

Tuesday, March 15, 2005

DCA CITES TAX PREPARERS FOR NOT COMPLYING WITH 'CONSUMER BILL OF RIGHTS' OR DISCLOSURE REQUIREMENTS

DCA Increased Citywide Inspections by 50%; Warns Consumers to Avoid High-Interest Refund Loans

More than halfway through the tax season, the New York City Department of Consumer Affairs (DCA) today announced it has cited 111 tax preparers for not complying with disclosure requirements mandated by City law when preparing taxes, including providing copies of the Taxpayer's Bill of Rights, clearly disclosing refund anticipation loan (RAL) costs, and more. To ensure consumers are protected, the DCA has stepped up inspections this year by 50%, checking nearly 200 locations citywide. In addition, the DCA cited four tax preparers for deceptively advertising high interest refund anticipation loans, with one using the catchphrase "Free Electronic Filing, Checks in 5 Minutes."

"Tax preparers should help you, not hurt you. Aggressively enforcing this law helps make that happen," said DCA Commissioner Gretchen Dykstra. "Consumers filing their taxes have a right to know their forms will be prepared correctly, what qualifications the preparer has, and any fees or charges they will pay. We strongly urge consumers to ask for a copy of the Taxpayer's Bill of Rights, avoid high-interest refund anticipation loan products that promise fast money at huge costs, ask if they qualify for the EITC, and learn how to reach your preparer after April 15th."

Tax preparers, with the exception of CPA's, enrolled agents, and attorneys, are required to give each customer a free, current, and legible copy of the Consumer Bill of Rights Regarding Tax Preparers or have it conspicuously posted at their place of business. Tax preparers who offer RALs must disclose the cost of the loan prior to preparing the loan documents. The Taxpayer Bill of Rights outlines what consumers need to know when having their taxes prepared, including the qualifications of the preparer, the difference between rapid refund products (such as those that directly deposit refunds into a consumer's bank account) and high-interest refund anticipation loans, how fees are calculated and charged, and more.

Under City law, it is illegal for a tax preparer to:

- Misrepresent his or her qualifications.**
- Guarantee a tax refund or that a taxpayer will not be audited by any government tax agency.**
- Charge a fee based upon the amount of tax owed or refund due.**
- Claim to give taxpayers an "instant tax refund" that is actually an interest-bearing loan.**

Refund anticipation loans (RALs) are loan products offered by many tax preparation services in which the consumer's anticipated refund is used as collateral for the loan. The loan proceeds cover the anticipated refund - as well as other fees - at exorbitantly high interest rates. In actuality, a tax refund can be obtained from the Internal Revenue Service (IRS) within 14 days or less if filed electronically and deposited directly in a consumer's checking account.

By law, any advertisement for a RAL must conspicuously identify it as a loan, and

disclose that a fee or interest will be charged by the lender. In addition, a tax preparer must disclose the following to consumers and provide consumers with a written notice in English and Spanish stating:

- That a taxpayer is not required to take out a RAL.**
- The fees to be paid for taking out such a loan.**
- The estimated annual percentage rate to be paid for the loan based on the amount of time the loan will be outstanding.**
- The approximate loan amount the taxpayer will receive.**
- The approximate date by which the taxpayer can expect to receive the loan amount.**

DCA continues to work with trade groups to further inform preparers of their responsibilities, and additionally has reached out to preparers who were inspected in the past.

Also during the tax season, consumers should ask their tax preparer if they qualify for the Earned Income Tax Credit, a federal, state, and city tax credit that could return a maximum of nearly \$6,000 in cash refunds to qualifying working families making less than \$35,000 a year. The DCA coordinates New York City's EITC Campaign, which through its private, non-profit, and government partners, sponsors dozens of sites where qualified staff prepare taxes for free at locations citywide.

To file a complaint or to request copies of the Taxpayer Bill of Rights in English and Spanish, DCA's Tax Preparation Services consumer guide, or for information on the citywide Earned Income Tax Credit campaign and locations to have taxes filed for free, call 311 or go online at www.nyc.gov/consumers.