

GAO Highlights

Highlights of [GAO-19-269](#), a report to congressional requesters

Why GAO Did This Study

American taxpayers spent at least half a billion dollars in 2017 on financial products—issued by banks, through paid tax return preparers—to help them file taxes and get advances or loans against tax refunds.

GAO was asked to review tax-time financial products. Among other things, GAO (1) described market trends and examined IRS data, (2) described characteristics of product users and factors that influence product use, and (3) described product disclosure practices.

GAO reviewed fee and product usage data; conducted a multivariate regression analysis to determine user characteristics; and analyzed disclosures of selected providers that are national chains and those of their bank partners. GAO conducted nongeneralizable undercover visits of nine randomly selected tax preparers in the Washington, D.C. area to understand how they communicate fees and terms to taxpayers. Preparers were selected to ensure a mixture of regulatory jurisdictions, among other factors. GAO reviewed laws, regulations, and guidance on the products, and interviewed IRS and other government officials and a nongeneralizable selection of product and service providers, tax preparation companies, consumer groups, and academics.

What GAO Recommends

GAO is making two recommendations to IRS to make the collection of product use data more accurate and make data limitations known to users of the data. IRS concurred with both recommendations.

View [GAO-19-269](#). For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

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TAX REFUND PRODUCTS

Product Mix Has Evolved and IRS Should Improve Data Quality

What GAO Found

Trends in the market for tax-time financial products since 2012 include

- the decline of refund anticipation loans (short-term loans subject to finance charges and fees),
- the rise in use of refund transfers (temporary bank accounts in which to receive funds), and
- the introduction of refund advances (loans with no fees or finance charges).

More recent product developments include increased online access to products for self-filers, higher refund advance amounts, the introduction of new products, and for tax year 2019, the reintroduction of fee-based loans.

However, GAO identified some limitations in Internal Revenue Service (IRS) data on product use, including over- or under-counting of certain types of products. IRS has not communicated these data issues to users and has not updated guidance to tax preparers on how to report new product use. As a result, data users (including federal agencies and policymakers) have inaccurate information to inform their findings and decision-making.

Lower-income and some minority taxpayers were more likely to use tax-time financial products, according to GAO analysis of 2017 data from IRS, the Bureau of the Census, and the Federal Deposit Insurance Corporation. Specifically, taxpayers who made less than \$40,000 were significantly more likely to use the products than those who made more. African-American households were 36 percent more likely to use the products than white households. Product users tend to have immediate cash needs, according to studies GAO reviewed. For these users, tax-time financial products generally provide easier access to cash and more cash at a lower cost than alternatives such as payday, pawnshop, or car title loans.

GAO's undercover visits with nine tax preparers, its review of selected provider websites, and review of documents obtained from selected banks and tax preparers found disclosures generally followed requirements for disclosing fees. However, disclosure practices by some paid tax preparers may pose challenges for consumers. For example:

- Preparers in GAO's review generally indicated that they present taxpayers with almost all of the documents with fee information after their tax returns have been prepared and the preparers determined the taxpayers qualified for a tax-time financial product. The timing of these disclosures would pose a challenge for taxpayers looking to compare prices for different providers.
- During six of nine undercover visits, GAO investigators explicitly requested literature on product fees but were not provided such information.
- Refund transfer fee information on websites GAO reviewed sometimes was presented only after the tax preparation process started, was in small print, or could be found only after navigating several pages. As a result, taxpayers may face challenges comparing prices.