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**A Loan by any Other Name:
How State Policies Changed Advanced Tax Refund Payments**

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A loan by any other name: How state policies changed advanced tax refund payments

Maggie R. Jones¹

Abstract

In this work, I examine the impact of state-level regulation of Refund Anticipation Loans (RALs) on the increase in the use of Refund Anticipation Checks (RACs) and on taxpayer outcomes. Both RALs and RACs are products offered by tax-preparers that provide taxpayers with an earlier refund (in the case of a RAL) or a temporary bank account from which tax preparation fees can be deducted (in the case of a RAC). Each product is costly compared with the value of the refund, and they are often marketed to low-income taxpayers who may be liquidity constrained or unbanked. States have responded to the potentially predatory nature of RALs through regulation, leading to a switch to RACs. Using zip-code-level tax data, I examine the effects of various state-level policies on RAL activity and the transition of tax-preparers to RACs. I then specifically analyze New Jersey's interest rate cap on RALs, a regulation that was accompanied by greater enforcement of existing tax-preparer regulations. Employing an empirical strategy that uses variation in taxpayer location, which should be uninfluenced by tax preparers' decisions to provide these products and a state's decision to regulate them, I find increases in RAL and RAC use for taxpayers living near New Jersey's border with another state. Furthermore, I find that these same border taxpayers reported more social program use and more persons per household—a finding that is in line with the results of similar research into the effects of short-term borrowing on family finances.

Keywords: EITC, tax preparation, predatory lending

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1. Introduction

This paper looks at refund anticipation loans (RALs) and refund anticipation checks (RACs) and whether their use was affected by state-level regulation. Specifically, I examine state laws requiring disclosure of the terms of use for RALs to see if RAL caseloads decreased faster in states with these laws compared with states without. I also examine whether tax preparers in these states turned more frequently to RACs after RALs came under stronger regulation. To my knowledge, this is the first study using zip-code-level RAL/RAC data to examine the impact of state laws. To extend this analysis and provide some suggestive evidence on the impact that regulation had on taxpayers, I specifically examine a New Jersey interest-rate-cap regulation that was applied to RALs in 2008.

The topic of tax preparers and of refund anticipation products is an important one for policymakers. While the use of RALs has declined to only 32,000 users in 2014 (from a height of 12.7 million in 2002), consumers paid a minimum of \$648 million in RAC fees in 2014 (Wu and Best, 2015). Through the temporary bank accounts set up for RAC provision, money from the tax and transfer system goes directly to tax preparers to pay these service fees. With well over half of RAL/RAC consumers being EITC recipients (Theodos et al., 2011), the use of these products may blunt the work-incentivizing intent of the EITC, as well as making it the only federal assistance program that, in effect, routinely depends on payment from the beneficiary for their receipt of benefits. States have stepped forward in an attempt to regulate these products, and assessing the effectiveness of these regulations is important for future policymaking.

Very little work has been done specifically on RALs and RACs in the economics literature, although important contributions have been made by the National Consumer Law Center and the Urban Institute. My work contributes to that literature—and to the literature on short-term borrowing in general—by examining the effectiveness of state laws. Using difference-in-differences models, I find that laws regarding disclosure had little effect on accelerating the demise of RALs and the early adoption of RACs by the industry. In contrast, an interest rate cap instituted by New Jersey appears to have been effective in curtailing the refund anticipation product market in that state. Using this change in the New Jersey interest rate cap over time and across bordering states, I find that use of both products increased in New Jersey zip codes close to other state borders, suggesting that taxpayers may have crossed state borders to acquire these products after the regulation change. Meanwhile, measures of household hardship also increased in these border zip codes. Hardship measures include use of the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), and Supplemental Social Security (SSI), as well as the number of persons per room in a taxpayer’s household.

The paper proceeds as follows. Section 1 provides background information on RALs and RACs, describes the important information regarding the state laws, and gives a short review of the literature. Section 2 describes the data. Section 3 gives the specific hypotheses being tested and provides the difference-in-differences model and border analysis model. Section 4 provides the results, and in section 5 I discuss some limitations to the current study. Section 6 concludes.

