



*Many Taxpayers Who Obtain Refund  
Anticipation Loans Could Benefit From Free  
Tax Preparation Services*

**August 29, 2008**

**Reference Number: 2008-40-170**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

**Redaction Legend:**

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 29, 2008

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Many Taxpayers Who Obtain Refund  
Anticipation Loans Could Benefit From Free Tax Preparation Services  
(Audit #200840012)

This report presents the results of our review to determine the impact Refund Anticipation Loans (RAL or Loan) have on taxpayers and tax administration. This audit was conducted as part of our Fiscal Year 2008 Annual Audit Plan.

*Impact on the Taxpayer*

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.

*Synopsis*

During the 2008 Filing Season,<sup>1</sup> almost 10 million taxpayers borrowed against all or part of their expected tax refunds using RALs. 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 last from 5 to 14 days.

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<sup>1</sup> The period between January and April when most taxpayers file their tax returns.



## *Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

We conducted a telephone survey of 350 taxpayers whose IRS Tax Year 2007 tax accounts contained RAL indicators.<sup>2</sup> Respondents stated that they were aware they received Loans and they did obtain their money more quickly. For 250 respondents who indicated that they had received RALs,<sup>3</sup> 213 (85 percent) stated that they obtained their Loans so they could more quickly receive their tax refunds. The other 100 indicated they did not obtain a RAL despite what the IRS' records indicated.

Taxpayers who chose to wait and receive their tax refunds from the IRS waited from 5 days to 8 weeks, depending on how they filed and how they chose to receive their tax refunds (by check or direct deposit). For the 250 respondents who responded that they received RALs:

- 131 (52 percent) received their Loans the same day of or within 2 business days of their tax return preparation.
- 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 with the interest rates 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 they put the money in savings.

Proponents of RAL reform have expressed concerns that preparers might be taking advantage of taxpayers by aggressively marketing the Loans. More than one-half of the respondents--159 (64 percent)--had checking or savings accounts with financial institutions. In fact, 81 preparers suggested that these taxpayers accept their Loan proceeds via a direct deposit to their accounts--11 stated that they followed the preparers' suggestions. Assuming that these taxpayers could afford the tax return preparation and filing fees, they alternatively could have had the IRS directly deposit their refunds to their bank accounts in as few as 5 days.

Most respondents actually received their Loan proceeds within 5 days. Fifty-two percent of respondents (131 of 250) stated that they received their Loan proceeds within 2 days.

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<sup>2</sup> Throughout the report, we refer to these taxpayers as having applied for RALs because their Tax Year 2007 tax accounts contained RAL indicators. However, the taxpayers might not have actually received RALs, applied but did not obtain the loans, or actually received Refund Anticipation Checks. A Refund Anticipation Check is a non-loan alternative to a RAL.

<sup>3</sup> The survey included 350 participants. However, only 250 respondents stated that they obtained RALs. Therefore, only those 250 survey participants were asked the 15 questions specific to the Loans.



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Forty-five percent (113 of 250) of the respondents who indicated that they had received RALs stated that they would have been willing to wait less than a week to receive their tax refunds from the IRS, and 85 percent (212 of 250) stated they would have been willing to wait up to 9 days to receive their tax refunds.

The IRS is implementing a new computer system as part of its modernization project 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. This will shorten the number of days between the time taxpayers receive their RALs and the time it takes the IRS to issue the tax refunds. Of the 250 respondents who stated that they had received Loans, 45 (18 percent) had their tax returns 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.<sup>4</sup> The Earned Income Tax Credit has been cited by many experts as the single Federal Government program that does the most to help get working families out of poverty. However, tax return preparation and fees to obtain RALs ranged from 10 to 39 percent of the taxpayers' Earned Income Tax Credit, with the percentage generally higher for low-income taxpayers.

The majority of survey respondents would have qualified for the IRS' free tax preparation assistance. However, 81 percent (284 of 350) stated that they were unaware of these free services. Taxpayers may visit Taxpayer Assistance Centers,<sup>5</sup> Volunteer Income Tax Assistance sites and Tax Counseling for the Elderly sites, or use the Free-File Program to file their tax returns for free. During the 2008 Filing Season, more than 9 million taxpayers took advantage of these services.

### *Recommendation*

We recommended that the Commissioner, Wage and Investment Division, 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.

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<sup>4</sup> See Appendix VI for select demographics of taxpayers who applied for RALs and Refund Anticipation Checks and claimed the Earned Income Tax Credit on their 2007 tax returns.

<sup>5</sup> Taxpayer Assistance Centers are walk-in sites where taxpayers can receive face-to-face assistance to obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns.



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*Response*

The IRS agreed with the recommendation. It will 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. Management's complete response to the draft report is included as Appendix VIII.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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*Abbreviations*

<i>e-file(d); e-filing</i>	Electronically file(d); electronic filing
IRS	Internal Revenue Service
RAC	Refund Anticipation Check
RAL	Refund Anticipation Loan



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## *Background*

During the 2008 Filing Season,<sup>1</sup> almost 10 million taxpayers borrowed against all or part of their expected tax refunds using Refund Anticipation Loans (RAL or Loan). 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 Internal Revenue Service (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 refund. For Tax Years 2005 through 2007 tax returns,<sup>2</sup> the number of Loans each year has remained at about 10 million.

***Over the last few years, the number of Refund Anticipation Loans per year has remained at about 10 million annually.***

Lenders issue RALs but paid preparers facilitate and advertise them to taxpayers. The lender is a bank and the facilitator is usually the tax preparer or tax return preparation company. The bank first deducts fees for the tax return preparation, electronic filing (*e-filing*), finance charges, and processing. The taxpayer receives the balance of the tax refund by check, direct deposit, debit card, or as a down payment on a good or service. Once the IRS processes the tax return generating the tax refund, the IRS transfers the funds directly to the bank to repay the loan. The loans last from 5 to 14 days. The IRS' regular processing of tax refunds through various methods can range from as few as 5 days to up to 8 weeks.

A Refund Anticipation Check (RAC or Check) is a non-loan alternative to a RAL. With a Check, the bank sets up a temporary account to receive the tax refund. When the tax refund is deposited into the account, the bank deducts the tax return preparation, *e-filing*, and bank processing fees before disbursing the remainder of the funds to the taxpayer. The amount of time taxpayers have to wait to receive a Check is from 5 days to 2 weeks. Checks are often obtained when taxpayers are denied or do not want to pay the higher fees (interest) associated with RALs.

***The IRS places a Debt Indicator on all accounts for taxpayers with outstanding liabilities and allocates all or a portion of taxpayers' refunds to offset the outstanding debts.***

When a taxpayer applies for a RAL, the IRS requires the preparer to input a RAL indicator on the account before *e-filing* the tax return to the IRS. The IRS in turn transmits and provides an electronic acknowledgment advising the preparer that the tax return has been accepted. The acknowledgement might include an input Debt Indicator, which the IRS places

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<sup>1</sup> The period between January and April when most taxpayers file their tax returns.

