



## Treasury Inspector General for Tax Administration Office of Audit

### MANY TAXPAYERS WHO OBTAIN REFUND ANTICIPATION LOANS COULD BENEFIT FROM FREE TAX PREPARATION SERVICES

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## Highlights

Highlights of Report Number: 2008-40-170 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Millions of taxpayers borrow against all or part of their expected tax refunds to receive their money more quickly. This is accomplished through short-term loans that cost taxpayers fees and interest payments. Many of these taxpayers are eligible for free tax preparation services offered by the Internal Revenue Service (IRS) and its partners.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine the impact Refund Anticipation Loans (RAL or Loan) have on taxpayers and tax administration. A RAL is a short-term loan based on a taxpayer's expected income tax refund and is a contract between the taxpayer and a lender. The IRS is not involved in this contract, cannot grant or deny the Loan, and cannot answer any questions about it. The Loans are repaid directly to the lender from the proceeds of the taxpayers' tax refunds and last from 5 days to 14 days. For Tax Years 2005–2007, the number of Loans has remained at about 10 million.

### WHAT TIGTA FOUND

TIGTA conducted a telephone survey of 350 taxpayers whose IRS tax records indicated that they had received a RAL, and found most understood that they had received a loan. Tax return preparers generally explained they were receiving a loan but did not explain the interest rate. For the 250 respondents who indicated that they had received RALs, 213 (85 percent) stated that they obtained their Loans so they could more quickly receive their tax refunds. The other 100 indicated that they did not obtain RALs despite what the IRS' records indicated. For the 250 who responded that they received RALs:

- 131 (52 percent) received their Loans the same day or within 2 business days.

- 213 (85 percent) stated that preparers made it clear they were receiving loans. In addition, 220 (88 percent) stated that the preparers explained the fees. However, only 85 respondents (34 percent) stated that they were provided the interest rate for the Loans.
- 167 (67 percent) preparers explained how long it would take for the taxpayers to receive their tax refunds if they chose not to obtain the Loans.
- 213 (85 percent) obtained Loans because they wanted faster access to their tax refunds, and 185 (74 percent) used the money to pay bills. Another 14 (6 percent) used the money to buy or repair a car or for home repairs and expenses. Eight percent stated that they put the money in savings.

The IRS is implementing a new computer system that is expected to reduce the amount of time required to process tax returns. By reducing the number of days required to process tax returns, the IRS will be able to issue tax refunds sooner. Tax returns for 45 (18 percent) of the 250 respondents were processed using the new computer system.

An analysis of taxpayer account data for the respondents showed that 158 (63 percent) received the Earned Income Tax Credit. However, tax return preparation and fees to obtain RALs ranged from 10 percent to 39 percent of the taxpayers' Earned Income Tax Credit, with the percentage generally higher for low-income taxpayers.

The majority of respondents would have qualified for the IRS' free tax return preparation assistance. However, 81 percent (284 of 350) stated that they were unaware of these free services.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS use taxpayer account data for taxpayers who apply for RALs and Refund Anticipation Checks to better focus the IRS' marketing and education efforts so that more taxpayers can make use of the available free services. A Refund Anticipation Check is a non-loan alternative to a RAL.

The IRS agreed with the recommendation. It plans to develop a plan to target taxpayers who apply for RALs and Refund Anticipation Checks into its marketing campaign for the 2009 Filing Season. The plan will include an approach for reaching these taxpayers with key messages, identifying the most effective approach, and determining the cost of this effort.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840170fr.pdf>.

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