2. Background and previous literature

2.1. History of refund anticipation products

RALs have been in existence since the 1980s. They are short-term loans that are offered by tax preparers and underwritten by consumer finance companies. In exchange for receiving a tax refund immediately, the consumer pays interest and fees on the loan. Tax preparers make a substantial profit on taxpayers through the use of these instruments because the loans are secured by the refund, lowering the risk of making the loan. For RACs, the tax preparer opens a temporary bank account for the taxpayer into which the refund is deposited. The tax preparer then writes a check or, more often, provides a pre-paid bank card. Any tax-preparation fees are taken from the refund rather than paid up front by the taxpayer. The product is thus a lending of the tax-preparation fees, which can be substantial (a 2014 GAO investigation reported fees as high as \$400 for an EITC-eligible return²). RACs often require additional processing fees, and transaction fees apply to either an issued check or debit card.

Beginning in 2000, the IRS reinstated the debt indicator (which it had provided for a brief time in the 1990s). The indicator alerted tax preparers to any liens on a taxpayer's refund before a RAL was issued, which significantly lowered the risk of the loan and made RALs especially profitable for tax preparers. This increased the use of RALs significantly while simultaneously lowering their price. (Holt, 2011) As price decreased, the combined cost of tax preparation and provision of the loan increased (Holt, 2009) to compensate.

²Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors (2014), <http://www.gao.gov/assets/670/662356.pdf>

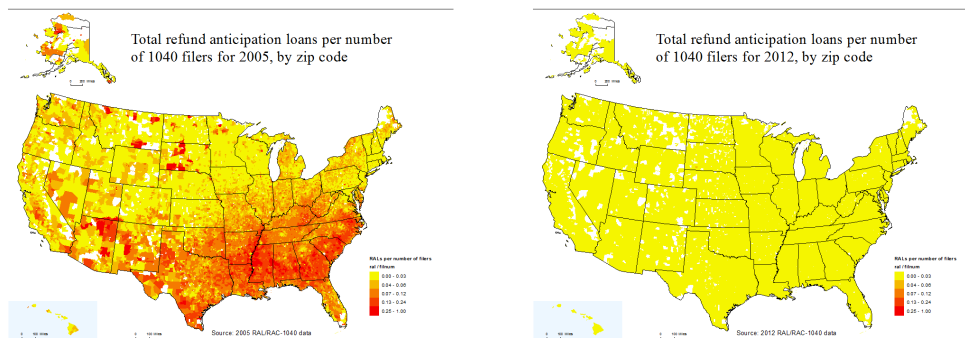


Figure 1: Source: IRS counts of refund anticipation loans by zip code, plotted using ArcGIS.

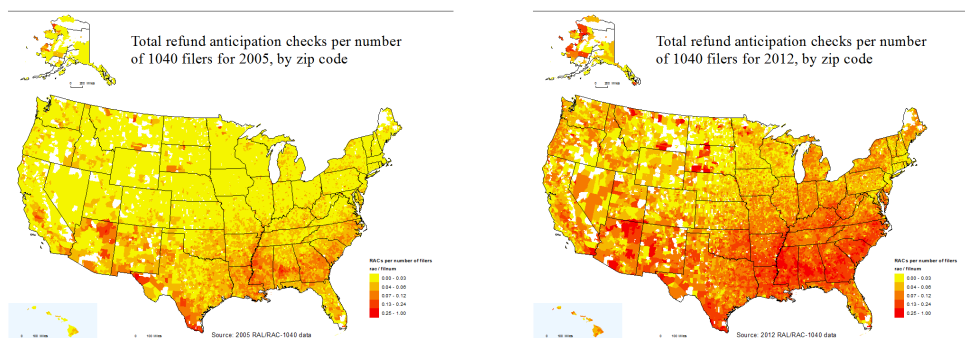


Figure 2: Source: IRS counts of refund anticipation checks by zip code, plotted using ArcGIS.

The IRS stopped providing the indicator in 2010, which led to a decline in RAL provision and an increase in the the provision of RACs. Historically, RACs were less expensive than RALS, but as RACs have replaced RALS in the market their price has increased accordingly Wu and Best (2015). In this way, tax preparers have managed to keep the overall price of preparation services high. Figures 1 and 2 show maps of RAL and RAC activity over time.