<sup>2</sup> Tax Year 2007 is for tax returns filed through April 17, 2008.





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on taxpayer accounts for taxpayers with outstanding liabilities collectible by the Federal Government, such as prior tax debt, unpaid child support, or delinquent student loan debt. For these accounts, the IRS will allocate all or a portion of the taxpayers' tax refunds to offset the outstanding debts. Because preparers and lender banks are at risk of not receiving the tax refund to repay the loan, the Debt Indicator is used to evaluate the eligibility of taxpayers applying for RALs. The taxpayer must sign a consent form for the Debt Indicator Program to disclose information to the provider.

### **Recently passed and proposed RAL legislation**

- The Oregon State Department of Revenue proposed legislation in March 2007 requiring tax preparers who facilitate RALs to be licensed and make certain disclosures to taxpayers. Among the provisions were requirements for tax preparers to disclose the interest rates that will be charged and prominently display 1) a schedule of the lender's current interest rates and loan fees, 2) a statement that the tax preparer may not require the taxpayer to obtain a Loan as a condition of filing the taxpayer's tax return electronically, and 3) that the fee for filing a tax return electronically does not depend on whether the taxpayer has obtained a Loan. This legislation was in committee when the legislative session ended in June 2007.
- The State of New Jersey recently passed legislation that would cap the interest rates banks could charge taxpayers for RALs. However, Federal courts ruled that the National Federal Banking Act superseded State laws and any changes would have to be addressed by the U.S. Congress.
- Federal legislation now prohibits offering RALs to active military personnel or their spouses and dependents with Annual Percentage Rates greater than 36 percent. The law also requires that handling fees be included in the interest rate calculation. Including this fee in effect prohibits banks from offering an economically viable RAL that meets the military limitations.

In addition, the IRS, in a notice of advanced proposed rulemaking, describes rules that the Department of the Treasury is considering proposing regarding the disclosure and use of tax return information by tax return preparers. The rules would apply to the marketing of RALs and certain other products in connection with the preparation of a tax return and provides that a tax return preparer may not obtain a taxpayer's consent to disclose or use tax return information for the purpose of soliciting taxpayers to purchase such products. The date for responding to the proposed rulemaking was April 7, 2008.



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**Treasury Inspector General for Tax Administration auditors conducted a telephone survey of 350 taxpayers**

We conducted a telephone survey of 350 taxpayers whose Tax Year 2007 accounts contained RAL indicators. The survey was designed to gain an understanding of why taxpayers obtain Loans and determine the taxpayers' experiences during the process and the cost of the loans.<sup>3</sup>

The survey included taxpayers whose IRS records indicated that they applied for a Loan when having their Tax Year 2007 tax returns prepared. Throughout the report, we refer to these taxpayers as having applied for Loans because their Tax Year 2007 tax account contained a RAL indicator. However, the taxpayers might not have actually received a Loan, applied but did not obtain the loan, or actually received a Check.

This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia, and Electronic Tax Administration function in Washington, D.C. during the period January through May 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. This audit was limited to 1) analyzing data from various IRS computer systems to identify selected characteristics of taxpayers who applied for RALs on their 2007 Tax Year tax returns, 2) contacting taxpayers to participate in a telephone survey, and 3) reviewing current and proposed laws and regulations that apply to RALs. Because we selected a non-representative selection of taxpayers who applied for a RAL for this review, it is not possible to generalize the results of our work and draw conclusions about all taxpayers. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> Appendix VII provides 18 questions posed to taxpayers along with their responses.



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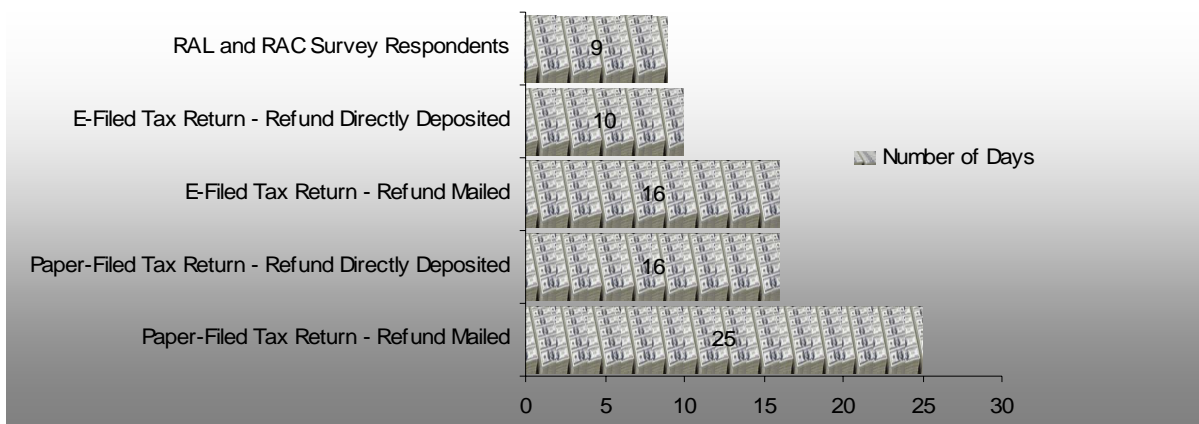
### Results of Review

#### Respondents Were Aware They Had Received Loans to Obtain Their Money More Quickly

The results of the survey show that of 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. Indeed, 131 (52 percent) received their loans the same day of or within 2 business days of their tax return preparation.<sup>4</sup> Taxpayers who chose to wait and receive their tax refunds from the IRS waited from 5 days to 8 weeks, depending on the method of filing and whether they chose to have their tax refunds mailed by check or directly deposited to their bank accounts.

Figure 1 provides a comparison of the average number of days taxpayers usually have to wait for the IRS to issue tax refunds to the average number of days survey respondents would have waited had they chose not to get Loans or Checks.<sup>5</sup>

**Figure 1: Comparison of the Average Number of Days to Issue Tax Refunds<sup>6</sup>**



Source: Our analysis of IRS tax refund data.

<sup>4</sup> The survey included 350 participants. However, only 250 respondents stated that they obtained RALs. Therefore, only those 250 survey participants were asked the 15 questions specific to the Loans.

<sup>5</sup> These data represent refunds issued by the IRS for the period January through May 2008.

<sup>6</sup> The refund data for the RALs and RACs are based on the amount of time it took the IRS to issue the refund to the bank for the 247 survey respondents. As of April 17, 2008, three taxpayers had not received their refunds because the tax returns were going through various IRS screening and fraud detection systems.



