

**STATEMENT OF
BERNARD WILSON, VICE PRESIDENT, H&R BLOCK
ON BUILDING ASSETS FOR LOW-INCOME FAMILIES
SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY
SENATE FINANCE COMMITTEE
APRIL 28, 2005**

Mr. Chairman, thank you for the invitation to share H&R Block's experience in helping low-income families save.

H&R Block serves nearly 20 million taxpayers at 11,000 offices across America, including 490 offices in Pennsylvania, and through online and packaged tax preparation software.

In our 50th year, we are evolving from a firm devoted to helping families deal with their tax filing responsibility to one that advises on a broader range of financial issues, including the need to save for education, home ownership, and retirement.

Our recent experience with the Retirement Saver's Credit may be helpful to the subcommittee.

Enacted in 2001, the credit provides a government match of up to 50% for contributions to 401(k), IRAs, and similar retirement plans. It covers taxpayers with incomes up to \$50,000 who have income tax liability.

The features of the Saver's Credit play an important role in encouraging retirement savings.

- First, the credit relies on personal responsibility. People can't claim it unless they are willing to make a substantial commitment to the futures of their families through their own contributions. This is not a hand-out, but a hand-up on the road to retirement security.
- Second, it uses tax time to promote savings. One hundred million tax filers have refunds averaging \$2,100. With nearly 60% using professional tax preparers, the run up to April 15 is also a chance for an annual family financial check up and an opportunity to turn good intentions and savings advice into immediate action.
- Third, it supports the existing private retirement system, leveraging the well-known structure of IRAs, 401(k)s, and other vehicles and encouraging eligible taxpayers with low- and moderate-incomes to use them.
- Fourth, the match rate of up to 50% provides a large enough incentive both to strengthen savings and to encourage first-time savers.
- Finally, the higher match rate for those with lower incomes targets benefits at those who most need help in saving in contrast to traditional incentives favoring those in the highest tax brackets.

Many of our clients are eligible for the Saver's Credit. But polls taken shortly after enactment showed more than 80% of Americans had no idea what it was. In response, we provided extra training for our tax professionals. We also created a low-cost, low-minimum-deposit "Express IRA" to help more clients use the credit to save. Professional tax return preparers can provide pivotal education, advice, and facilitation to enable taxpayers to benefit from the credit. As a result—

- Over the last three years, we have helped over 3.6 million clients obtain Saver's Credits, about 25% of the total number of Saver's Credits claimed nationally. Our clients received over \$600

million in tax credits to help them save. This resulted in average savings of \$529 per client with an average credit of \$167 each per year.

- While most used the Saver's Credit to match contributions to an existing 401(k), IRA, or other retirement plan, over 243,000 used an Express IRA, with an average tax benefit of \$179. Among these clients—
 - the average income is \$27,000
 - half are considered “unbanked”
 - two-thirds are Earned Income Tax Credit recipients
 - 80% are first-time retirement savers
 - 85% maintain their IRA account balances

Our experience thus shows that the credit – combined with a tax refund, a low-cost savings vehicle, and the help of a tax professional – can have a significant impact on retirement savings.

To build on this success, we encourage the Senate to consider extending the credit beyond 2006 and expanding it to include more middle- and low-income taxpayers. Because recent tax cuts have increased to 40% the number of Americans who have no income tax liability (families of four with incomes up to about \$40,000), you may want to consider making the credit refundable so it is available to these families as well.

We know from our experience that the Saver's Credit works. As the Committee deliberates ways to boost savings among low- and moderate-income families, we encourage you to consider making the credit permanent and expanding its reach.

Celebrating its 50th anniversary in 2005, H&R Block is the world's largest tax services provider, having served more than 400 million clients since 1955. The sixth largest retailer in the world, H&R Block has more than 12,500 locations serving taxpayers in the United States, Canada, Australia and other countries. Headquartered in Kansas City, H&R Block served more than 19 million U.S. clients during fiscal year 2004 at approximately 12,000 H&R Block retail offices worldwide and through software and online services. Over 167,000 company and franchise employees deliver tax services including preparation of one out of seven individual tax returns filed with the IRS. H&R Block tax schools trained 250,000 students including 84,000 enrolled in our 66-hour basic tax course. H&R Block served 3.2 million tax clients through its *TaxCut*® software and through online tax preparation services.

H&R Block's subsidiaries also deliver financial advice, investment and mortgage services, and business accounting and consulting services. H&R Block Financial Advisors Inc., headquartered in Michigan, offers investment services and securities products. With approximately 1,000 financial advisors serving clients at approximately 270 branch offices, H&R Block Financial Advisors is a member NYSE, SIPC, a registered broker-dealer and investment advisor. H&R Block Inc. is not a registered broker-dealer and is not a registered investment advisor. H&R Block Mortgage Corp. offers a full range of retail mortgage services. Option One Mortgage Corp., headquartered in California, provides mortgage services and offers wholesale mortgages through large financial institutions and a network of 24,000 independent mortgage brokers. RSM McGladrey Business Services Inc., headquartered in Minnesota, and its subsidiaries serve mid-sized businesses and their owners with tax, accounting and business consulting services, as well as personal wealth management services. H&R Block Small Business Resources, operating in 14 U.S. cities, serves the tax, financial and business needs of small business owners. H&R Block Small Business Resources is not a licensed CPA firm.