90	2%
Grant	2,990	\$ 5,518,457	1,015	34%	1,747	58%	171	6%
Guadalupe	598	\$ 1,179,400	277	46%	294	49%	0	0%
Harding	45	\$ 64,939	14	31%	11	24%	0	0%
Hidalgo	601	\$ 1,251,363	203	34%	360	60%	30	5%
Lea	5,533	\$ 11,415,311	1,314	24%	4,051	73%	131	2%
Lincoln	2,133	\$ 3,955,867	772	36%	1,240	58%	46	2%
Los Alamos	354	\$ 523,700	213	60%	132	37%	0	0%
Luna	3,993	\$ 8,661,653	1,434	36%	2,547	64%	0	0%
McKinley	15,103	\$ 33,554,214	2,194	15%	12,686	84%	175	1%
Mora	618	\$ 1,172,499	298	48%	286	46%	0	0%
Otero	6,273	\$ 12,764,659	2,074	33%	3,796	61%	342	5%
Quay	1,149	\$ 2,104,544	432	38%	484	42%	192	17%
Rio Arriba	3,874	\$ 7,350,957	1,284	33%	2,314	60%	169	4%
Roosevelt	2,172	\$ 4,621,834	793	37%	1,297	60%	32	1%
San Juan	15,151	\$ 31,186,643	2,660	18%	12,183	80%	230	2%
San Miguel	3,427	\$ 6,633,334	1,390	41%	1,880	55%	75	2%
Sandoval	9,940	\$ 18,782,966	3,867	39%	5,496	55%	459	5%



**Table 4: Use of EITC in New Mexico (cont'd)**

County	Total Number of EITC Returns	Total among of money EITC brings into the community	Total Number of EITC Filers Self Prepared	Percent of EITC Filers Self-Prepared	Total Number of EITC Filers Using Paid Preparer	Percent of EITC Filers Using Paid Preparer	Total Number of EITC Filers Using a VITA Site	Percent of EITC Filers Using a VITA Site
Santa Fe	11,064	\$ 18,845,681	3,468	31%	6,346	57%	1,168	11%
Sierra	1,259	\$ 2,225,558	441	35%	751	60%	29	2%
Socorro	2,292	\$ 4,901,609	716	31%	1,502	66%	22	1%
Taos	3,954	\$ 6,772,203	1,567	40%	2,311	58%	10	0%
Torrance	1,711	\$ 3,381,604	646	38%	987	58%	30	2%
Union	361	\$ 656,372	141	39%	168	47%	0	0%
Valencia	6,776	\$ 13,420,361	2,442	36%	4,070	60%	233	3%

As can also be seen from Table 4, the majority of EITC filers use a paid tax preparer to prepare their tax returns. Only a small percentage of filers use Volunteer Income Tax Assistance (VITA) sites to have their taxes prepared free. VITA sites represent an alternative to high cost tax preparers that tend to push-market RALs and RACs. We believe that VITA programs should be supported by federal, tribal, state, and local policy makers because they represent a low-cost way for people to have their taxes prepared without being encouraged to use high-cost products like RALs and RACs.

It is also noteworthy that counties with a high Native American population appear also to have high use of paid tax preparation services. In fact, a bivariate correlation testing the strength of the relationship between percent Native American population in a county and the percent of EITC filers using a paid preparer is .54, indicating a moderate relationship.<sup>6</sup> This is noteworthy because it means that EITC filers in counties with a large Native American population appear to be somewhat more likely to use a paid preparer, which reduces the impact of their tax refund by at least \$100 per filer. These communities would benefit greatly from a VITA program or a low-cost tax preparation program.

<sup>6</sup> A bivariate correlation measures the strength of a statistical relationship on a scale of 0 to 1.0. Any measure below .60 is not considered to indicate a very strong relationship. It is noteworthy that the bivariate correlation between the percent of the total population in poverty and the percent of EITC filers using a RAL is .37. Further multivariate analysis is needed to understand the statistical relationship between these variables.



We also examined the use of RALs and RACs by EITC filers for each county in New Mexico (see Table 5). In some counties with large Native American populations, the cost of RALs and RACs to the local economy is significant – in Cibola County, EITC filers spent \$317,500 on RALs in 2008 and in McKinley County, EITC filers spent \$1,350,000 on RALs in 2008. We focus on RAL use by EITC filers for these data tables because the EITC program is designed to use taxpayer dollars to provide income supports to low to moderate income workers, and RAL and RAC products represent a decrease in the impact of the EITC program on intended recipients.