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### **Not all respondents obtained RALs**

Not all taxpayers selected for the survey actually obtained RALs. Seventy-one percent (250) of the 350 respondents stated that they had actually received Loans. The other 100 (29 percent) responded that they did not obtain Loans. This might have happened because the taxpayer applied but did not obtain the Loan, or instead received a Check, which is a non-loan alternative to a RAL and is often obtained when a taxpayer is denied or does not want to pay the higher fees associated with the Loan. Indicators on respondents' IRS accounts showed that respondents who answered that they did not receive Loans might have received them, while other respondents who stated they received Loans might not have received them. Figure 2 shows the breakdown of the responses from the survey participants compared to indicators on these taxpayer accounts.

**Figure 2: Survey Responses Versus Indicators**

<b>Respondents</b>		<b>IRS Records</b>	
Stated They Received a RAL	250	RAL Indicator	181
		RAC Indicator	69
Stated They Had Not Received a RAL	100	RAL Indicator	39
		RAC Indicator	61
<b>Total</b>	<b>350</b>		<b>350</b>

Source: Our analysis of survey responses and Tax Return Database data.<sup>7</sup>

Because not all those surveyed responded that they obtained RALs, only those who responded that they had actually obtained RALs were asked all the questions in our survey specific to their experience. Select demographics for survey respondents compared to all taxpayers who used a paid preparer to prepare their tax returns are as follows:<sup>8</sup>

- 54 percent of survey respondents filed as Head of Household – compared to 23 percent of all taxpayers who used paid preparers.
- 67 percent of survey respondents' income was less than \$25,000 – compared to 45 percent of all taxpayers who used paid preparers
- 48 percent of survey respondents were under the age of 35 – compared to 37 percent of all taxpayers who used paid preparers.

<sup>7</sup> The Tax Return Database contains tax return source information for all electronically-filed (*e-filed*) tax returns and Business Master File Magnetic Tape Employer's Quarterly Federal Tax Returns (Form 941). It contains *e-filed* tax forms and is the legal repository for all *e-filed* returns for Tax Year 1998 and beyond.

<sup>8</sup> See Appendix V for additional comparisons of ages, filing status, and income levels for taxpayers who applied for RALs compared to all taxpayers who used preparers to file their Tax Year 2007 income tax returns.



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**Respondents stated that preparers generally made it clear that they were receiving Loans, but they were not as clear on the interest rate being charged**

Of the 250 respondents who stated they had received RALs, 213 (85 percent) stated that the preparers made it clear that they were receiving loans. In addition, 220 respondents (88 percent) stated that the preparers explained all the fees. However, only 85 respondents (34 percent) stated that they were provided with the interest rates for the Loans.

Further, 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.

**Respondents stated that they wanted their tax refunds faster so they could pay bills**

The majority of respondents, 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 they put the money in savings.

*Over 68 percent of respondents' refunds were over \$2,000, 20 percent were \$5,000 or more.*

Analyses of IRS taxpayer tax account information for the 250 respondents show that the dollar amount of the tax refunds ranged from less than \$1,000 to \$5,000 or more. Figure 3 shows that the tax refunds for respondents are comparable to all taxpayers who received RALs.

**Figure 3: Comparison of Refund Amounts for Survey Respondents to All Taxpayers Who Applied for RALs**

Range of Tax Refunds	Survey Respondents	Percentage	All Taxpayers with RALs <sup>9</sup>	Percentage
Less than \$1,000	36	14%	1,639,100	17%
\$1,000 - \$1,999	50	20%	1,569,792	16%
\$2,000 - \$2,999	43	17%	1,393,306	14%
\$3,000 - \$3,999	34	14%	1,720,588	17%
\$4,000 - \$4,999	37	15%	1,401,282	14%
\$5,000 or more	50	20%	2,197,992	22%
<b>Total</b>	<b>250</b>	<b>100%</b>	<b>9,922,060</b>	<b>100%</b>

*Source: Our analysis of tax refunds posted on the Tax Return Database file.*

<sup>9</sup> Of the 9,922,398 taxpayers who applied for Refund Anticipation Loans, 338 did not receive tax refunds.



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Although most respondents received checks for their tax refunds, 66 (26 percent) of the 250 respondents received debit cards from the preparers. A debit card is a plastic card that provides an alternative payment method to cash when making purchases. It functions similar to a check as the funds are withdrawn directly from either the bank account or from the remaining balance on the card. Sixty-three percent (157 of 250) of the respondents stated that they would prefer to receive a debit card from the IRS instead of getting a Loan.

In April 2008, legislation was proposed<sup>10</sup> that would require the Secretary of the Treasury, in consultation with the National Taxpayer Advocate, to conduct a study on the feasibility of delivering tax refunds on debit cards, prepaid cards, and other electronic means to assist individuals who do not have access to financial accounts or institutions.

Proponents of RAL reform have expressed concerns that preparers might be taking advantage of taxpayers by aggressively marketing RALs. Almost two-thirds of the respondents—159 (64 percent)—had checking or savings accounts with financial institutions. In fact, 81 preparers suggested that these taxpayers accept their loan proceeds via a direct deposit to their accounts—11 taxpayers stated that they followed the preparers' suggestions. Assuming that these taxpayers could afford the tax return preparation and filing fees, they alternatively could have had the IRS directly deposit their refunds to their bank accounts in as few as 5 days.

The IRS advertises that taxpayers who choose to electronically-file (*e-file*) and have their tax refunds directly deposited into a bank account will generally receive their tax refunds between 8 to 14 days, and in some instances in as few as 5 days.

### **Most survey respondents actually received their loan proceeds within 5 days**

Fifty-two percent of respondents (131 of 250) stated that they received their Loan proceeds within 2 days, and 13 percent (32) received their Loan proceeds within 5 days. However, it took more than 11 days for 45 respondents to receive their Loan proceeds. This might have happened because the taxpayers did not return to the preparers' offices to pick up their loan check as soon as it was available or these taxpayers actually received RACs. Because the time to receive a RAC is in line with the direct deposit of a tax refund, these taxpayers generally would have received their tax refund in 8 to 14 days but would not have incurred additional loan fees.

A review of IRS accounts for the 250 taxpayers showed that their tax refunds were issued to the lenders within 14 days. Figure 4 compares the number of days it took respondents to receive their RALs and RACs to the number of days it took the IRS to issue the tax refunds.

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<sup>10</sup> H.R. 5719, Taxpayer Assistance and Simplification Act of 2008, 110<sup>th</sup> Congress, 2<sup>nd</sup> Session (2008).



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**Figure 4: Number of Days Respondents Waited to Receive Their RALs or Refund Anticipation Checks Compared to the Time It Took the IRS to Issue the Refunds**

# of Days for Respondents to Receive RALs or RACs	Number of Respondents	Received RALs	Received RACs	# of Days for the IRS to Process Tax Returns/Refunds
Same Day	28 (11%)	179	68	5 to 7 days
				8 to 14 days
1 to 2 Days	103 (41%)	179	68	5 to 7 days
				8 to 14 days
3 to 5 Days	32 (13%)	179	68	5 to 7 days
				8 to 14 days
6 to 10 Days	42 (17%)	179	68	5 to 7 days
				8 to 14 days
11 Days or Longer	45 (18%)	179	68	5 to 7 days
				8 to 14 days
<b>Totals</b>	<b>250 (100%)</b>	<b>179</b>	<b>68</b>	
<b>Totals</b>	<b>250</b>	<b>247<sup>11</sup></b>		

Source: Our analysis of survey responses and IRS tax refund data on the Tax Return Database file.

