

On tax day, Senators ask government watchdog to review tax-time products

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WASHINGTON, D.C. — U.S. Senator Tammy Duckworth (D-IL) joined the Ranking Member of the Subcommittee on Financial Institutions and Consumer Protection, U.S. Senator Elizabeth Warren (D-MA), and U.S. Senator Al Franken (D-MN) today in asking the Government Accountability Office (GAO) to conduct a review of the tax-time financial products most commonly used by taxpayers, as well as the transparency of and fees charged for these financial products.

"An overwhelming majority of Americans rely on paid tax preparers, or use third-party tax preparation software, to file their taxes each year," wrote the senators. **"Last year, for example, over 78 million Americans filed taxes electronically through paid preparers, and over 53 million used third-party tax software products to prepare and electronically file their own returns."**

The senators asked the government watchdog to examine the scope and impact of tax-time financial products, including which tax-time products are most commonly used, how they are accessed, and whether the fees for these products are reasonable and transparent. The senators also requested that the GAO consider how tax-time products affect taxpayers who receive the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC).

In their letter, the senators raised concerns about the growing use of Refund Anticipation Checks (RACs), which have replaced Refund Anticipation Loans (RALs) in recent years after increased federal regulation. Both RACs and RALs, along with other refund related products lack sufficient transparency and may expose taxpayers to excessive fees.

Senators Duckworth, Warren and Franken are all [co-sponsors of the Tax Filing Simplification Act of 2017](#) to simplify and decrease the costs of the tax filing process for millions of American taxpayers.

Text of the letter, which is available [online](#), is below:

Gene Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Dodaro,

We are writing today to request that the U.S. Government Accountability Office ("GAO") conduct a review of the tax-time financial products most commonly used by U.

S. taxpayers as well as the transparency of, and amount of, fees charged for these tax-time products.

An overwhelming majority of Americans rely on paid tax preparers, or use third-party tax preparation software, to file their taxes each year. Last year, for example, over 78 million Americans filed taxes electronically through paid preparers, and over 53 million used third-party tax software products to prepare and electronically file their own returns.

On average, nonbusiness taxpayers will spend \$120 in preparation fees to file their taxes. Often, these fees are paid through the use of tax refund-related products – financial products associated with a taxpayer's refund that may also carry additional fees. These refund-related products, or "tax-time financial products," take many forms. For years, financial institutions offered taxpayers refund anticipation loans ("RALs"), high-cost loans secured and repaid by an anticipated income tax refund. Following crackdowns by federal regulators, RALs were replaced by refund anticipation checks ("RACs") - "temporary bank accounts established on behalf of a taxpayer into which a direct deposit refund can be received" after fees are deducted by a paid preparer. Other tax-time products have continued to emerge in recent years, including non-bank RALs, "no-fee" RALs, paystub RALs, and additional add-on fees.

One quickly growing segment of this market appears to be refund anticipation checks. While RACs are cheaper than RALs, they may still expose taxpayers to unnecessary fees. RACs cost an average of \$25 to \$60 for federal refunds, and were the source of \$648 million in taxpayer fees in 2014. Fees for RACs and other tax-time products-along with fees for tax preparation services more generally-often lack transparency. In a recent investigation, the GAO found that the "fees charged for tax preparation services" at 19 randomly selected tax preparers "varied widely...Often paid preparers... did not provide an estimate of fees up front or the estimate was less than the actual fees charged."

With the new mandate to delay EITC ("Earned Income Tax Credit") and ACTC ("Additional Child Tax Credit") refunds until February 15th, the demand for tax-time financial products has increased dramatically. This is because tax filing season begins before EITC and ACTC refunds can be disbursed. Some taxpayers also have no choice but to purchase tax-time products because they cannot afford the cost of tax preparation services. For example, a survey of storefront tax preparation chains found that EITC recipients are charged an average of \$400 per return.

To help us better understand the landscape of tax-time financial products, as well as the impact of these products on taxpayers (particularly those taxpayers who receive EITC and ACTC refunds), we request that the GAO examine the following issues:

1. What are the most common forms of tax-time financial products available to taxpayers? How many taxpayers rely on these financial products? How many taxpayers accessing these tax-time products receive the EITC and ACTC?
2. How do taxpayers access these tax-time financial products? How many taxpayers access products via in-person paid preparers, via online tax software, or via 'government-sponsored tax filing services like Free File? When a taxpayer is offered one of these products, are the fees transparent so that a taxpayer would be able to compare prices across vendors?
3. How much do taxpayers typically pay for these tax-time financial products, and are these costs reasonable? What is the estimated amount of EITC or ACTC refunds used to pay for tax-time financial products or other tax filing services? Do taxpayers rely on tax-time financial products to cover the cost of other tax filing services?

Should you have any questions regarding this request, please have a member of your staff contact Susannah Savage of Senator Warren's staff at 202-224-4543, Erika Moritsugu of Senator Duckworth's staff at 202-224-2107, or Tim Everett of Senator Franken's office at 202-224-5641.

Sincerely,



Senator Elizabeth Warren
Ranking Member
Subcommittee on Financial Institutions
And Consumer Protection



Senator Tammy Duckworth



Senator Al Franken

