

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Assessment of Tax Refund-Related Products

November 18, 2024

Report Number: 2025-4S0-003

HIGHLIGHTS: Assessment of Tax Refund-Related Products

Final Report issued on November 18, 2024

Report Number 2025-4S0-003

Why TIGTA Did This Review

This review was initiated in response to directives included in the Senate Appropriations Committee report (S. Rept. 118-61). The overall objective of this review was to provide an assessment of refund advance and refund transfer products available to taxpayers, including their use, the cost and benefits of refund products to taxpayers, and an assessment of customer facing disclosures about fees.

Impact on Tax Administration

Tax refund-related products are financial products based on taxpayers receiving a tax refund. Available products include refund anticipation loans and refund anticipation checks. Refund anticipation loans are money borrowed by a taxpayer based on the taxpayer's anticipated income tax refund. Refund anticipation checks are refund products that taxpayers use to receive their refund and pay for tax preparation fees.

Although both types of financial products are predicated on the taxpayer's tax refund, the Internal Revenue Service (IRS) is not involved with or responsible for these financial products and has no authority to ban them.

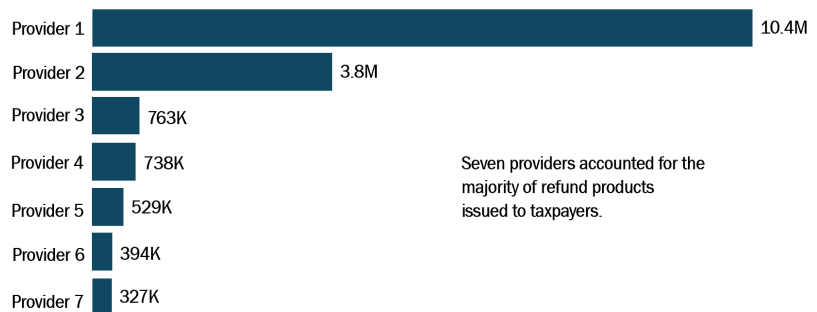
What TIGTA Found

We identified that 21.9 million out of 138 million (15.9 percent) tax year 2023 returns, electronically filed as of May 29, 2024, used a refund product. Of these 21.9 million returns:

- 96 percent used a refund anticipation check.
- 4 percent used a refund anticipation loan.

We identified 53,715 tax return preparers associated with these products. However, 7 tax return preparer companies accounted for 77 percent of the total refund products.

Volume of Refund Products for Tax Year 2023 by Provider



All other providers issued an additional 5 million refund products to taxpayers.

*K=Thousands, M=Millions.

We estimate that taxpayers paid over \$842 million in fees to receive their refunds using a refund anticipation check. However, the IRS does not capture the amount of the refund that was subject to the refund anticipation loan and the terms and conditions of these products vary among providers. As such, we could not estimate their cost.

Although the IRS offers suggested practices to providers through some of its publications, it does not provide oversight of refund products. We reviewed the websites of the top seven providers of refund products to review their disclosure of fees and found that while these providers are largely complying with applicable guidance, not all information was clearly available for consumers. For example, in some instances, fees and cost information for these products were not clearly advertised, and it required reading the fine print or going through multiple pages to find some cost information.

Moreover, we found that the IRS does not specifically address refund products in its public communications, *i.e.*, educating taxpayers about these products and the IRS's role. Instead, the IRS distributes different messaging on its website, in press releases, and its social media to promote and raise taxpayer awareness on the benefits of direct deposit. Therefore, we encourage the IRS to consider updating its website to educate taxpayers about the fees and potential costs of using refund products.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

November 18, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Danny Verneuille
Acting Deputy Inspector General for Audit

SUBJECT: Final Report – Assessment of Tax Refund-Related Products
(Project # 202440P001)

This report presents the results of our review to provide an assessment of refund advance and refund transfer products available to taxpayers. We are issuing this report to document the results of our research in response to the directives included in the Senate Appropriations Committee report (S. Rept. 118-61).¹

Management's complete response to the draft report is included as Appendix I. If you have any questions, please contact me or Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services).

¹ This report accompanied the Senate Appropriations Committee Bill, S. 2309, *Financial Services and General Government Appropriations Act, 2024* which is a related bill to Public Law No. 118-47, *Further Consolidated Appropriations Act, 2024* enacted on March 23, 2024.

