

# United States Senate

WASHINGTON, DC 20510

April 18, 2017

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.<sup>1</sup> 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.<sup>2</sup>

On average, nonbusiness taxpayers will spend \$120 in preparation fees to file their taxes.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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

---

<sup>1</sup> John A. Koskinen, “Written Testimony of John A. Koskinen, Commissioner, Internal Revenue Service, Before the Senate Finance Committee on Regulation of Tax Return Preparers” (April 8, 2014) (online at <https://www.finance.senate.gov/imo/media/doc/Koskinen%20Testimony.pdf>).

<sup>2</sup> Internal Revenue Service, “Filing Season Statistics for Week Ending Dec. 30, 2016” (January 10, 2017) (online at <https://www.irs.gov/uac/newsroom/filing-season-statistics-for-the-week-ending-december-30-2016>).

<sup>3</sup> Internal Revenue Service, “Estimated Average Taxpayer Burden for Individuals by Activity” (online at <https://www.irs.gov/instructions/i1040a/ar03.html>).

<sup>4</sup> Internal Revenue Service, “Tax Refund-Related Products” (online at <https://www.irs.gov/uac/tax-refund-related-products>).

<sup>5</sup> Tax Policy Center, “Why do low-income families use tax preparers?” (online at <http://www.taxpolicycenter.org/briefing-book/why-do-low-income-families-use-tax-preparers>); State of Wisconsin Department of Revenue, “Refund Anticipation Loans (RALs)” (online at <https://www.revenue.wi.gov/Pages/faqs/pcs-ral.aspx>); Chi Chi Wu, *Taxpayer Beware: Unregulated Tax Preparers and Tax-Time Financial Products Put Taxpayers at Risk*, National Consumer Law Center (March 2015) (online at <http://www.nclc.org/images/pdf/pr-reports/report-tax-time-products-2015.pdf>).

by a paid preparer.<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup> RACs cost an average of \$25 to \$60 for federal refunds, and were the source of \$648 million in taxpayer fees in 2014.<sup>9</sup> 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.”<sup>10</sup>

With the new mandate to delay EITC (“Earned Income Tax Credit”) and ACTC (“Additional Child Tax Credit”) refunds until February 15<sup>th</sup>, the demand for tax-time financial products has increased dramatically.<sup>11</sup> 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.<sup>12</sup>

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:

---

<sup>6</sup> Brett Theodos, Rachel Brash, Jessica F. Compton, Nancy M. Pindus, and C. Eugene Steuerle, “Who Needs Credit at Tax Time and Why: A Look at Refund Anticipation Loans and Refund Anticipation Checks,” *Urban Institute* (February 24, 2011) (online at [http://www.urban.org/research/publication/who-needs-credit-tax-time-and-why-look-refund-anticipation-loans-and-refund-anticipation-checks/view/full\\_report](http://www.urban.org/research/publication/who-needs-credit-tax-time-and-why-look-refund-anticipation-loans-and-refund-anticipation-checks/view/full_report))

<sup>7</sup> Stacy Cowly, “Tax Refund Loans are Revamped and Resurrected,” *New York Times* (January 15, 2017) (online at [https://www.nytimes.com/2017/01/15/business/tax-refund-loans-are-revamped-and-resurrected.html?\\_r=0](https://www.nytimes.com/2017/01/15/business/tax-refund-loans-are-revamped-and-resurrected.html?_r=0)); Chi Chi Wu, *Minefield of Risks: Taxpayers Face Perils from Unregulated Preparers, Lack of Fee Disclosure, and Tax-Time Financial Products* (March 2016) (online at <http://www.nclc.org/images/pdf/pr-reports/TaxTimeReport2016.pdf>).

<sup>8</sup> Tax Policy Center, “Why do low-income families use tax preparers?” (online at <http://www.taxpolicycenter.org/briefing-book/why-do-low-income-families-use-tax-preparers>).

<sup>9</sup> Chi Chi Wu, *Minefield of Risks: Taxpayers Face Perils from Unregulated Preparers, Lack of Fee Disclosure, and Tax-Time Financial Products* (March 2016) (online at <http://www.nclc.org/images/pdf/pr-reports/TaxTimeReport2016.pdf>).

<sup>10</sup> Government Accountability Office, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors* (April 8, 2014) (online at <https://www.gao.gov/assets/670/662356.pdf>).


<sup>11</sup> Internal Revenue Service, “New Federal Tax Law May Affect Some Refunds Filed in Early 2017” (June 9, 2016) (online at <https://www.irs.gov/for-tax-pros/new-federal-tax-law-may-affect-some-refunds-filed-in-early-2017>); National Consumer Law Center, *Big Changes Burden Taxpayers* (March 2017) (online at <http://www.nclc.org/images/pdf/taxes/report-taxpayer-burden.pdf>).


<sup>12</sup> Paul Weinstein Jr. and Bethany Patten, *The Price of Paying Taxes II: How paid tax preparer fees are diminishing the Earned Income Tax Credit (EITC)* (April 2016) (online at [http://www.progressivepolicy.org/wp-content/uploads/2016/04/2016.04-Weinstein\\_Patten\\_The-Price-of-Paying-Taxes-II.pdf](http://www.progressivepolicy.org/wp-content/uploads/2016/04/2016.04-Weinstein_Patten_The-Price-of-Paying-Taxes-II.pdf)).

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