The IRS is implementing a new computer system as part of its modernization project that has already reduced the amount of time required to process tax returns to 5 days for some types of tax returns. By reducing the number of days required to process tax returns, the IRS will issue tax refunds sooner. This will shorten the number of days between the time taxpayers receive their Loans and the time it takes the IRS to issue tax refunds. Tax returns were processed using the new computer system for 45 (18 percent) of the 250 respondents who stated that they had received Loans. IRS records showed that the tax refunds for these taxpayers were issued in 5 to 10 days. Of the 250 respondents who stated that they had received RALs, 113 (45 percent) stated that they would have been willing to wait less than a week to receive their tax refunds from the IRS and 212 (85 percent) respondents stated that they would have been willing to wait up to 9 days to receive their tax refunds.

The IRS promotes the benefits of its modernization efforts to Congress and external stakeholders. However, based on survey respondents and the approximately 10 million taxpayers who applied for a RAL, it might not be clear that taxpayers and preparers are aware of the benefits this new system provides. Based on our survey responses, if taxpayers were aware that they could receive their tax refunds in as few as 5 days with the implementation of the IRS'

<sup>11</sup> As of April 17, 2008, three taxpayers had not received their refunds because the tax returns were going through various IRS screening and fraud detection systems.



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new computer system, RALs might not have been as attractive to them. The IRS should increase its marketing of the new computer system to ensure that tax return preparers and taxpayers are aware that the IRS can issue tax refunds more quickly than it has in the past.

**Taxpayers who applied for RALs generally have lower incomes and received the Earned Income Tax Credit**

According to IRS records, approximately 92 (37 percent) of respondents had income less than \$15,000 and 210 (84 percent) had income less than \$40,000, which is one of the criteria required for a taxpayer to be eligible to receive the Earned Income Tax Credit. These percentages are generally consistent with the percentages for all taxpayers who applied for Loans or Checks during the 2008 Filing Season.

The Earned Income Tax Credit is a refundable Federal Government income tax credit for low-income working individuals and families. When the Earned Income Tax Credit exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. To qualify, taxpayers must file a tax return, even if they did not earn enough money to be obligated to file a tax return, and meet certain requirements including Adjusted Gross Income less than \$39,783. The maximum amount of the Adjusted Gross Income might be less, depending on the filing status used.

**Taxpayers who applied for RALs had between 5 to 25 percent of their tax refunds and the Earned Income Tax Credit offset by fees**

When asked the amount of the fees charged to obtain the Loans or Checks, only 211 of the 250 survey respondents could remember or were willing to state the amount of the fees charged, which included the set-up fee, the tax preparation and *e-filing* fee, and the interest. Tax return preparation and fees to obtain the RALs ranged from 5 to 25 percent of taxpayers' tax refunds. The average fee for respondents with tax refunds less than \$2,000 was \$183 compared to \$338 for respondents with tax refunds more than \$5,000. Figure 5 provides the range of tax refunds and the average fees taxpayers paid to have their tax returns prepared and receive either a Loan or Check.





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**Figure 5: Total Fees for Tax Return Preparation  
(Including RAL and RAC Fees)**

Range of Tax Refunds	IRS Tax Records <sup>12</sup>	Average Refund Amount	Average Fee	Percentage of Refund for Fees	Range of Fees
Less than \$1,000	RAL 18	\$692	\$173	25%	\$50 - \$300
	RAC 11	\$541	\$119	22%	\$75 - \$180
\$1,000 - \$1,999	RAL 28	\$1,474	\$207	14%	\$120 - \$443
	RAC 9	\$1,504	\$204	14%	\$39 - \$362
\$2,000 - \$2,999	RAL 23	\$2,527	\$280	11%	\$150 - \$420
	RAC 14	\$2,763	\$257	9%	\$135 - \$500
\$3,000 - \$3,999	RAL 20	\$3,427	\$300	9%	\$120 - \$637
	RAC 9	\$3,555	\$255	7%	\$200 - \$350
\$4,000 - \$4,999	RAL 30	\$4,516	\$310	7%	\$150 - \$600
	RAC 7	\$4,375	\$293	7%	\$120 - \$400
\$5,000 or more	RAL 35	\$6,229	\$338	5%	\$85 - \$671
	RAC 7	\$6,815	\$373	5%	\$100 - \$640
Total	211				

Source: Our analysis of survey results and the Individual Return Transaction File<sup>13</sup> and Tax Return Database.

Analyses of taxpayer account data for the respondents showed that 158 (63 percent) received the Earned Income Tax Credit. Of the almost 10 million taxpayers who applied for Loans during the 2008 Filing Season, 63 percent also received the Earned Income Tax Credit.<sup>14</sup>

The Earned Income Tax Credit has been cited as the single Federal Government program that does the most to help get working families out of poverty. For our respondents, the tax return preparation and Loans fees ranged from 10 to 39 percent of the taxpayers' Earned Income Tax Credit, with the percentage generally higher for low-income taxpayers.

<sup>12</sup> The percentages do not total 100 percent due to rounding.

<sup>13</sup> The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.

<sup>14</sup> See Appendix VI for select demographics of taxpayers who applied for RALs and RACs and claimed the Earned Income Tax Credit on their 2007 tax returns.




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## **Respondents Were Not Aware of the Free Tax Return Preparation Services Offered by the Internal Revenue Service**

The majority of survey respondents would have qualified for IRS' free tax preparation assistance. However, 81 percent (284 of 350) stated that they were unaware of these free services. Taxpayers may file their tax returns using the following free IRS services:

- Taxpayer Assistance Centers are walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns. More than 2 million taxpayers received assistance at the Taxpayer Assistance Centers during Fiscal Year 2008 (as of April 17, 2008).
- The Free-File Program, developed through a partnership between the IRS and a group of private-sector tax software companies, provides Federal tax return preparation and the *e-filing* program for eligible taxpayers. More than 4 million taxpayers filed their Tax Year 2007 tax returns using this Program during Fiscal Year 2008 (as of April 17, 2008). This represents a 21 percent increase over the comparable period in Fiscal Year 2007. The IRS attributed this improvement to increased marketing that included a strategic integrated campaign and more involvement with stakeholders to build the awareness of the Free-File Program. 
- The Volunteer Program includes the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs. It provides free tax assistance to persons with low to moderate income (generally \$40,000 and less), the elderly, persons with disabilities, and persons with limited-English proficiency who cannot prepare their own tax returns. More than 3 million taxpayers filed their Tax Year 2007 tax returns at Volunteer Program sites during Fiscal Year 2008 (as of April 17, 2008). Some Volunteer Income Tax Assistance Program sites offered Loans with significantly lower fees and associated interest and are intended to be an alternative to the high cost of traditional Loans. However, the IRS does not track these sites and does not have a list of those sites that offer the Loans and cannot track these tax returns because they are not identified by a RAL indicator.<sup>15</sup>

The IRS Stakeholder Partnerships, Education, and Communication function has primary oversight of the IRS' volunteer program. The Stakeholder Partnerships, Education, and Communication function advised us that they did not have an overall strategy to educate taxpayers about RALs. This happened because the IRS is not involved in the contract between the taxpayer and the bank and cannot answer questions about it. However, analyzing and

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<sup>15</sup> *Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes* (Audit Number 200840010, draft report issued July 21, 2008).