Background

Tax refund-related products (refund products) are financial products based on taxpayers receiving a tax refund. Financial institutions offer a variety of financial products to taxpayers based on their refunds. The Internal Revenue Service (IRS) is not involved with or responsible for these financial products and has no authority to ban them. This is considered a business contract between the provider and the taxpayer.

The IRS notes in Publication 1345, *Authorized IRS e-file Providers of Individual Income Tax Returns*, that there are no guarantees that the Department of the Treasury deposits refunds within a specified time or in their entirety. The IRS further notes that the Department of the Treasury is not liable for any loss suffered by taxpayers, providers, or financial institutions resulting from a reduced refund or not honored deposits.

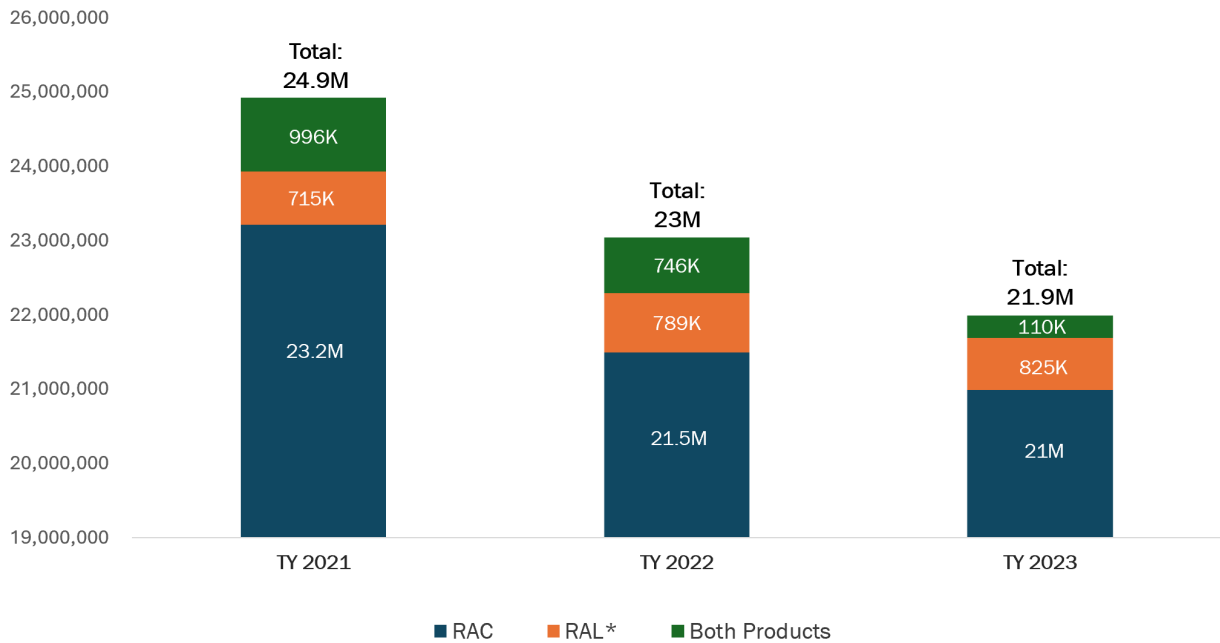
The refund products include:

- **Refund Anticipation Loan (RAL)** - money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. These loans can provide taxpayers their income tax refund more quickly and can either have associated fees or be offered as a no-fee loan. A RAL is a contract between the taxpayer and the lender. A lender may market a RAL under various commercial or financial product names and through various tax return preparers. Upon approval, the bank disburses monies to the taxpayer. Once the IRS accepts and processes the taxpayer's tax return, any refund will be paid directly to the lender as repayment of the loan. RALs are considered refund advance products.
- **Refund Anticipation Check (RAC)** - directs the refund to a limited/special-purpose deposit account at a financial institution. Upon receipt of the tax refund, the financial institution disburses fees associated with tax preparation and/or other services to the service provider and the balance of the refund to the taxpayer. The taxpayer does not receive an advance on their tax refund. Although a RAC is not considered a loan, it is considered a refund transfer product.

Our analysis of tax return data for tax years (TY) 2021 through 2023 identified that most taxpayers (94 percent) who used refund products elected a RAC.¹ As noted previously, the RAC allows taxpayers to defer payment of their tax preparation fees until they receive their refund. Figure 1 provides the breakdown of refund products used during the past three tax years.