The first two sets of maps show RAL activity by zip code between 2005

and 2012. Color bars are consistent between maps to show the decrease in activity between the two years. By 2012, all of the major tax-preparation outlets had stopped issuing RALs, and the activity that remained was undertaken by smaller preparers (Wu and Best, 2015). In contrast, the rate of RACs went in the opposite direction, as shown in the second set of maps. The geographic pattern of use for RACs in 2012 is similar to that of RALs in 2005, although higher levels of RAC activity appear to be more widespread. In the case of both products, activity is highest in the South.

These products are intended to provide a way for consumers to get their refund money sooner and pay off more pressing debt. In a small study of taxpayers in Detroit, Barr and Dokko (2008) found that 73 percent of unbanked users of tax preparers obtained a RAL so they could pay off bills faster. In the same study, half reported that they needed to take out the loan to pay tax preparation fees.

While consumer advocates object to the usurious nature of these products, a further consideration is the necessity for having tax preparation services in the first place. Filing income taxes is a federal legal requirement, and while low-income taxpayers are certainly able to file for no cost, many may be unwilling to take the chance of being audited or forgoing needed credits. The existence of for-profit tax preparation itself may cloud the importance of how complex the tax system is and dampen the urgency of reform (Finkelstein, 2007).

From a public policy perspective, much of the money that is captured from taxpayers through tax preparation products and services are at their source transfers to low-income taxpayers from other, higher-income taxpayers

(Eissa and Hoynes, 2008). The EITC, for example, was first introduced in the 1970s as a way to compensate, through the income tax system, the payroll taxes paid by low-income earners, which represent a larger share of low-wage earnings compared with higher wages. The credit has undergone several expansions over the succeeding decades—in particular, a large expansion in the 1990s that occurred in tandem with welfare reform. This expansion marked a transition from out-of-work to in-work benefits (Bitler et al., 2014). When tax preparers charge usurious fees on refund anticipation products, they capture a large portion of the safety net that is meant to support low-income wage earners.³

Moreover, studies indicate that the opportunity of capturing these public moneys incentivizes fraud (Wu and Feltner, 2014). Masken et al. (2001) found that taxpayers who used bank products were more often non-compliant than those who did not. When fraud is uncovered, taxpayers often bear the consequences of non-compliance; it is often difficult to prove fault on the part of the preparer, especially in cases where the preparer has a seasonal establishment or the preparer did not sign the return (as required by law)(Levy, 2015). When the fault of non-compliance falls on the taxpayer, penalties usually include at least the reimbursement of a refund and, possibly, the denial of eligibility for credits in later tax years (Levy, 2015).

As the industry has withdrawn from RALs and adopted the lower-cost RACs, preparers appear to be recouping losses by increasing the cost of services. RACs present a number of issues for consumers. For many years,

³A study by the Brookings Institution found that approximately \$1.75 billion of total 1999 EITC refund money went to tax preparers (Berube et al., 2002).

the base price of a RAC held steady at \$30 to \$35; but in 2014, a RAC cost between \$30 to \$55 (the higher amount holding when the delivery means was a check—pre-paid debit cards may be cheaper up front, but they accrue fees as they are used) (Wu and Best, 2015). Because RACs are often used to defer payment of the tax preparation fee, RACs represent a high-cost loan of the fee. If a taxpayer pays \$30 to defer payment of a \$200 tax preparation fee for 3 weeks, the APR would be equivalent to 260 percent (Wu and Feltner, 2014). Tax preparation houses have also recently (between approximately 2012 and 2015) returned to a practice of adding on fees for services related to the RAC, including application fees, e-filing fees, document processing fees, and technology fees. Because there are several players in the market, and their fees vary, it is difficult to come up with an average cost of a RAC. Mystery shoppers, however, have documented cases where they have been quoted a price for tax services but were charged significantly more (in one 2010 case, a \$70 quote came out to more than \$400 in preparation and RAC fees) (Wu and Feltner, 2014). To sum up, while the initial transition from RALs to RACs may have been a plus for the consumer, RACs are becoming more expensive with each successive tax year, a situation that has led to increasing calls for greater regulation of tax preparers, including licensing.