We also examined whether use of RALs is correlated to poverty or high Native American population at the county level. In fact, the correlations for both are quite low for New Mexico counties, indicating there is not a strong statistical relationship in the state of New Mexico when looking at county level data. In other words, EITC filers in counties with higher Native American population or higher poverty levels are not more likely to use RALs. The correlation between percent Native American population in a county and percent use of RALs was .20, and the correlation between the percent of the population in poverty and use of RALs was only .40.<sup>7</sup> However, when looking at zip code-level data, it does appear that there is high use of RALs and RACs in certain Native American communities. This is discussed in greater detail on page 14.

**Table 5: Rank of New Mexico Counties by Percentage of EITC Filers Getting a RAL, Tax Filing Year 2008**

Rank	County	Percent Native American Population	Reservation Part of County?	Percent of EITC Filers Receiving a RAL	Percent of EITC Filers Getting a RAC	Number of EITC Filers Getting a RAL	Estimated costs of RALS and Tax Prep Fee to Community <sup>8</sup>	Percent of Total Population in Poverty <sup>9</sup>
1	Cibola	40%	Yes - Acoma, Laguna, Navajo, Zuni	45%	19%	1,270	\$ 317,500	24%
2	Lea	1%		40%	18%	2,228	\$ 557,000	16%
3	Eddy	1%		37%	20%	1,805	\$ 451,250	15%
4	McKinley	75%	Yes - Navajo, Zuni	36%	6%	5,400	\$ 1,350,000	31%
5	Chaves	1%		34%	18%	2,582	\$ 645,500	21%
6	Guadalupe	1%		33%	15%	197	\$ 49,250	24%
7	Curry	1%		33%	24%	1,747	\$ 436,750	18%
8	Colfax	2%		31%	15%	419	\$ 104,750	17%
9	Roosevelt	1%		30%	23%	647	\$ 161,750	21%

<sup>7</sup> A bivariate correlation measures the strength of a statistical relationship on a scale of 0 to 1.0. Any measure below .60 is not considered to indicate a very strong relationship. Further multivariate analysis is needed to understand the statistical relationship between these variables.

<sup>8</sup> Cost of RALs is calculated by multiplying the number of RALs by an estimated cost of \$250 per RAL (\$100 tax prep fee and \$150 RALs fee).

<sup>9</sup> Poverty measures come from Census Bureau Small Area Income and Poverty Estimates at <http://www.census.gov/cgi-bin/saipe/saipe.cgi> accessed on October 8, 2010.



**Table 5: Rank of New Mexico Counties by Percentage of EITC Filers Getting a RAL, Tax Filing Year 2008 (cont'd)**

Rank	County	Percent Native American Population	Reservation Part of County?	Percent of EITC Filers Receiving a RAL	Percent of EITC Filers Getting a RAC	Number of EITC Filers Getting a RAL	Estimated costs of RALS and Tax Prep Fee to Community	Percent of Total Population in Poverty <sup>10</sup>
10	Socorro	11%	Yes - Navajo, Zuni	30%	11%	682	\$ 170,500	27%
11	San Miguel	2%		29%	16%	1,002	\$ 250,500	26%
12	Valencia	3%	Yes - Isleta, Laguna	28%	18%	1,893	\$ 473,250	16%
13	Luna	1%		28%	17%	1,115	\$ 278,750	28%
14	Hidalgo	1%		28%	15%	167	\$ 41,750	21%
15	Otero	6%	Yes - Mescalero	26%	24%	1,657	\$ 414,250	18%
16	Lincoln	2%	Yes - Mescalero	25%	17%	542	\$ 135,500	15%
17	Dona Ana	2%		24%	21%	6,173	\$ 1,543,250	23%
18	Rio Arriba	14%	Yes - Jicarilla Apache, San Juan, Santa Clara	24%	20%	945	\$ 236,250	17%
19	Sandoval	16%	Yes - Conchiti, Jemez, Jacarilla Apache, Sandia, San Felipe, San Ildefonso, Santa Ana, Santa Clara, Santa Domingo, Zia	24%	22%	2,409	\$ 602,250	11%
20	Bernalillo	4%	Yes - Isleta, Laguna, Navajo, Sandia	23%	18%	12,975	\$ 3,243,750	14%
21	Torrance	4%	Yes - Isleta	22%	20%	375	\$ 93,750	21%
22	Taos	1%		21%	13%	835	\$ 208,750	18%
23	Quay	1%		21%	13%	240	\$ 60,000	20%