¹ Refund product counts presented in this report reflect the data maintained in the IRS's Modernized Tax Return Database, as transmitted with individuals' tax returns. The IRS notified us that one provider incorrectly transmitted refund product data with the tax returns. As a result, the actual numbers for the one provider do not match the information in the IRS's database.

Figure 1: Refund Product Trends Tax Years 2021 Through 2023



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Modernized Tax Return Database (MTRDB) Processing Years 2022 through 2024 data for associated TYs 2021 through 2023.

**RAL includes both fee and no-fee products, K=Thousands, M=Millions.*

Objective

The overall objective of this review was to provide an assessment of refund advance and refund transfer products available to taxpayers. To accomplish this objective, we:

- Analyzed the use of refund advance and refund transfer products.
- Determined the costs and benefits of refund products to taxpayers.
- Assessed the customer facing disclosures about fees.

Results of Review

Detailed Use of Refund Products for Tax Year 2023

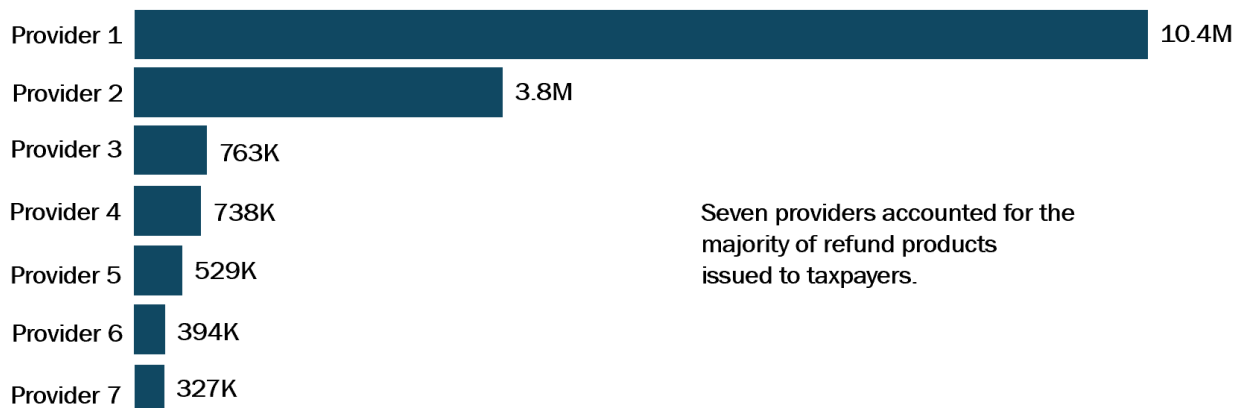
Our analysis of TY 2023 electronically filed tax returns received through May 29, 2024, identified 21.9 million (15.9 percent) of 138 million tax returns received by the IRS used either a RAL or a RAC. The breakdown of the use of these products is shown in Figure 2.

Figure 2: Details of Tax Year 2023 Returns with a Refund Product

Refund Product Type	Volume of Tax Returns	Percentage
RAC	20,989,682	95.7%
RAL	501,904	2.3%
RAL (No Fee) ²	323,011	1.5%
RAL and RAC	103,618	0.5%
RAL (No Fee) and RAC	6,830	0.0%
Total	21,925,045	100.0%

Source: TIGTA analysis of MTRDB Processing Year 2024 data for TY 2023 through May 29, 2024.

We identified 53,715 tax return preparers associated with these products. However, 7 tax return preparer companies accounted for 77 percent of the total refund products, with 2 providers accounting for 65 percent of the volume. Figure 3 provides the volume of refund products by provider.

Figure 3: Volume of Refund Products for Tax Year 2023 by Provider

All other providers issued an additional 5 million refund products to taxpayers.

Source: TIGTA analysis of MTRDB Processing Year 2024 data for TY 2023 and associated electronic filing identification numbers, through May 29, 2024. *K=Thousands, M=Millions.

² Per Publication 1345, these pre-refund advance products are free to the taxpayer, *i.e.*, without interest or fees and should not be considered as RALs.

Costs and Benefits of Refund Products to Taxpayers

RACs cost taxpayers hundreds of millions in fees

Most taxpayers who used a refund product elected a RAC when filing their TY 2023 return. A RAC allows the taxpayer to pay the tax preparation fee from their refund instead of upfront.