2.2. State-level policies on RALs

States have responded to the cost and potentially abusive nature of refund anticipation products by establishing regulations regarding their use. These regulations apply to RALs specifically, as these are the earlier product, but as of 2014 are being expanded to cover RACs as their use (and cost) increases (Wu and Feltner, 2014). Table 1 lists each state and the year in which the

Table 1: States with RAL laws as of 2010

State	Year adopted	Summary
Arkansas	2010	Disclosure
California	2006	Disclosure; restrictions on advertising
Colorado	2010	Disclosure
Connecticut	2005	Disclosure; interest rate cap
Illinois	2004	Disclosure
Maine	2009	Disclosure
Maryland	2010	Disclosure
Michigan	2009	Disclosure
Minnesota	2004	Disclosure
Nevada	2005	Disclosure
New Jersey	2008	Disclosure; interest rate cap
New York	2002	Disclosure; restrictions on advertising
North Carolina	2002	Disclosure; no "unconscionable" fees
Oregon	2004	Disclosure
Texas	2006	Disclosure
Virginia	2006	Disclosure; restrictions on advertising
Washington	2004	Disclosure
Wisconsin	2004	Disclosure

Source: National Consumer Law Center and author's search of state statutes.

regulation was adopted. All states with a regulation require the disclosure of the terms of any RAL. Information that must be disclosed often includes the RAL fee schedule, the fact that the RAL is a loan and not a refund, the availability of free e-filing services, and the time by which a refund can be received without the use of the loan (Wu, 2014). Regulations that restrict advertising require that the advertisement must state that the product is a loan and that it will accrue interest or fees; furthermore, the advertisement must name the lending institution.

Finally, two states—Connecticut and New Jersey—required interest rate caps on RALs (in 2005 and 2008, respectively). This was 60 percent APR in the case of Connecticut and 30 percent in the case of New Jersey. Both

provisions were eventually challenged successfully by the banking industry (in late 2009 in the case of New Jersey), which made the case that the banking institutions making the loans were national, and state usury laws did not apply to them. Because I am using the New Jersey interest rate cap as an exogenous change to the rules surrounding RAL activity, it should be made clear that the rule was in effect only for a short time between tax years 2008 and 2009. There was also some enforcement activity in relation to the statute that applied the cap (Wu and Fox, 2014); I provide evidence that the combination of regulations and enforcement activity curtailed the use of refund anticipation products within New Jersey.

2.3. Related literature

In 2008, of 111 million tax filers with a refund, 8.4 million used a RAL and 11.6 million used a RAC (7.6 percent and 10.5 percent, respectively). Low income taxpayers disproportionately use tax preparers to file their taxes; more than 70 percent of EITC receivers have their tax return filed by a paid preparer (Maag et al., 2005). In an examination of taxpayers in Illinois, Dewees et al. (2009) found that 60 percent RAL users were EITC recipients, and 72 percent of RAL users in neighborhoods with a high African-American population were EITC receivers. The RAL/RAC population overlaps with users of short-term loans generally, including payday and title loans. Specifically, they tend to be young adults from low-income households (Feltner, 2007) who have children and are more likely to be heads of household (Elliehausen, 2005; Masken et al., 2001). Use of these products is especially high in the South (Masken et al., 2001), as shown in the maps in Section 2; in urban areas; and in rural counties with reservations (Dewees et al., 2009).

In a study of RAL/RAC users, Theodos et al. (2011) found that important correlates of use are low income, young adulthood, head-of-household filing, EITC receipt, and residence in poorer and more rural zip-codes. Elliehausen (2005) examined the reasons for use of RALs, finding that most users of the product have few other opportunities to obtain credit; a quarter of customers did not have a bank account or bank credit card. Moreover, nearly half of RAL customers had been turned down for credit in the last five years, compared with a quarter of all households. Most had used other types of short-term lending, such as payday loans, in the five years preceding the RAL. Barr and Dokko (2008) report that nearly 80 percent of taxpayers acquiring a RAL used the loan to pay bills sooner, and 32 percent reported that they used a RAL to ensure receipt of their refund. In short, users of tax-preparation products are highly liquidity constrained and lack access to traditional banking and credit.

The preceding description of a RAL/RAC user has led providers of these products to argue that they may make consumers better off—that RALs may present the only way for some users to acquire credit. The academic literature has provided mixed evidence on whether short-term lending increases or decreases the welfare of borrowers (see Skiba and Tobacman (2009) for a negative example and Zinman (2010) for a positive). Melzer (2011) found that access to payday lending, identified as nearness to a state that permits payday lending, increases a household’s difficulty in paying important bills, such as mortgage, rent, and utilities. Meltzer’s strategy is appealing in that he examines households in states that prohibit payday lending, and uses their proximity to the border of a state that permits the practice as an identifica-

tion strategy. I adopt this approach in examining the effect of New Jersey’s interest rate cap.

