

A New Generation of Tax-Time Loans Surges in Popularity

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NCLC and CFA's Annual Survey of Financial Tax-Time Consumer Products Uncovers Troubling Trends for Consumers

Washington, D.C. – As the tax season enters its final push, advocates from the National Consumer Law Center (NCLC) and Consumer Federation of America (CFA) issued their annual report on tax-time consumer issues. Tax-Time Products 2018: A New Generation of Tax-Time Loans Surges in Popularity discusses problems faced by taxpayers.

“Tax-time is hard enough for most Americans, but they also face consumer protection challenges,” noted Chi Chi Wu, staff attorney at the National Consumer Law Center. “They need to avoid incompetent and abusive preparers and decide whether to choose financial products of varying costs. The fact that Congress has delayed refunds for some of the neediest taxpayers makes the situation all that much worse.”

New generation of Refund Anticipation Loans Grow in Volume

There has been a dramatic growth in volume of a new generation of refund anticipation loans (RALs), with 1.7 million of these RALs made in 2017. These RALs are different from the high-cost loans that were driven off the market in the early 2000s, in that they are promoted as advances that do not charge the taxpayer a fee. However, some tax preparers are actually imposing other fees to make up for the lack of a direct cost for the RAL, in effect charging a disguised fee. Part of the reason for the popularity of these second-generation RALs is that refunds for recipients of the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) were delayed until late February, a result of the 2015 Protecting Americans from Tax Hikes Act. This delay likely drove demand for RALs by EITC and ACTC recipients.

A related product is the refund anticipation check (RAC). About 20.5 million consumers obtained a RAC in 2017, at a cost of at least half a billion dollars.

One More State Adopts Competency Standards for Paid Preparers

The vast majority of paid tax preparers are not required to meet any minimum educational, competency, or training standards. The lack of competency standards for paid preparers exposes consumers to potential error or fraud. Previously, only four states (California, Maryland, New York and Oregon) regulated paid tax preparers. In 2017, Connecticut joined this group of states.

“Minimum competency and training standards need to be adopted in the 45 states that don’t have them,” recommended Michael Best, senior policy advocate at the Consumer Federation of America,

“Taxpayers deserve no less.”

Private Debt Collectors Squeeze Financially-Constrained Taxpayers

The IRS private debt collection program began operating in 2017. The program has disproportionately targeted economically vulnerable families. Nearly half of taxpayers who made payments to the IRS after being contacted by private debt collectors had incomes below 250% of the poverty level (\$24,200 for a family of four), and 28% made less than \$20,000 per year. Meanwhile, the program has resulted in a \$13.3 million loss to the federal government.

ITIN Renewals Present Problems for Immigrant Taxpayers

Millions of immigrant taxpayers who hold Individual Taxpayer Identification Numbers (ITINs) were required to have the numbers renewed, also potentially delaying the processing of tax refunds. An estimated 440,000 taxpayers were required to renew their ITINs last year, yet only 176,000 did so, while 152,000 taxpayers had their returns flagged for using an expired ITIN. This year, three times as many taxpayers will be required to renew their ITINs, about 1.2 million.