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targeting the population of taxpayers who choose to obtain RALs and RACs would enhance the IRS' efforts to expand its outreach and education initiatives.

***Recommendation***

**Recommendation 1:** The Commissioner, Wage and Investment Division, should use taxpayer account data for taxpayers who apply for RALs and RACs to better focus the IRS' marketing and education efforts so that more taxpayers can make use of the available free services.

**Management's Response:** The IRS agreed with this recommendation and will develop a plan to target taxpayers who apply for RALs and RACs 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.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to determine the impact RALs have on taxpayers and tax administration. To accomplish this objective, we:

- I. Determined whether the IRS tracks and monitors Loans.
- II. Identified the trends associated with RALs through analysis of taxpayer account data on the Individual Return Transaction File<sup>1</sup> and Tax Return Database.
  - A. Using the Individual Return Transaction File and the Tax Return Database, identified taxpayers with RAL and RAC indicators on their Tax Year 2007 tax accounts and analyzed the data for taxpayer demographics. We selected taxpayer accounts and verified the accuracy of the Individual Return Transaction File tax accounts by researching the IRS Integrated Data Retrieval System.<sup>2</sup>
  - B. Identified the data fields required to capture tax account information from the U.S. Individual Income Tax Returns (Form 1040). We reviewed a sample at the beginning of the year and performed run-to-run balancing<sup>3</sup> by comparing record counts in all logs showing that data were extracted from the IRS files to the location of data stored at the Treasury Inspector General for Tax Administration Data Center Warehouse. We reviewed fields in each cycle and checked Log Analysis and Reporting Systems on the IRS mainframe for reruns.
  - C. Validated the data extracted to fill our electronic data processing requests. We conducted run-to-run balancing and ensured that the entire file was used with no gaps in the access or extraction of the data.

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<sup>1</sup> The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.

<sup>2</sup> IRS computer system capable of retrieving or updating stored information which works in conjunction with a taxpayer's account records.

<sup>3</sup> Run-to-run balancing is an audit control system, consisting of programs, procedures, and files whose primary function is to account for the number of records passed between applications programs.



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- III. Evaluated the taxpayer's knowledge of RALs by conducting a survey of 350 RAL taxpayers during the period January through March 2008. To select the taxpayers to be surveyed, we:
- A. Identified taxpayers who had applied for a RAL for Tax Year 2007 and pulled a weekly extract from the Individual Return Transaction File and the Tax Return Database for the period January 21, 2008, through March 3, 2008. The total population of taxpayers who applied for a RAL during this period exceeded 9.5 million.
  - B. Weighted the volume of tax returns by filing status. Calculated weights were used to weight the weekly extract.
  - C. Matched each weekly extract to the IRS' tax return data to identify the taxpayers who listed a daytime telephone number on their tax return.
  - D. Selected a weekly random sample of 500 taxpayers (taxpayers with complete addresses and telephone numbers) from the matched file for each extract. Random samples were selected proportionally to the weighted volume by filing status calculated for each extract.
  - E. Mailed cover letters weekly to the 500 RAL taxpayers to inform them that they might receive a telephone call from the Treasury Inspector General for Tax Administration asking them to participate in the survey.
  - F. Called and surveyed selected taxpayers.
  - G. Quantified and analyzed the responses.



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**Appendix II**

*Major Contributors to This Report*

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Lena Dietles, Audit Manager

Frank Jones, Audit Manager

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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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**Appendix IV**

*Demographics of Taxpayers With Refund Anticipation Loan or Refund Anticipation Check Indicators on Their Tax Year 2007 Tax Returns<sup>1</sup>*

	<b>RALs</b>	<b>Percentage</b>	<b>RACs</b>	<b>Percentage</b>	<b>Total</b>	<b>Percentage</b>
<b>Filing Status Segmentation</b>						
Single	2,733,194	28%	3,690,415	36%	6,423,609	32%
Head of Household	5,172,168	52%	3,707,030	36%	8,879,198	44%
Married Filing Jointly	1,942,212	20%	2,773,181	27%	4,715,393	23%
Married Filing Separately	69,285	1%	127,614	1%	196,899	1%
Widow With Dependent Child	5,539	< 1%	6,608	< 1%	12,147	< 1%
<b>Total</b>	<b>9,922,398</b>	<b>100%</b>	<b>10,304,848</b>	<b>100%</b>	<b>20,227,246</b>	<b>100%</b>
<b>Income Segmentation</b>						
No Income <sup>2</sup>	82,148	1%	24,457	< 1%	106,605	1%
\$1 to \$14,999	3,524,651	36%	2,736,501	27%	6,261,152	31%
\$15,000 to \$24,999	2,785,475	28%	2,245,271	22%	5,030,746	25%
\$25,000 to \$34,999	1,636,069	16%	1,657,662	16%	3,293,731	16%
\$35,000 to \$39,783	459,632	5%	575,934	6%	1,035,566	5%
\$39,784 to \$54,999	811,728	8%	1,230,008	12%	2,041,736	10%
\$55,000 to \$74,999	411,200	4%	884,689	9%	1,295,889	6%
\$75,000 to \$99,999	158,024	2%	552,604	5%	710,628	4%
\$100,000 and Above	53,471	1%	397,722	4%	451,193	2%
<b>Total</b>	<b>9,922,398</b>	<b>100%</b>	<b>10,304,848</b>	<b>100%</b>	<b>20,227,246</b>	<b>100%</b>

<sup>1</sup> The total of the percentages might not equal 100 percent due to rounding.

<sup>2</sup> These data represent taxpayers who either had nontaxable sources of income or no income because of business and investment losses.