Research into the consumption decisions of EITC recipients indicates that most consumption centers on avenues to asset building (Smeeding et al., 2000; Mendenhall et al., 2012). These avenues include paying off outstanding bills, lowering debt burden (especially from student loans and credit card debt), improving housing conditions, and saving. If tax preparation fees that include refund anticipation products cut into refund money, thus undermining the financial stability of families, this result might be evidenced in higher reported rates of hardship. I examine whether this is the case in what follows.

3. Data

The data used in this study are Internal Revenue Service (IRS) counts of RALs, RACs, EITC caseloads, and total EITC dollars by zip code for the entire United States. The years covered are 2005 to 2012, with a gap for tax year 2011.⁴ These data were linked to several other sources of data. First, to get the total number of filers per zip code—regardless of EITC filing—IRS 1040 data were collapsed by zip code and linked. These data also provide aggregate filing information for zip code, such as the joint filing rate, mean children claimed, and mean adjusted gross income. Data from the 2010 decennial Census, similarly collapsed, provide zip-code-level demographic characteristics on race, Hispanic origin, sex, and number of female-headed households. Finally, I used American Community Survey (ACS) data from 2005 to 2013

⁴For some reason, the IRS did not retain the records on RAL and RAC receipt for 2011.

to gather information on program use and other hardship variables, as well as demographic and household characteristics of filers, for the tax year. To enhance the survey data and improve the accuracy of measures such as income and dependents, I also link the ACS by individual taxpayer to his or her 1040 file. The combined zip-code level data are then linked to each tax filer in the ACS based on the zip-code they report on the 1040.

Individual ACS records were linked to 1040 records using a process whereby individuals in each data set were given a unique, protected identifier. When a Social Security Number (SSN) is available in a data set, the identifier is placed based SSN (in essence, this identifier is a “scrambled” SSN). For records without an SSN, personally identifiable information such as name, address, and date of birth are used in probability matching to assign persons to their identifier. The matching fields are compared against the same fields in a master reference file that holds the unique identifier. Personal information is then removed from each data set before a researcher may link the data together and use the data for research purposes. Only those observations that received the unique key are used in the analysis. For more information on the linking process, see Wagner and Layne, 2014.

The RAL/RAC file from the IRS does not include zip codes with fewer than 10 EITC claimants. I make a further restriction based on the link with the individual data, for which ACS coverage may be sparse in certain zip codes. Once the ACS link is made, I retain taxpayers whose adjusted gross income (AGI) is less than \$100,000. This ensures that the population begin compared with the zip code-level data, who are EITC recipients, are comparable. I then drop zip codes with fewer than 25 observations in any

year.⁵ For the analysis that looks specifically at zip codes in New Jersey that border other states, the zip codes included are mapped in Figure 3.

4. Research questions and empirical strategy

My first hypothesis is that state legislation—either disclosure laws or interest rate caps—accelerated the demise of RALs and the adoption of RACs.

⁵Zip code in this case is the zip code listed on the 1040. There are 14,386 zip codes in the linked ACS-1040 data, of which 13,024 are matched to the RAL and RAC count and meet the income and population size restrictions.