<sup>10</sup> Poverty measures come from Census Bureau Small Area Income and Poverty Estimates at <http://www.census.gov/cgi-bin/saipa/saipa.cgi>, accessed on October 8, 2010.



**Table 5: Rank of New Mexico Counties by Percentage of EITC Filers Getting a RAL, Tax Filing Year 2008 (cont'd)**

Rank	County	Percent Native American Population	Reservation Part of County?	Percent of EITC Filers Receiving a RAL	Percent of EITC Filers Getting a RAC	Number of EITC Filers Getting a RAL	Estimated costs of RALS and Tax Prep Fee to Community	Percent of Total Population in Poverty <sup>11</sup>
24	Santa Fe	3%	Yes - Conchiti, Nambe, Pojoaque, San Ildefonso, Santa Clara, Santa Domingo, Tesuque	20%	15%	2,212	\$ 553,000	12%
25	Sierra	2%		20%	9%	246	\$ 61,500	24%
26	Mora	1%		19%	8%	120	\$ 30,000	23%
27	De Baca	1%		19%	14%	40	\$ 10,000	18%
28	Grant	1%		18%	18%	552	\$ 138,000	19%
29	Union	1%		16%	14%	59	\$ 14,750	16%
30	Los Alamos	1%		8%	18%	28	\$ 7,000	3%
31	San Juan	37%	Yes - Navajo, Ute Mountain	4%	4%	615	\$ 153,750	14%
32	Catron	2%		0%	0%	0	\$ -	21%
33	Harding	1%		0%	0%	0	\$ -	15%

<sup>11</sup> Poverty measures come from Census Bureau Small Area Income and Poverty Estimates at <http://www.census.gov/cgi-bin/saie/saie.cgi> accessed on October 8, 2010.



If we look at the take-up rate of RALs among only those who file their tax returns using a paid tax preparer, we again see that Cibola County has the one of the highest rates of RAL usage among EITC recipients (see Table 6). In Cibola County, over six out of every ten EITC filers using a paid preparer opted to apply for a RAL.

Measuring RAL use among EITC filers who visit a paid tax preparer is a more accurate way of measuring the impact of RALs, because the vast majority of RALs are offered only by paid tax preparers. High use of RALs among EITC filers may indicate aggressive marketing or targeting of specific populations. It may also indicate that there is a high demand for the service as people have limited resources to pay for tax preparation or are unaware of alternatives to paid tax preparation such as VITA sites.

Table 6: Rank of New Mexico Counties by Highest Percentage of EITC Filers Using a Paid Tax Preparer Getting a RAL, Tax Filing Year 2008			
Rank	County	Percent of EITC Filers Using a Paid Preparer Getting a RAL	Percent of EITC Filers Using a Paid Preparer Getting a RAC
1	Guadalupe	67%	30%
2	Cibola	62%	26%
3	Eddy	57%	31%
4	Lea	55%	25%
5	San Miguel	53%	30%
6	Chaves	52%	27%
7	Curry	51%	38%
8	Roosevelt	50%	39%
9	Quay	50%	30%
10	Colfax	48%	23%
11	Valencia	47%	30%
12	Hidalgo	46%	26%
13	Socorro	45%	17%
14	Sandoval	44%	39%
15	Luna	44%	27%
16	Lincoln	44%	30%
17	Otero	44%	39%
18	Bernalillo	43%	33%
19	McKinley	43%	7%
20	Mora	42%	17%
21	Rio Arriba	41%	33%