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	<b>RALs</b>	<b>Percentage</b>	<b>RACs</b>	<b>Percentage</b>	<b>Total</b>	<b>Percentage</b>
<b>Age Segmentation</b>						
Under 25 Years	1,880,844	19%	1,873,191	18%	3,754,035	19%
25-34 Years	3,436,295	35%	3,337,857	32%	6,774,152	33%
35-44 Years	2,525,266	25%	2,593,187	25%	5,118,453	25%
45-54 Years	1,489,293	15%	1,658,596	16%	3,147,889	16%
55-64 Years	498,528	5%	667,933	7%	1,166,461	6%
65 Years or Older	92,172	1%	174,084	2%	266,256	1%
<b>Total</b>	<b>9,922,398</b>	<b>100%</b>	<b>10,304,848</b>	<b>100%</b>	<b>20,227,246</b>	<b>100%</b>

*Source: Our analysis of the Tax Return Database data and Individual Return Transaction File.<sup>3</sup>*

<sup>3</sup> The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.



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**Appendix V**

*Comparison of Taxpayers Who Applied for Refund Anticipation Loans and Refund Anticipation Checks to All Taxpayers Who Used Paid Preparers*

	RAL/RAC Taxpayers	Percentage	All Taxpayers Using Paid Preparers	Percentage
<b>Filing Status Segmentation</b>				
Single	6,423,609	32%	21,321,541	39%
Head of Household	8,879,198	44%	12,563,125	23%
Married Filing Jointly	4,715,393	23%	20,268,808	37%
Married Filing Separately	196,899	1%	747,489	1%
Widow With Dependent Child	12,147	< 1%	35,274	< 1%
<b>Total</b>	<b>20,227,246</b>	<b>100%</b>	<b>54,936,237</b>	<b>100%</b>
<b>Income Segmentation</b>				
No Income <sup>1</sup>	106,605	1%	756,243	1%
\$1 to \$14,999	6,261,152	31%	14,324,081	26%
\$15,000 to \$24,999	5,030,746	25%	9,716,300	18%
\$25,000 to \$39,783	4,329,297	21%	9,876,984	18%
\$39,784 to \$54,999	2,041,736	10%	6,350,841	12%
\$55,000 to \$74,999	1,295,889	6%	5,488,347	10%
\$75,000 to \$99,999	710,628	4%	4,067,969	7%
\$100,000 and Over	451,193	2%	4,355,472	8%
<b>Total</b>	<b>20,227,246</b>	<b>100%</b>	<b>54,936,237</b>	<b>100%</b>

<sup>1</sup> These data represent taxpayers who either had nontaxable sources of income or no income because of business and investment losses.



*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

	<b>RAL/RAC Taxpayers</b>	<b>Percentage</b>	<b>All Taxpayers Using Paid Preparers</b>	<b>Percentage</b>
<b>Age Segmentation</b>				
Under 25 Years	3,754,035	19%	8,634,418	16%
25-34 Years	6,774,152	33%	11,669,759	21%
35-44 Years	5,118,453	25%	11,046,375	20%
45-54 Years	3,147,889	16%	9,797,824	18%
55-64 Years	1,166,461	6%	6,652,914	12%
65 Years or Older	266,256	1%	7,134,947	13%
<b>Total</b>	<b>20,227,246</b>	<b>100%</b>	<b>54,936,237</b>	<b>100%</b>

*Source: Our analysis of survey results, the Tax Return Database, and the Individual Return Transaction File.<sup>2</sup>*

<sup>2</sup> The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.



*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

**Appendix VI**

*Demographics of Taxpayers Who Received the Earned Income Tax Credit and Applied for Refund Anticipation Loans or Refund Anticipation Checks With Their Tax Year 2007 Tax Returns<sup>1</sup>*

	<i>RALs</i>	<i>Percentage</i>	<i>RACs</i>	<i>Percentage</i>	<i>Total</i>	<i>Percentage</i>
<i>Filing Status</i>						
<b>Single</b>	<b>888,225</b>	<b>14%</b>	<b>719,521</b>	<b>17%</b>	<b>1,607,746</b>	<b>15%</b>
<b>Head of Household</b>	<b>4,397,952</b>	<b>71%</b>	<b>2,768,960</b>	<b>66%</b>	<b>7,166,912</b>	<b>69%</b>
<b>Married Filing Jointly</b>	<b>916,737</b>	<b>15%</b>	<b>703,984</b>	<b>17%</b>	<b>1,620,721</b>	<b>16%</b>
<b>Widow With Dependent Child</b>	<b>4,355</b>	<b>&lt; 1%</b>	<b>4,147</b>	<b>&lt; 1%</b>	<b>8,502</b>	<b>&lt; 1%</b>
<b>Total</b>	<b>6,207,269</b>	<b>100%</b>	<b>4,196,612</b>	<b>100%</b>	<b>10,403,881</b>	<b>100%</b>
<i>Income Segmentation<sup>2</sup></i>						
<b>No Income<sup>3</sup></b>	<b>2,644</b>	<b>&lt; 1%</b>	<b>9,332</b>	<b>&lt; 1%</b>	<b>11,976</b>	<b>&lt; 1%</b>
<b>\$1 to \$14,999</b>	<b>2,966,342</b>	<b>48%</b>	<b>1,988,344</b>	<b>47%</b>	<b>4,954,686</b>	<b>48%</b>
<b>\$15,000 to \$24,999</b>	<b>2,009,316</b>	<b>32%</b>	<b>1,254,499</b>	<b>30%</b>	<b>3,263,815</b>	<b>31%</b>
<b>\$25,000 to \$34,999</b>	<b>1,083,220</b>	<b>17%</b>	<b>826,720</b>	<b>20%</b>	<b>1,909,940</b>	<b>18%</b>
<b>\$35,000 to \$40,000</b>	<b>145,747</b>	<b>2%</b>	<b>117,717</b>	<b>3%</b>	<b>263,464</b>	<b>3%</b>
<b>Total</b>	<b>6,207,269</b>	<b>100%</b>	<b>4,196,612</b>	<b>100%</b>	<b>10,403,881</b>	<b>100%</b>

<sup>1</sup> The total of the percentages might not equal 100 percent due to rounding.

<sup>2</sup> The figures in this section of the Appendix are based on Adjusted Gross Income.

<sup>3</sup> These data represent taxpayers who either had nontaxable sources of income or no income because of business and investment losses.