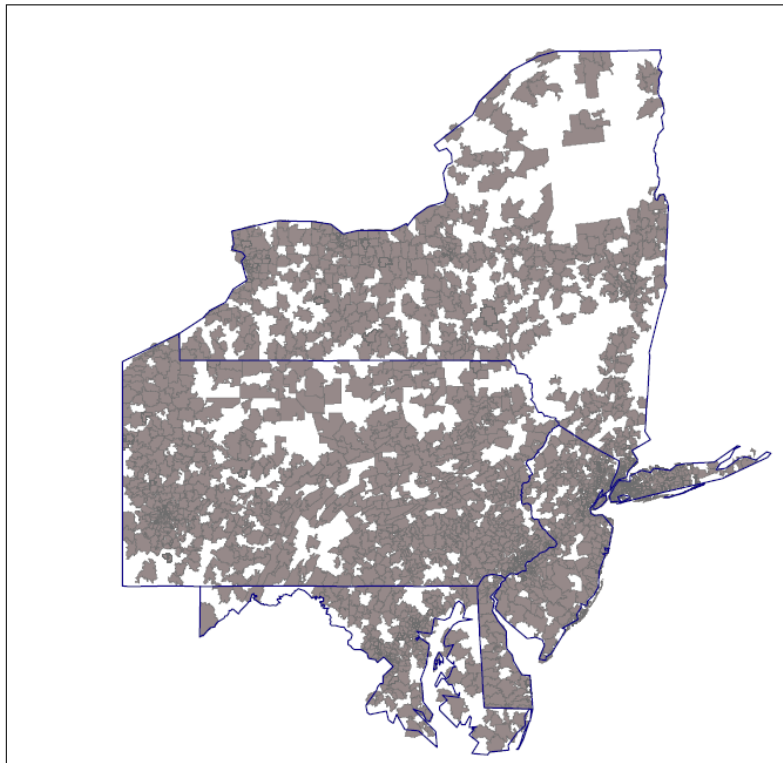


Figure 3: Zip codes used in the analysis of New Jersey’s RAL interest rate cap after sample selection. Source: IRS RAL and RAC counts, 2005–2012, linked to zip-code-level summaries of IRS 1040 data from 2005–2012, 2010 decennial census data, and ACS 2006 to 2013. Zip codes plotted using ArcGIS.

In an examination of rent-to-own agreements, McKernan et al. (2003) found that consumers in states with full-disclosure laws were less likely to enter into these agreements, suggesting that consumers become more wary when they learn the full cost of such an arrangement. However, there is a possibility that disclosure and advertising regulations may have competing forces that will disprove this hypothesis: consumer demand for a product may increase if the consumer understands the product better, or if disclosure leads the consumer to trust the provider more. My second hypothesis is that overall EITC caseloads and average credit amounts will decrease due to state legislation. The necessity of disclosure and the penalties involved may make providers or taxpayers uneasy about stretching the rules regarding EITC eligibility Wu and Feltner (2014). I also examine the impact of New Jersey’s interest rate cap on the same outcomes. For New Jersey, I expect an interest rate cap to accelerate RAL withdrawal and RAC adoption, since capping the interest rate will make the provision of RALs more expensive for tax preparers.

The method used to study the impact of state laws on RAL withdrawal and RAC adoption is a difference-in-differences with multiple time periods. The treatment variable is a 1 for a state with a law beginning in the year it was enacted. There were several adoptions of laws over the time period considered, as shown in Table 1. The form of the difference-in-difference is

$$Y_{ist} = \alpha_i + \gamma_s + \lambda_t + X'_{ist}\beta + \lambda_i * t + \rho D_{ist} + \eta_{it} \quad (1)$$

where α_i are fixed effects for county, γ_s are fixed effects for state and λ_t are those for each year, and $\lambda_i * t$ are state-specific time trends. The coefficient of interest is ρ , which captures the change in the dependent variable induced

by state regulation. In order to control for spatial heterogeneity, I cluster standard errors at the county level. I include zip code-level control variables in X , including the population density, the rate of filing jointly, the mean number of children per filer, and mean adjusted gross income. All models are weighted using the number of filers in a zip code.

I examine two versions of this model. In the first, I use all zip codes in the U.S. and regard any refund anticipation regulation in any state in any year the “treatment.” In the second, I restrict the analysis to New Jersey and surrounding states (New York, Pennsylvania, Maryland, and Delaware), and consider the New Jersey interest rate cap in 2008 as the treatment.

A separate analysis on the effect of New Jersey’s regulation is motivated by interest in the impact of the policy on the welfare of taxpayers. The hypothesized mechanism is as follows: RALs and RACs capture a portion of the refund money that taxpaying families rely on to improve overall financial stability; lower financial stability will be associated with higher social program use and less movement to better housing. I focus on taxpayers who live in New Jersey close to the border with another state. This method uses variation in taxpayer location, which should be uninfluenced by tax preparers’ decisions to provide these products and a state’s decision to regulate them, both of which decisions may be correlated with economic hardship. If taxpayers are able to cross over into another state to receive a refund anticipation product that may be more difficult to get in the regulated state, the use of state and time fixed effects will not uncover a treatment effect. Here, New Jersey taxpayers within 25 miles of the border with another state are compared with other taxpayers.