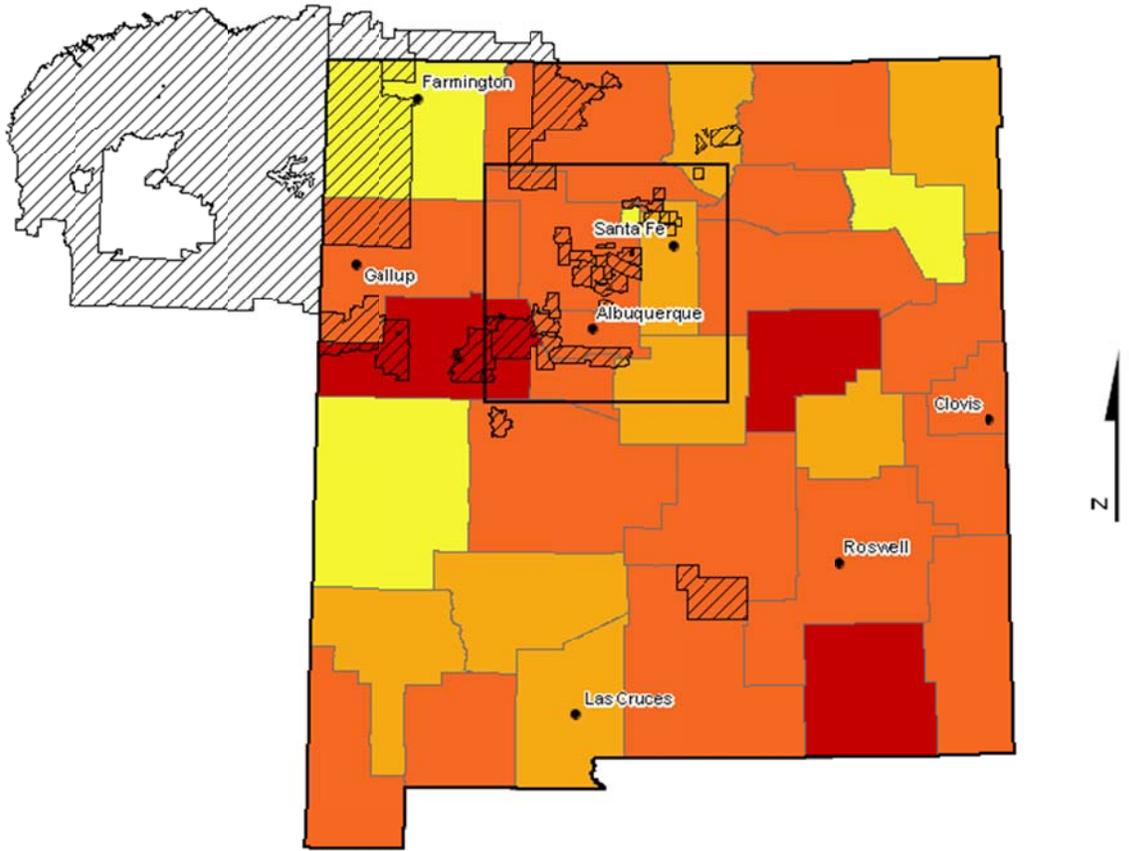
**Table 6: Rank of New Mexico Counties by Highest Percentage of EITC Filers Using a Paid Tax Preparer Getting a RAL, Tax Filing Year 2008 (cont'd)**

Rank	County	Percent of EITC Filers Using a Paid Preparer Getting a RAL	Percent of EITC Filers Using a Paid Preparer Getting a RAC
22	Torrance	38%	34%
23	Taos	36%	22%
24	Union	35%	29%
25	Santa Fe	35%	26%
26	Dona Ana	34%	30%
27	Sierra	33%	15%
28	Grant	32%	31%
29	De Baca	27%	21%
30	Los Alamos	21%	48%
31	San Juan	5%	5%
32	Catron	0%	0%
33	Harding	0%	0%

Maps 1 and 2 display county-level data regarding use of RALs and RACs among EITC filers. As stated above, there does not seem to be any pattern regarding higher use of RALs or RAC in Native American communities at the county level. It does appear RACs are used more often in urban areas.