*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

	<i>RALs</i>	<i>Percentage</i>	<i>RACs</i>	<i>Percentage</i>	<i>Total</i>	<i>Percentage</i>
<i>Age Segmentation</i>						
<b><i>Under 25 Years</i></b>	<b><i>1,031,621</i></b>	<b><i>17%</i></b>	<b><i>620,992</i></b>	<b><i>15%</i></b>	<b><i>1,652,613</i></b>	<b><i>16%</i></b>
<b><i>25-34 Years</i></b>	<b><i>2,379,204</i></b>	<b><i>38%</i></b>	<b><i>1,553,889</i></b>	<b><i>37%</i></b>	<b><i>3,933,093</i></b>	<b><i>38%</i></b>
<b><i>35-44 Years</i></b>	<b><i>1,644,869</i></b>	<b><i>27%</i></b>	<b><i>1,143,639</i></b>	<b><i>27%</i></b>	<b><i>2,788,508</i></b>	<b><i>27%</i></b>
<b><i>45-54 Years</i></b>	<b><i>866,691</i></b>	<b><i>14%</i></b>	<b><i>635,638</i></b>	<b><i>15%</i></b>	<b><i>1,502,329</i></b>	<b><i>14%</i></b>
<b><i>55-64 Years</i></b>	<b><i>247,199</i></b>	<b><i>4%</i></b>	<b><i>203,468</i></b>	<b><i>5%</i></b>	<b><i>450,667</i></b>	<b><i>4%</i></b>
<b><i>65 Years or Older</i></b>	<b><i>37,685</i></b>	<b><i>1%</i></b>	<b><i>38,986</i></b>	<b><i>1%</i></b>	<b><i>76,671</i></b>	<b><i>1%</i></b>
<b><i>Total</i></b>	<b><i>6,207,269</i></b>	<b><i>100%</i></b>	<b><i>4,196,612</i></b>	<b><i>100%</i></b>	<b><i>10,403,881</i></b>	<b><i>100%</i></b>

*Source: Our analysis of the Tax Return Database data and the Individual Return Transaction File.<sup>4</sup>*

<sup>4</sup> The Individual Return Transaction File is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.



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**Appendix VII**

**Survey Results**

- 1 IRS records show you paid someone to prepare your 2007 Federal tax return. Is this correct?

	Yes	No
<b>RAL</b>	220 63%	
<b>RAC</b>	130 37%	
<b>Total</b>	<b>350</b> <b>100%</b>	

- 2 What were the reason(s) you decided to use a tax return preparer or tax return preparation service to prepare your tax return?

	Tax Laws Too Complex	Receive Refund More Quickly	Wanted a RAL	No Time to Prepare Own Tax Return	Receive Larger Refund	Other
<b>RAL</b>	55 16%	50 14%		10 3%		147 42%
<b>RAC</b>	25 7%	20 6%		5 1%		99 28%
<b>Total</b>	<b>80</b> <b>23%</b>	<b>70</b> <b>20%</b>	<b>14</b> <b>4%</b>	<b>15</b> <b>4%</b>	<b>4</b> <b>1%</b>	<b>246</b> <b>70%</b>

<sup>1</sup> The total of the percentages might not equal 100 percent due to rounding.



**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**

3 Did you obtain a Refund Anticipation Loan?

	Yes	No	Do Not Know
<b>RAL</b>	181 52%	39 11%	
<b>RAC</b>	69 20%	61 17%	
<b>Total</b>	<b>250</b> <b>71%</b>	<b>100</b> <b>29%</b>	

4 Now that we understand why you went to a preparer, we would like to ask you why you obtained a Refund Anticipation Loan.

	To Receive the Refund Quicker	Did Not Have a Bank Account	Did Not Have the Tax Preparation Fee	Other
<b>RAL</b>	167 67%			59 24%
<b>RAC</b>	46 18%			28 11%
<b>Total</b>	<b>213</b> <b>85%</b>	<b>13</b> <b>5%</b>	<b>4</b> <b>2%</b>	<b>87</b> <b>35%</b>



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5 What was the amount of the refund on your tax return?

	Less than \$1,000	\$1,000 - \$1,999	\$2,000 - \$2,999	\$3,000 - \$3,999	\$4,000 - \$4,999	\$5,000 or More
<b>RAL</b>	23 9%	37 15%	25 10%	24 10%	30 12%	42 17%
<b>RAC</b>	13 5%	13 5%	18 7%	10 4%	7 3%	8 3%
<b>Total</b>	<b>36</b> <b>14%</b>	<b>50</b> <b>20%</b>	<b>43</b> <b>17%</b>	<b>34</b> <b>14%</b>	<b>37</b> <b>15%</b>	<b>50</b> <b>20%</b>

6 Did you receive a check from the preparer for your refund?

	Yes	No
<b>RAL</b>	124 50%	57 23%
<b>RAC</b>	47 19%	22 9%
<b>Total</b>	<b>171</b> <b>68%</b>	<b>79</b> <b>32%</b>





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If yes, what was the amount of the check you received from the preparer?

	Less than \$1,000	\$1,000 - \$1,999	\$2,000 - \$2,999	\$3,000 - \$3,999	\$4,000 - \$4,999	\$5,000 - More	Do Not Want to Answer or Do Not Recall Amount
<b>RAL</b>	20 12%	19 11%	19 11%	18 11%	28 16%	18 11%	
<b>RAC</b>	11 6%	5 3%	14 8%	8 5%	4 2%	4 2%	
<b>Total</b>	<b>31</b> <b>18%</b>	<b>24</b> <b>14%</b>	<b>33</b> <b>19%</b>	<b>26</b> <b>15%</b>	<b>32</b> <b>19%</b>	<b>22</b> <b>13%</b>	<b>3</b> <b>2%</b>

If you did not receive a check, how did you receive your refund?

	Debit Card	Direct Deposit	Other
<b>RAL</b>	53 67%	4 5%	
<b>RAC</b>	13 16%	7 9%	
<b>Total</b>	<b>66</b> <b>83%</b>	<b>11</b> <b>14%</b>	<b>3<sup>2</sup></b> <b>4%</b>



**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**

7 What did you do with the money you received from the Refund Anticipation Loan?

	Pay Bills	Buy or Repair Car	Home Repairs and Expenses	Savings	Vacation	Other	Do Not Want to Answer
<b>RAL</b>	144 58%			7 3%		17 7%	
<b>RAC</b>	41 16%			13 5%		9 4%	
<b>Total</b>	<b>185</b> <b>74%</b>	<b>7</b> <b>3%</b>	<b>7</b> <b>3%</b>	<b>20</b> <b>8%</b>		<b>26</b> <b>10%</b>	<b>4</b> <b>2%</b>



8 Did the tax preparer explain the return preparation fees and the fees to obtain the Refund Anticipation Loan?

	Yes	No	Do Not Know
<b>RAL</b>	161 64%	16 6%	
<b>RAC</b>	59 24%	8 3%	
<b>Total</b>	<b>220</b> <b>88%</b>	<b>24</b> <b>10%</b>	<b>6</b> <b>2%</b>



**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**




Did the tax preparer make it clear you were receiving a loan?

	Yes	No	Do Not Know
<b>RAL</b>	162 65%	16 6%	
<b>RAC</b>	51 20%	17 7%	
<b>Total</b>	<b>213</b> <b>85%</b>	<b>33</b> <b>13%</b>	<b>4</b> <b>2%</b>

9 Were you given an Annual Percentage Rate of interest for this Refund Anticipation Loan?

	Yes	No	Do Not Know
<b>RAL</b>	71 28%	95 38%	15 6%
<b>RAC</b>	14 6%	50 20%	5 2%
<b>Total</b>	<b>85</b> <b>34%</b>	<b>145</b> <b>58%</b>	<b>20</b> <b>8%</b>

10 Did the preparer explain how long you would have to wait to receive your refund from the IRS if you chose not to receive a Refund Anticipation Loan?