The econometric specification is:

$$Y_{izst} = \alpha + \textit{Access}_{zt} + \theta \textit{Border} + \gamma X_{it} + \delta A_{zt} + \eta_{st} + \epsilon_{izst} \quad (2)$$

First, I examine whether RAL and RAC usage increased in zip codes that were close to other state borders using this specification, and then Y takes on three measures of hardship from the ACS. These include binary variables indicating participation in SNAP, TANF, and SSI; a variable measuring the number of persons per room in the household of the tax filer; and an indicator of a second mortgage. In specifications where RAL and RAC levels are examined, I collapse the data to the zip code level; for the individual estimations, I cluster the standard errors at the zip code level. *Access* is a binary variable that takes a 1 when a tax filer in the ACS lives in a New Jersey zip code whose center is within 25 miles of another state’s border.⁶ The zip code reported on the ACS tax filer’s return is used. *Access* also reflects the change in New Jersey’s regulation in that it is a 0 before 2008. Thus *Access* reflects an otherwise “treated” taxpayer’s proximity to a state that does not have an interest rate cap. *Border* marks all zip codes that are within 25 miles from another state border—this accounts for any effect that is due simply to being close to a state border and isolates the separate effect of RAL/RAC access. The vectors X and A are characteristics of individual taxpayers and zip codes, respectively.⁷ Finally, η_{st} are state-year fixed effects.

⁶All distance calculations were performed in ArcGIS.

⁷ A contains the population density; the proportion of the population that is Black, the proportion Hispanic, and the proportion male; the rate of married, female-headed, and owned households; and the average household size, average household age, average number of children per household, and average age of household members. It also includes

Table 2: State diff-in-diff results: effect of state laws on tax filing outcomes

Model 1	RAL rate	RAC rate	EITC caseload rate	per capita EITC
Mean	0.033	0.044	0.180	377.988
Law (coeff.)	0.002	-0.002	-0.001	1.465
Clustered SE	(0.004)	(0.003)	(0.001)	(7.335)
R-squared	0.682	0.785	0.845	0.843
Observations	87,002			

Source: IRS RAL and RAC counts, 2005–2012, linked to zip-code-level summaries of IRS 1040 data from 2005–2012 and 2010 decennial census data.

Table 3: State diff-in-diff results: effect of New Jersey law on tax filing outcomes

Model 1	RAL rate	RAC rate	EITC caseload rate	per capita EITC
Mean	0.020	0.034	0.143	278.656
NJ cap (coeff.)	-0.000	-0.010***	-0.004***	-56.807***
Clustered SE	(0.001)	(0.001)	(0.001)	(4.627)
R-squared	0.584	0.766	0.790	0.762
Observations	15,468			

Source: Source: IRS RAL and RAC counts, 2005–2012, linked to zip-code-level summaries of IRS 1040 data from 2005–2012 and 2010 decennial census data.

5. Results

Table 2 shows results for the difference-in-differences analysis that uses the entire U.S. and examines any state law as a treatment. As can be seen in the table, it appears as though state disclosure laws did not have any impact on the speed with which RALs were abandoned and RACs adopted. Nor was there a statistically significant impact of these laws on the rate at which EITCs were taken up, nor on the average EITC value.

the county unemployment rate. X contains characteristics on the filer: Black, Asian alone, and other race; Hispanic origin; home ownership and vehicle ownership; age; sex; citizenship status; education (four categories); number of children claimed on tax return (up to four); and the labor force participation of the tax filer and the total number of household earners.

Table 3 reports the results from the New Jersey difference-in-differences. First, while the rate of RALs appears to have been unaffected, the regulation appears to have spilled over to the RAC market. The results indicate that RAC use decreased in New Jersey as a whole after the interest rate cap compared with adjacent states, with a drop of about 1.0 percentage point. Meanwhile, the EITC caseload rate and per capita EITC also decreased relative to adjacent states, with a 0.4 percentage point drop and a 57-person drop, respectively.

The next set of results look at the border model. Here, RAL use increased in zip-codes defined as having “access” to the product, which provides some evidence that RALs were easier to obtain for taxpayers who lived closer to bordering states. Interestingly, not only did RAC use increase, but did so by more than RAL use (1.3 percentage points compared with 0.4). This may indicate that refund anticipation products of any type were easier to access in bordering states after the New Jersey regulation went into effect.