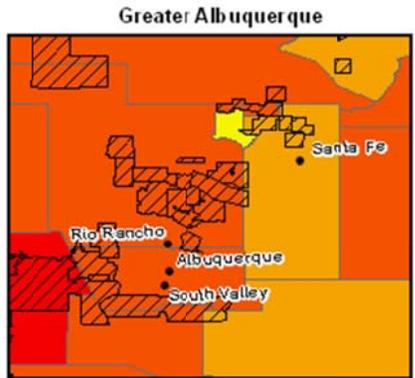


**Map 1: Use of RALs Among EITC Filers in New Mexico, 2008-County Level**



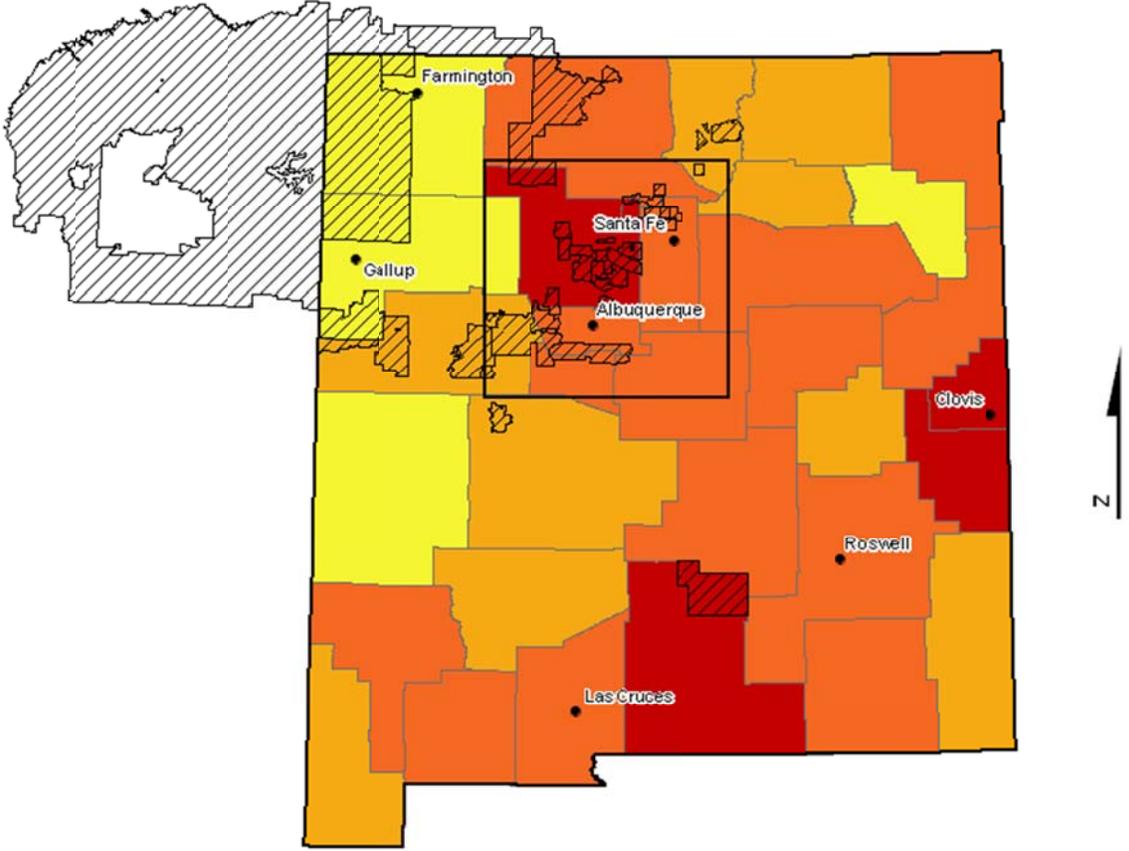
**As Percent of EITC Filers Using a Paid Preparer**