	Yes	No	Do Not Know
<b>RAL</b>	131 52%	50 20%	
<b>RAC</b>	36 14%	32 13%	
<b>Total</b>	<b>167</b> <b>67%</b>	<b>82</b> <b>33%</b>	



**Many Taxpayers Who Obtain Refund Anticipation Loans Could  
Benefit From Free Tax Preparation Services**

11 How long did you have to wait to receive your money?

	Same Day	1 - 2 Days	3 - 5 Days	6 - 10 Days	11 Days or More
<b>RAL</b>	28 11%		22 9%	16 6%	14 6%
<b>RAC</b>	0 0%		10 4%	26 10%	31 12%
<b>Total</b>	<b>28</b> <b>11%</b>	<b>103</b> <b>41%</b>	<b>32</b> <b>13%</b>	<b>42</b> <b>17%</b>	<b>45</b> <b>18%</b>

12 If the IRS could get your refund to you faster so that you would not have to obtain a Refund Anticipation Loan, how many days would you be willing to wait for the IRS to get your refund to you?

	1 - 2 Days	3 - 4 Days	5 - 6 Days	7 - 9 Days	> 9 days
<b>RAL</b>	28 11%	24 10%	37 15%	64 26%	28 11%
<b>RAC</b>	3 1%	5 2%	16 6%	35 14%	10 4%
<b>Total</b>	<b>31</b> <b>12%</b>	<b>29</b> <b>12%</b>	<b>53</b> <b>21%</b>	<b>99</b> <b>40%</b>	<b>38</b> <b>15%</b>





**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**

- 13 How did you find out you could receive your refund money from your preparer and that you did not have to wait for the IRS, i.e., how did you find out about the Refund Anticipation Loans?

	Advertisement	Friend or Relative	Tax Preparer Told Me	Other
<b>RAL</b>	84 34%	24 10%	54 22%	19 8%
<b>RAC</b>	31 12%	9 4%	19 8%	10 4%
<b>Total</b>	<b>115</b> <b>46%</b>	<b>33</b> <b>13%</b>	<b>73</b> <b>29%</b>	<b>29</b> <b>12%</b>

- 14 If receiving a Refund Anticipation Loan was not an option, would you

	Wait for My Refund from the IRS	Try Other Means	Do Not Know
<b>RAL</b>	165 66%	15 6%	
<b>RAC</b>	62 25%	4 2%	
<b>Total</b>	<b>227</b> <b>91%</b>	<b>19</b> <b>8%</b>	<b>4</b> <b>2%</b>





**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**


- 15 At the time you filed your 2007 tax return, did you have a checking or savings account with a financial institution?

	Yes	No
<b>RAL</b>	109 44%	72 29%
<b>RAC</b>	50 20%	19 8%
<b>Total</b>	<b>159</b> <b>64%</b>	<b>91</b> <b>36%</b>

- 16 Did the tax return preparer suggest you have your refund directly deposited into your bank account?

	Yes	No	Do Not Know
<b>RAL</b>	45 28%	63 40%	
<b>RAC</b>	36 23%	14 9%	
<b>Total</b>	<b>81</b> <b>51%</b>	<b>77</b> <b>48%</b>	

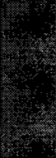

- 17 If you could get your tax refund from the IRS in the form of a debit card, which is similar to a gift card, would you do this rather than obtain a RAL?

	Yes	No	Do Not Know
<b>RAL</b>	116 46%	64 26%	
<b>RAC</b>	41 16%	25 10%	
<b>Total</b>	<b>157</b> <b>63%</b>	<b>89</b> <b>36%</b>	<b>4</b> <b>2%</b>



**Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services**

18 Are you aware that you may qualify to use the IRS' free online service to complete and file your tax return?

	Yes	No	No Answer
<b>RAL</b>	39 11%	180 51%	
<b>RAC</b>	23 7%	104 30%	
<b>Total</b>	<b>62</b> <b>18%</b>	<b>284</b> <b>81%</b>	<b>4</b> <b>1%</b>



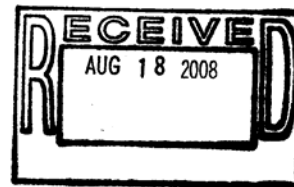
*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

**Appendix VIII**

*Management's Response to the Draft Report*

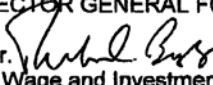


DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308



AUG 15 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr.   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report -- Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services (Audit # 200840012)

I have reviewed the subject draft audit report and appreciate your observations regarding the impact Refund Anticipations Loans (RALs) and Refund Anticipation Checks (RACs) have on taxpayers and tax administration. I also appreciate your acknowledgement that with the implementation of the Customer Account Data Engine (CADE), the IRS will be able to issue tax refunds faster. This will shorten the number of days between the time taxpayers receive their RAL and the time it takes the IRS to issue tax refunds.

In response to your recommendation that we better focus the IRS' marketing and education efforts so that more taxpayers can make use of the available free services, we agree that directed marketing may dissuade some taxpayers from employing paid preparers and using RALs and RACs. However, we do not agree that all three free alternatives identified in the report are a natural, or good, fit for these taxpayers. Free File websites and some Taxpayer Assistance Centers offer taxpayers a self-preparation experience. It is not apparent that taxpayers who employ paid preparers would easily or willingly change to preparing their own returns simply for cost reasons. Taxpayers who rely on preparers may not be confident that they can prepare their own returns to their best advantage, even with the assistance of tax preparation software. In the case of Free File, taxpayers may use preparers because they do not have access to personal computers or the Internet. Therefore, marketing emphasis might be better directed to Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) because these programs offer free preparation services by trained volunteers. This more closely resembles the commercial preparer experience with which RAL/RAC taxpayers are familiar. We believe this focus, done with partner concurrence and with





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*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

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consideration for the partner's capacity, would result in a more productive use of our very limited resources.

Our response to your recommendation is detailed in the attachment. If you have any questions regarding this response, please call me at (404) 338-7060, or members of your staff may contact David R. Williams, Director, Electronic Tax Administration and Refundable Credits, at (202) 622-7990.

Attachment



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*Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services*

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Attachment

**RECOMMENDATION**

The Commissioner, Wage and Investment Division, should use taxpayer account data for taxpayers who apply for RALs and RACS to better focus the IRS' marketing and education efforts so that more taxpayers can make use of the available free services.

**CORRECTIVE ACTION**

We agree with this recommendation and will develop a plan to target taxpayers who apply for RALs and RACS into our marketing campaign for the 2009 filing season. Our plan will include an approach for reaching these taxpayers with key messages, identifying the most effective approach, and determining the cost of this effort.

**IMPLEMENTATION DATE**

December 15, 2008

**RESPONSIBLE OFFICIAL**

Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.