Additionally, two major providers prepared approximately two-thirds of the returns (over 14 million of the 21 million returns). The associated RAC fees for these providers were \$39 and \$40, respectively.

The average RAC fee was \$40 for Tax Year 2023. We estimate that taxpayers paid over \$842 million in RAC fees on their 2023 returns.

The RAC fees for the top seven providers ranged from \$25 to \$55. This fee is in addition to other tax return preparation fees, if applicable.³ Figure 4 identifies the number of tax returns and the fees associated with RACs offered by the top seven providers during Filing Season 2024.

Figure 4: RAC Tax Returns and Fees for Filing Season 2024

Provider	Number of Returns	RAC Fees
Provider 1	10,276,625	\$40.00
Provider 2	3,787,938	\$39.00
Provider 3	762,780	\$24.99
Provider 4	734,582	\$54.95
Provider 5	529,434	\$39.95
Provider 6	394,414	\$39.00
Provider 7	233,538	\$54.95

Source: TIGTA analysis of provider websites and MTRDB Processing Year 2024 data for TY 2023 through May 29, 2024.

Using the fees associated with each of the top seven providers' websites and an average fee for the other providers, we estimate that taxpayers paid over \$842 million in fees to use a RAC when filing their TY 2023 tax returns.⁴ The average refund amount for these taxpayers was \$3,841, indicating that the cost of the RAC was about one percent of the total refund.

A small percentage of taxpayers used a RAL to receive their refund

Fewer taxpayers with a refund product elected to receive a RAL when filing their TY 2023 tax return. Specifically, 935,363 tax returns had a RAL (with 329,841 of these being a no-fee RAL),

³ Some major tax return preparers offer free federal tax return preparation.

⁴ We calculated the \$40 RAC fee by using the average fee charged (rounded to the nearest whole dollar) on the tax returns with RACs from the top seven providers.

which represents four percent of all refund products for TY 2023. In total, we identified 20,563 tax return preparers who provided a RAL (either fee or no-fee) to taxpayers.

Benefits of RALs

Taxpayers can receive their refund quicker than the traditional IRS processing time of 21 days, and in some instances instantly. RALs can be appealing to taxpayers, especially those who are eligible for refundable credits. According to the National Taxpayer Advocate, the increased demand for RALs coincided with the Protecting Americans from Tax Hikes Act that required the IRS to hold all refunds that include the Earned Income Tax Credit or Additional Child Tax Credit until February 15.⁵ The National Taxpayer Advocate reported that taxpayers facing financial hardship and needing the money before February 15 to pay bills may be willing to elect a RAL to receive their refund more timely, despite associated fees.

Providers can offer these loan products at no-fee.⁶ Our analysis identified that 7,470 of the 20,563 providers offered a no-fee RAL product. The average refund for taxpayers who elected to receive this product was \$5,892. However, the National Taxpayer Advocate previously reported that although these products are offered at no-fee to the taxpayer, there may be indirect effects to the taxpayer. For example, tax return preparers may increase tax return preparation fees, but these hidden fees may be difficult to identify.⁷

RALs with Fees

If the RAL is fee-based, taxpayers will accrue interest until they can repay their loan, presumably after the refund is issued. For taxpayers who elect a fee-based RAL, we determined that the:

- Interest rates and terms vary between providers. Three of the top seven providers that we reviewed charged around 35 percent interest on these loans.
- Terms of RALs can limit the amount of the taxpayer's refund that is subject to the RAL. Providers offer different ranges of RAL amounts depending on the dates and refund amounts.

Figure 5 identifies the offers and interest associated with RALs by the top seven providers during Filing Season 2024.

⁵ National Taxpayer Advocate, *2017 Annual Report to Congress*. Protecting Americans from Tax Hikes Act, Pub. L. No. 114-113, 129 Stat. 2242 (2015) (codified in scattered sections of 26 U.S.C.).

⁶ According to Publication 1345, a no-fee RAL is not considered a refund product by the IRS.

⁷ National Taxpayer Advocate, *2017 Annual Report to Congress*.