-  Indian Lands
-  0% - 24.7%
-  24.8% - 40.1%
-  40.2% - 55.4%
-  55.5% - 67%



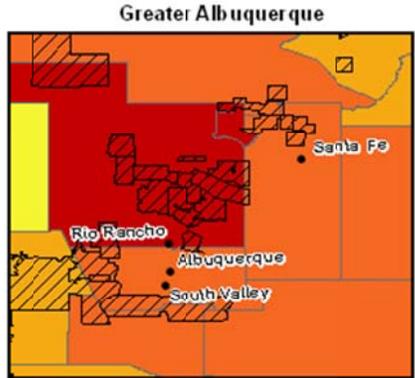


**Map 2: Use of RACs Among EITC Filers in New Mexico, 2008-County Level**



**As Percent of EITC Filers Using a Paid Preparer**

-  Indian Lands
-  0% - 15%
-  15.1% - 26%
-  26.1% - 37%
-  37.1% - 48.5%





#### IV. DATA ANALYSIS AT THE ZIP CODE LEVEL

While the county-level analysis reveals some interesting patterns regarding the use of RALs and RACs in New Mexico's counties, it is also useful to examine data at the zip code level. This section of the report provides maps of zip code regions in the state. Map 3 provides data at the zip code level on the use of RALs by EITC filers.<sup>12</sup> The zip codes are color-coded based on whether they are 1 or 2 standard deviations above or below the mean, which in this case is 41%. When the data are coded this way, it is easier to see outliers. Because zip code level data provide information for smaller geographic areas, analysis may also reveal patterns that are present in different communities such as Indian reservations. There are some data missing from the zip code-level data set because zip codes with counts of less than 10 are suppressed by the IRS to protect confidentiality.

In Map 3, spatial patterns suggest that RAL use is higher among people who live on reservation land in New Mexico, especially around the Albuquerque area and near Gallup. For example, in McKinley County (where Gallup is located), it appears there is very high use of RALs among the population living within the reservation boundaries. And in Otero County (at the bottom central part of the state) use of RALs is highest among those living on the reservation of the Mescalero Apache Tribe. Use of RALs is also higher than average in the communities along the border with Mexico. This may indicate a relationship between use of RALs and higher levels of poverty, and this should be examined with further research. It may also indicate that RALs are more heavily "push-marketed" in these communities, or it may indicate a higher demand for these products by consumers. It may also reflect a lack of alternatives through free tax preparation and electronic filing with deposits into individual bank accounts.

Map 4 provides data at the zip code level on the use of RACs by EITC filers.<sup>13</sup> The zip codes are color-coded based on whether they are 1 or 2 standard deviations above or below the mean, which in this case is 30%. When the data are coded this way, it is easier to see outliers. There are some data missing from the zip code-level data set because zip codes with counts of less than 10 are suppressed. Also, in one case, the numbers amount to over 100% because some filers may be using RACs through a credit union or other organization and not using a paid preparer. This map of use of RACs does not seem to indicate any relationship between use of RACs and Native American communities. However, it does suggest that use of RACs is relatively high in urban areas and in the region along the border with Mexico.

