Government Accountability Office (GAO) Report Summary

TAX REFUND PRODUCTS: Product Mix Has Evolved and IRS Should Improve Data Quality

Over 20 million American taxpayers spent an estimated $500 million in 2017 on tax-time financial products—financial products, like loans, backed by an individuals' tax return that may carry additional fees. On Tax Day in 2017, Senators Warren, Duckworth, and Franken asked GAO to conduct a review of the most commonly used tax-time financial products, the fees charged for those financial products, and the way these fees are disclosed. Today, Senators Warren and Duckworth are releasing the results of the GAO's investigation, *Tax Refund Products: Product Mix Has Evolved and IRS Should Improve Data Quality*. GAO found:

1. **Low-income and some minority taxpayers are more likely than other taxpayers to use tax-time financial products—placing additional financial burdens on lower-wealth populations.**
    - Households earning between $20,000 and $39,000 were more likely to use tax-time financial products than households earning over $60,000 a year.
    - African-American households "were 36 percent more likely to use tax-time financial products than white households."
    - Taxpayers typically use financial products as a means of "more quickly obtaining cash from the expected tax refund," avoiding paying tax preparation fees up front, and obtaining cash more cheaply than with products like payday loans.
2. **Tax preparers surveyed by GAO failed to give consumers transparent and timely information on costs and fees.**
    - Tax preparers surveyed by GAO did not consistently explain or disclose tax time-time product fees to consumers and sometimes disclosed fees "after returns had been prepared."
    - Some disclosures were "made in small print or requir[ed] navigation through several [web] pages," or were not made "at all."
    - These problems make it nearly impossible for taxpayers to compare costs and fees to find the lowest-cost tax preparer.
3. **Banks and tax preparers began offering a new fee-based loan product in 2018, raising questions for lawmakers and regulators.**
    - The three most common tax-time financial products are refund advances (short-term, no-fee loans disbursed within 24 hours), refund anticipation loans (short-term, fee-based loans disbursed within 1-2 days), and refund transfers (fee-based, temporary bank accounts set up to receive tax refunds within 21 days).
    - In 2018, banks and tax preparers began offering "a new product that combines the features of a refund anticipation loan and a refund advance." Given regulators' and consumer advocates' past concerns about the predatory nature of refund anticipation loans, which are similar to payday loans, these products may require additional scrutiny from regulators and Congress.
4. **The Internal Revenue Service (IRS) collects data on tax-time financial products, but some of its procedures limit the accuracy of the data.**
    - Taxpayers, policymakers, regulators, researchers, and consumer groups rely on IRS data.
    - GAO found that IRS data on tax-time financial products from 2016-2018 underreported the use of refund advances. In addition, tax-time financial products are not always accurately coded.

GAO Recommendations

GAO recommended that the IRS improve the quality of the data it collects on tax-time financial products, and that it provide appropriate information about the data for researchers and other data users. The IRS has agreed to improve the information it provides about the data sets, and to clarify its data reporting instructions for tax return preparers to ensure that its data is accurate.