Figure 5: RAL Offers and Interest Charged for Filing Season 2024

Provider	RAL Offer	RAL Interest
Provider 1	<ul style="list-style-type: none"> The No-fee RAL was offered until Feb. 15, 2024. Loan amounts ranged from \$250 to \$4,000. The loan could not be more than 50 percent of the total anticipated refund. 	No-Fee
Provider 2	<ul style="list-style-type: none"> The Advance Loan Product A was offered from Nov. 1, 2023 to Dec. 31, 2023. The loan must be repaid by March 31, 2024, or additional fees and interest would apply. The loan limit was \$1,300. The No-fee RAL was offered from Jan. 2, 2024 to Feb. 29, 2024. The loan amount ranged from \$250 to \$3,500. 	35.90%
Provider 3	Not Offered	Not Applicable
Provider 4	<ul style="list-style-type: none"> The Early RAL was offered from Dec. 11, 2023 to Jan. 14, 2024. The loan amount limit was \$1,000 based on recent proof of income. The No-fee RAL was offered from Jan. 2, 2024 to Feb. 11, 2024. The loan amount ranged from \$250 to \$6,500 and a taxpayer could elect to repay the loan with their following year's refund. 	35.53% plus finance charge of 7.5% of loan amount
Provider 5	Not Offered	Not Applicable
Provider 6	Not Offered	Not Applicable
Provider 7	<ul style="list-style-type: none"> The Advance Loan Product B was offered until Jan. 13, 2024. The loan limit was \$1,200 with an anticipated refund of at least \$9,950 based on prior filing history with Provider 7. The Advance Loan Product C was offered until Feb. 28, 2024. The loan amount ranged from \$500 to \$6,250, with an anticipated refund of at least \$8,400. The No-fee RAL was offered until March 31, 2024. The loan limit was \$100 and was offered at the time of filing. 	35.99%

Source: TIGTA analysis of provider websites.

Cost of RALs to the taxpayer

The actual costs of the RAL for the taxpayer are unknown. The IRS does not capture the amount of the refund that was subject to the RAL and the terms and conditions of these products vary among providers. As such, we could not apply a cost estimate to these products. However, our analysis of tax returns received/processed as of June 26, 2024, identified:

- 94 percent of tax returns with a fee-based RAL had a refund issued. On average, it took the IRS 28 days to issue these refunds after it received the tax return for processing.

- 6 percent of tax returns with a fee-based RAL are still awaiting a refund. These tax returns have been in process for an average of 143 days. One common reason for the delay is that the taxpayer's account was flagged for identity theft.
- The average refund for taxpayers who elected to receive a fee-based RAL was \$6,696.

Delays in processing the taxpayer's tax return may increase the amount they owe because interest continues to accrue until the loan is repaid. In addition, any adjustments that the IRS makes to the tax return could potentially impact the actual refund amount. Thus, it is important that taxpayers are aware of the risks of these products before electing to use them.

Disclosures of Fees

The IRS notes in Publication 1345 that providers who assist taxpayers with applying for a tax refund-related financial product should inform them of the following:

- The IRS will send the taxpayer's refund to the financial institution and not them.
- RALs are interest bearing and not a quicker way to receive refunds from the IRS.
- The taxpayer may be liable to the lender for additional interest and other fees if the financial institution does not receive a direct deposit of the taxpayer's refund within the expected time frame.
- All fees and other known deductions that will be paid from the taxpayer's refund and the final amount the taxpayer will receive.

Additionally, Publication 3112, *IRS e-file Application & Participation*, states that advertisements on RALs or financial products must be easy to identify and read. We reviewed the websites of the top seven providers of refund products for compliance with their publications and determined that the providers are largely complying with the guidance, *i.e.*, the providers included all the suggestions outlined in Publication 1345. However, not all information was clearly available for consumers as required by Publication 3112. For example, in some instances, fees and cost information for these products were not clearly advertised, and it required reading the fine print or going through multiple pages to find some cost information. Therefore, although these companies are largely implementing the guidance of Publication 1345, they were not always making it easy for taxpayers to find this information.

The IRS does not provide oversight of refund products

According to IRS management, the IRS does not review or enforce compliance of the guidance outlined in Publication 1345. The IRS explained that Publication 1345 lists suggested practices for providers and not requirements. Management also indicated that the IRS is not involved in or responsible for these refund products. Therefore, they do not oversee the providers use or disclosure of these products' terms to the taxpayer.