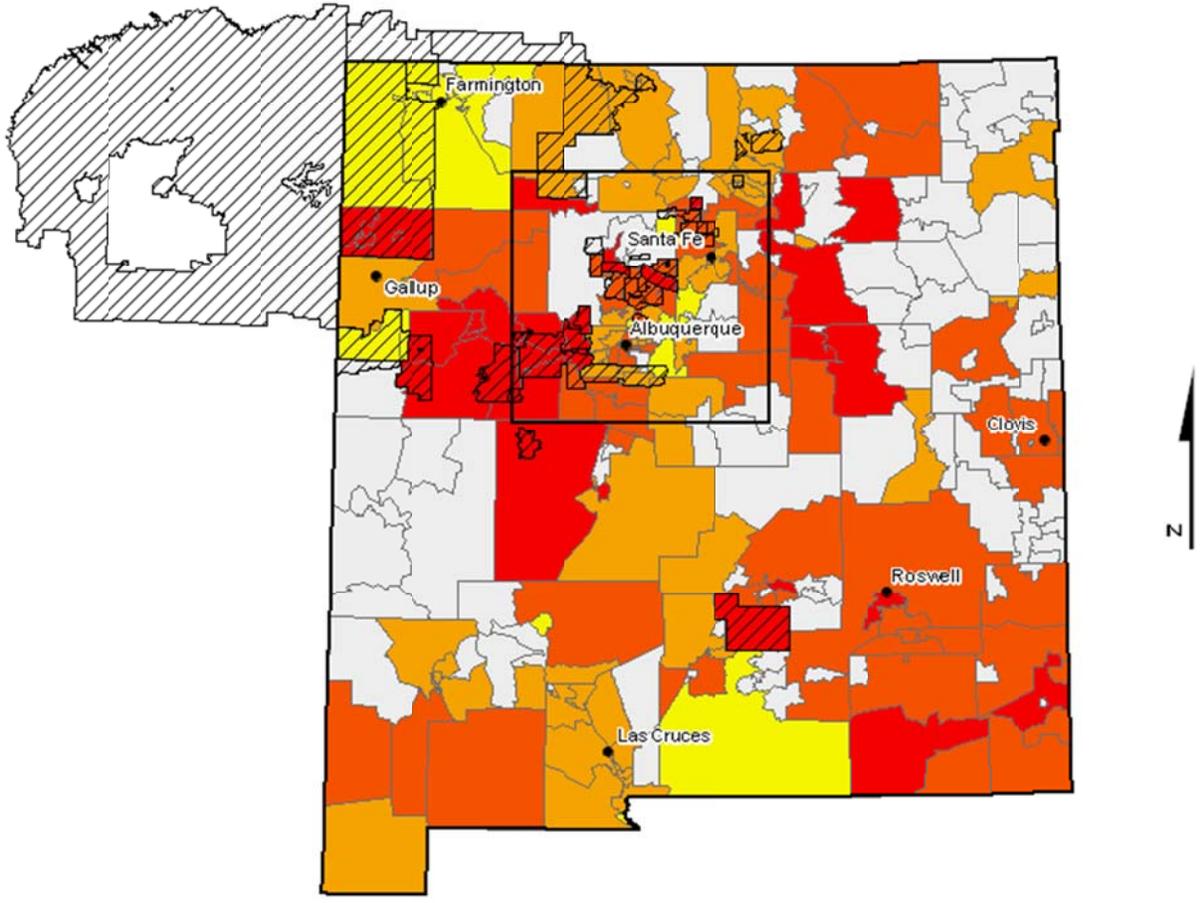
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<sup>12</sup> This dataset includes all EITC filers who used a paid preparer to file their tax returns. We only looked at EITC filers who used a paid preparer because the majority of RALs are offered by paid preparers. A high use of RALs may indicate that the product is being "push marketed" to consumers, or may indicate that there is higher demand for this product in some regions rather than others.

<sup>13</sup> This dataset includes all EITC filers who used a paid preparer to file their tax returns.