In terms of EITC use, both the EITC caseload rate and the per capita EITC increased in New Jersey zip codes at the border with other states in comparison with other zip codes. Although this looks like a welfare-improving result, there is no way of calculating how much of those EITC dollars actually went to the taxpayers and how much went to the tax preparer. Because these products are popular, on both the demand and supply side, among those who receive a large refund, we should expect RALs and RACs to be positively correlated with EITC use, as seen in these results.

Table 5 shows the result from the border model using the measures of hardship. For program participation, taxpayers with easier access to refund

Table 4: Border analysis: effect of RAL and RAC access on their use by taxpayers

	RAL rate	RAC rate	EITC caseload rate	per capita EITC
Mean	0.020	0.034	0.143	278.656
Access	0.004**	0.013***	0.032***	67.264***
Clustered SE	(0.001)	(0.002)	(0.003)	(8.366)
Border	-0.006***	-0.005***	-0.017***	-33.713***
Clustered SE	(0.000)	(0.000)	(0.001)	(2.159)
R-squared	0.595	0.773	0.796	0.770
Observations	15,468			

Source: Source: IRS RAL and RAC counts, 2005–2012, linked to zip-code-level summaries of IRS 1040 data from 2005–2012 and 2010 decennial census data.

Table 5: Border analysis: effect of RAL and RAC access on social program take-up and housing hardship

	SNAP	TANF	SSI	Persons per room	Second mortgage
Mean	0.078	0.020	0.031	0.498	0.026
Access	0.015**	0.004**	0.007***	0.027**	0.002
Clustered SE	(0.005)	(0.001)	(0.002)	(0.010)	(0.002)
Border	-0.017***	-0.003***	-0.003**	0.008**	0.000
Clustered SE	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)
R-squared	0.176	0.037	0.032	0.421	0.031
Observations	1,085,994				

Source: ACS individual-level data linked by person to IRS 1040 data. Zip-code-level measures are added from IRS RAL and RAC counts, 2005–2012, linked to zip-code-level summaries of IRS 1040 data from 2005–2012 and 2010 decennial census data.

anticipation products experienced an increase in the probability of use of all services compared with other taxpayers, with a 1.5 percent increase in probability of SNAP use, a 0.4 percent increase in TANF, and a 0.7 percent increase in SSI. Taxpayer households in border zip codes after the law changed also experienced more crowded conditions than did taxpayers in other zip codes, with about 0.03 more persons per room than in comparison zip codes. The final measure, the existence of a second mortgage on a home, did not vary between border taxpayers and other taxpayers.

6. Limitations

As for any difference-in-differences study, a key assumption that must be tested is that the regulation being examined is actually enforced and has an effect for the treatment group. This can only be tested partially here by looking at the rate of refund anticipation product use. A key missing piece of the puzzle is the precise location where an individual tax preparation was made, which is not available in the aggregated data used in this analysis. Rather, we know the zip code-level rate of RAL and RAC usage by taxpayers, not the zip code-level location of the tax preparers who made the filings. While the IRS keeps a record of this information, these records are not currently available to researchers.

An analysis with public-use Quarterly Census of Employment and Wages (QCEW) data did not show a statistically significant withdrawal of tax preparers from New Jersey compared with bordering states after the brief enforcement of the interest-rate cap. However, the QCEW does not provide a fine enough geography to see what happened at the zip code-level near the border. Thus, its usefulness in this context is limited.

7. Conclusion

The work just presented provided some analysis of two different interventions (disclosure laws and interest rate caps) adopted by states to regulate RALs. The results of the analysis have implications for further regulation of similar tax products, such as RACs, as well as other short-term lending products. The question is an important one for policymakers, as the transfer of needed tax refund money to tax preparers may have welfare and equity

implications for low-income families and may blunt the incentivizing effects of the EITC.

I found that laws regarding disclosure had little effect on increasing the demise of RALs and early adoption of RACs by the industry. In contrast, an interest rate cap instituted by New Jersey appears to have been effective in increasing withdrawal from the refund anticipation product market. In assessing the impact of New Jersey's law on taxpayers with greater access to these products, I found that product use increased after the law was implemented dependent on taxpayers' access to a non-regulating state, while measures of hardship increased at the same time. While the results are correlational, they provide suggestive support of the view that refund anticipation products—regardless of what tax preparers may label them—may be harmful to the financial security of households who use them. However, better data are needed to establish a causal link between refund anticipations products and household hardship.

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