The IRS's website does not address tax refund-related products

The IRS does not specifically address either RACs or RALs in its public communications, *i.e.*, educating taxpayers about these products and the IRS's role. Instead, the IRS distributes different messaging on its website, in press releases, and its social media to promote and raise taxpayer awareness on the benefits of direct deposit.

We reviewed IRS.gov webpages using key word searches such as “refund product,” “tax refund products,” “RAC,” and “RAL” and did not find any information. We also reviewed the Earned Income Tax Credit and IRS Free File webpages and did not identify any information about these refund products. We did, however, note that the Free File webpage stated that taxpayers will not be offered one of these refund products as a benefit to the Free File Program.

Conclusion

Financial institutions offer a variety of financial products to taxpayers based on their refund amounts. In TY 2023, 21.9 million (15.9 percent) of 138 million tax returns received by the IRS used a refund product. We estimate that taxpayers paid over \$842 million in fees to receive their refunds using a RAC; however, the estimated cost to taxpayers using a RAL is unknown.

Publications 1345 and 3112 outline practices for providers that offer tax refund-related products. However, the IRS does not review or enforce the provider’s compliance with this guidance. The IRS is not involved with or responsible for these products and has no authority to ban them. This is considered a business contract between the provider and the taxpayer.

Although our review determined that the top seven providers are largely complying with the guidance of Publication 1345 on their websites, the information was not always clearly available for taxpayers as required by Publication 3112. Moreover, the IRS’s website does not provide any information about these products. We encourage the IRS to consider updating its website to educate taxpayers about the fees and potential costs of using refund products.

Performance of This Review

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and follows procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our conclusion based on the objective of our review.

Major contributors to the review were Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Linna K. Hung, Director; Nina A. Hill, Audit Manager; James P. Bailey Jr., Auditor; and Carina Schusterman, Auditor.

Appendix I

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

October 29, 2024

MEMORANDUM FOR DANNY R. VERNEUILLE
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Kenneth C. Corbin 
Chief, Taxpayer Services Division

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Corbin
Date: 2024.10.29 14:52:45 -04'00'

SUBJECT:

Draft Report – Assessment of Tax Refund-Related Products
(Project # 202440P001)

Thank you for the opportunity to review the subject draft report and provide comments. Tax refund-related products are financial products offered to taxpayers by financial institutions in the commercial marketplace. As noted in the report, the IRS does not sanction or promote their use, nor do we have the legal authority to regulate them.

Recognizing that there are many unique motivating factors that could influence a taxpayer's decision to purchase one of these products, we proactively address the situations we believe may be the most common motivators that are within our span of control to influence. Extensive messaging is issued prior to and during each filing season to educate taxpayers that electronically filing their tax returns and electing to have their refunds paid by Direct Deposit will, in most cases, have their refunds paid to them within 21 days or less. For the 2023 filing season, nine out of ten refunds, including those requested on paper returns, were delivered within 21 days or less.

A motivating factor for using a tax refund product could be to obtain tax preparation services, with the fees to be withheld from the refund. The IRS offers free basic tax return preparation services to qualified individuals through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. The VITA program has operated for over 50 years and offers free tax help to people who need assistance in preparing their own tax returns, including:

- People who generally make \$67,000 or less;
- Persons with disabilities; and
- Limited English-speaking taxpayers

In addition to VITA, the TCE program offers free tax help, particularly for those who are 60 years of age and older, specializing in questions about pensions and retirement-related issues unique to seniors.

Additionally, free electronic filing options are available through the Free File and Direct File programs. The Free File program lets qualified taxpayers prepare and file federal income tax returns online using guided tax preparation software. Direct File is a web-based service that works on mobile phones, laptops, tablets or desktop computers. It guides taxpayers through a series of questions to prepare their federal tax return step-by-step.

We will continue to promote free filing options and the benefits of direct deposit in our filing season messaging; however, it is important to recognize that many other factors beyond our control influence the decisions by taxpayers on whether they choose to use tax refund products. If you have any questions, please contact Karen Truss, Director, Operations Support, Taxpayer Services Division, at (470) 639-3459.

Appendix II

Abbreviations

IRS	Internal Revenue Service
MTRDB	Modernized Tax Return Database
RAC	Refund Anticipation Check
RAL	Refund Anticipation Loan
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



**To report fraud, waste, or abuse,
contact our hotline on the web
at <https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.