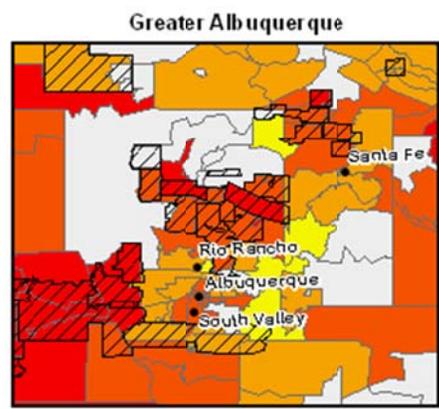


**Map 3: Use of RALs Among EITC Filers in New Mexico, 2008  
Zip Code Level**



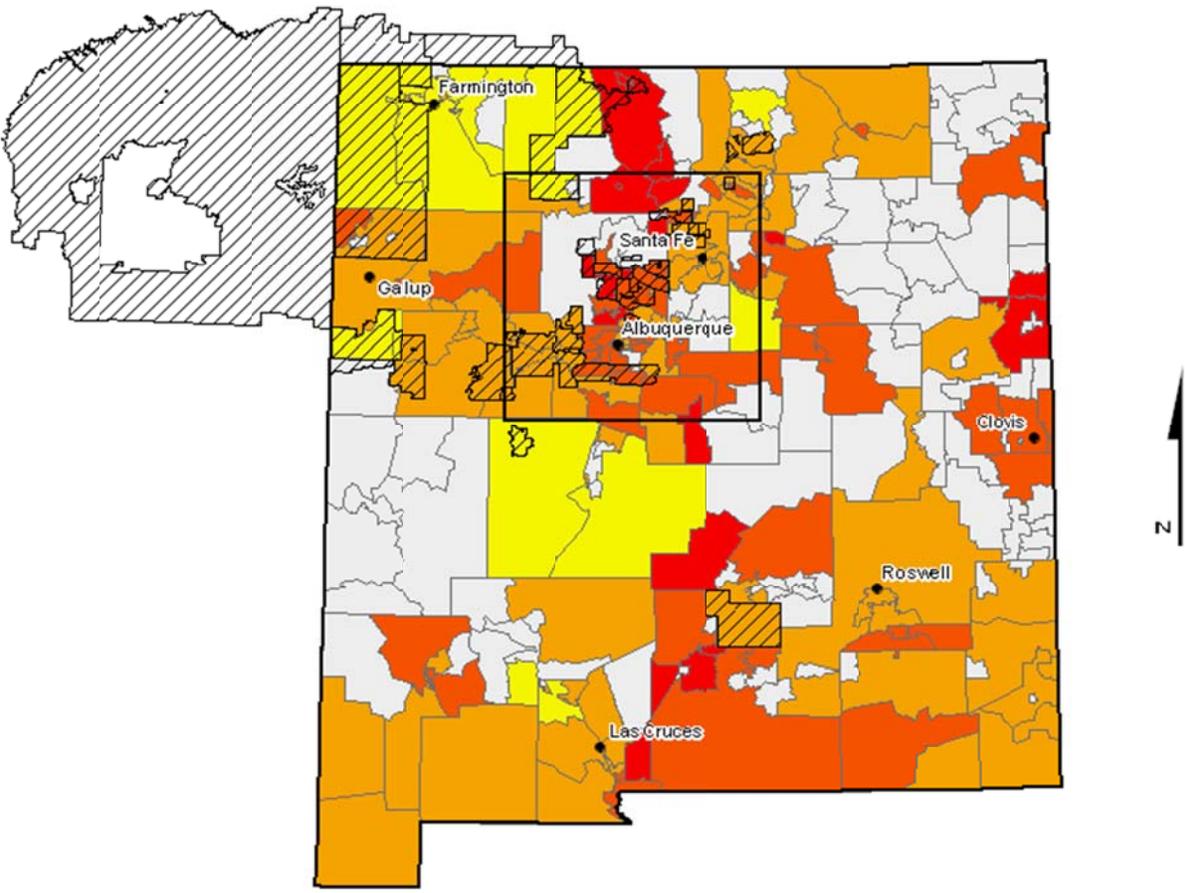
**As Percent of  
Total EITC Filers**

-  Indian Lands
-  6.4% - 27.3%
-  27.4% - 41.2%
-  41.3% - 55.2%
-  55.3% - 83.1%
-  No data

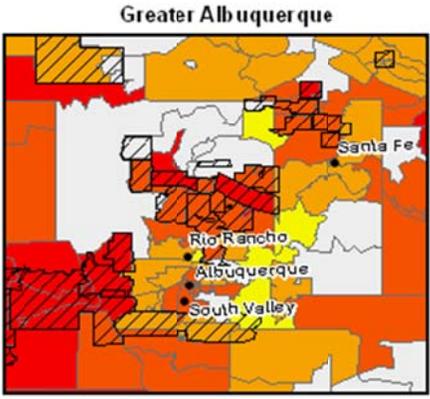




**Map 4: Use of RACs Among EITC Filers in New Mexico, 2008  
Zip Code Level**



- As Percent of Total EITC Filers**
-  Indian Lands
  -  6.2% - 18.4%
  -  18.5% - 30.8%
  -  30.9% - 43.1%
  -  43.2% - 103.3%
  -  No data





## V. CONCLUSION

Over the past four years, New Mexico has seen a steady increase in the amount of money brought into the state by people participating in the EITC program. In 2008, 204,565 tax filers brought \$407,219,554 into the state's economy by claiming the EITC. This is an increase of \$14,394,534 from 2005 in terms of real dollars (adjusted for inflation). Because of a local multiplier effect as each EITC dollar is spent many times over in New Mexico's economy, the total contribution to the state's economy is much greater.

Unfortunately, RAL and RAC use has been holding steady among EITC filers in the state of New Mexico since 2005. RALs cost New Mexico taxpayers an estimated \$19 million in 2008. RALs also drained \$12,794,250 from the pockets of tax filers claiming the EITC, reducing the impact of this tax credit. RACs took another \$10,220,860 from New Mexico tax filers, costing EITC filers a total of \$4,426,500. There is still work to be done to provide alternatives to high priced tax services and educate consumers about the high cost of RALs and RACs. Volunteer Income Tax Assistance sites, low cost alternative RALs offered by credit unions and CDFIs, and other efforts to reduce the demand for RALs and RACs should be supported.

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