INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.622.4000
www.IRS.gov/newsroom | Public Contact: 800.829.1040

IRS Removes Debt Indicator for 2011 Tax Filing Season

IR-2010-89, Aug. 5, 2010

WASHINGTON — The Internal Revenue Service today announced that starting with next year's tax filing season it will no longer provide tax preparers and associated financial institutions with the "debt indicator," which is used to facilitate refund anticipation loans (RALs).

"As we prepare for tax season every year, we look at past practices and consider whether they still make sense. We no longer see a need for the debt indicator in a world where we can process a tax return and deliver a refund in 10 days," IRS Commissioner Doug Shulman said. "We encourage taxpayers to use e-file with direct deposit so they can get their refunds in just a few days."

So far this year, more than 95 million tax returns have been e-filed, representing more than 70 percent of tax returns.

"Refund Anticipation Loans are often targeted at lower-income taxpayers," Shulman said. "With e-file and direct deposit, these taxpayers now have other ways to quickly access their cash."

The IRS has been reviewing refund settlement products, such as RALs and Refund Anticipation Checks (RACs), as part of the Return Preparer Review released in January. Specifically, the IRS announced that it would study refund settlement products.

RALs are loans secured by a taxpayer's anticipated tax refund. Currently, tax preparers who electronically submit a client's tax return receive in the acknowledgment file an indication of whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or delinquent federally funded student loans. This acknowledgment is known as the debt indicator, and is used as an underwriting tool for RALs.

The IRS announcement would remove the debt indicator starting with the upcoming 2011 tax filing season. The IRS noted that taxpayers will continue to have access to information about their tax refunds and any offsets through the "Where's My Refund?" service on IRS.gov.

RACs are temporary bank accounts established on behalf of a taxpayer into which a direct deposit refund can be received and out of which a bank typically issues a payment to the taxpayer.

With both RALs and RACs, tax preparation and product fees are subtracted directly from the refund, and the taxpayer does not make any “out-of-pocket” payments. They are frequently marketed to taxpayers who do not have cash to pay for professional tax preparation services.

In a related effort, the IRS plans to explore the possibility of providing a new tool for the 2012 tax filing season to give taxpayers a mechanism to use an appropriate portion of their tax refund to pay for the services of a professional tax return preparer. The IRS plans to engage with taxpayers, consumer advocates and the tax return preparer community to consider whether providing this option would be a cost-effective way for consumers to pay for tax return preparation services.

—30—