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CORPORATE WELFARE FOR HIGH-RATE LENDERS

National Consumer Law Center Report Documents IRS Subsidy to Refund Anticipation Loan (RAL) Industry

BOSTON – The Internal Revenue Service provides a taxpayer-subsidized service to boost the profits of an industry that skims over a billion dollars a year from the refunds of hard-working Americans. A new report issued by the National Consumer Law Center finds that the IRS service, called the debt indicator, nearly doubled the number of loans made by the refund anticipation loan (RAL) industry while increasing RAL profit margins.

The NCLC report, entitled "Corporate Welfare for the RAL Industry: The Debt Indicator, IRS Subsidy, And Tax Fraud," provides an in-depth analysis of the debt indicator, which is an acknowledgement from the IRS telling tax preparers whether a taxpayer's refund will be paid or will be intercepted for government debts. Tax preparers and lenders use the debt indicator as a form of a credit check, to determine whether they should issue a RAL.

Senator Daniel K. Akaka (D-HI) stated, "The IRS should not be facilitating these predatory loans that allow tax preparers to reap outrageous profits by exploiting working families. The IRS must stop providing the Debt Indicator service that helps unscrupulous preparers to exploit low-income taxpayers. A provision in my bill, S. 324, the Taxpayer Abuse Prevention Act, would terminate the Debt Indicator service."

The NCLC report documents how the debt indicator has boosted RAL volume and profitability. It notes that when the IRS temporarily halted the debt indicator in 1994, RAL volume plummeted and prices shot up. When the IRS reinstated the debt indicator in 1999, the number of the high cost loans nearly doubled. The industry and IRS justified the reinstatement of the debt indicator by claiming it would lower RAL prices, but there has been no permanent savings. Instead RAL providers have profited handsomely.

"The debt indicator helps pad the profits of lenders who charge triple digit interest rates to working poor families just so they can get their refund monies less than two weeks quicker," stated the report's author, NCLC Staff Attorney Chi Chi Wu, "Why is the federal government helping to promote this form of predatory lending?"

Ms. Wu is the author of a series of annual reports on the RAL industry, which have been critical of the practices of RAL lenders. The last report documented how RALs drained over $1 billion in loan fees, plus $389 million in other fees, from the wallets of more than 12 million American taxpayers in 2003. The effective annual interest rate (APR) for a RAL can range from about 40% to over 700%.

The new NCLC report also raises significant privacy issues concerning the debt indicator, noting that it may skirt tough IRS privacy rules. It questioned whether taxpayers realize when they get RALs that the IRS will offer up their sensitive personal information to tax preparers about debts they may owe to the federal government, such as child support and student loans.

"The IRS is letting tax preparers and high cost lenders snoop into taxpayers' records about what they owe the government, just so RAL lenders can help the IRS meet its target goal for electronic tax filing," said Jean Ann Fox, director of consumer protection for Consumer Federation of America. "The IRS is running credit checks for RAL lenders at the cost of taxpayer privacy."

The NCLC report also discusses the impact of the debt indicator on tax fraud, noting that the IRS terminated the program in 1994 due to fraud involving RALs. According to the Treasury Department, the amount of RAL fraud has multiplied since the debt indicator was reinstated in 1999.

The NCLC report on the debt indicator will be available on NCLC's website at www.consumerlaw.org. In addition to issuing the new report, NCLC and CFA have sent a letter to the Treasury Department and the IRS requesting that they terminate the debt indicator.

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NCLC is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues.

CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.