

MODERNIZATION AND LOW- INCOME TAXPAYERS: STATE LAW ENFORCEMENT PERSPECTIVE

National Taxpayer Advocate Public Forum

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Vijay Raghavan
Assistant Attorney General
Consumer Fraud Bureau
Illinois Attorney General's Office



Who I am and what I do

- Assistant Attorney General for the Illinois Attorney General's Office in our Consumer Fraud Bureau
- Responsible for:
 - Investigating and litigating violations of the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505, which prohibits unfair and deceptive acts or practices
 - Monitoring compliance with the Illinois Tax Refund Anticipation Loan Reform Act, 815 ILCS 177 ("IL RAL Act").



IL RAL Act

- In effect since January 1, 2013.
- Disclosure requirements for preparers that offer tax-related financial products and affirmative prohibitions on certain practices.
- Set caps on fees preparers can charge for certain tax-related financial products



Problems with IRS Modernization for low-income taxpayers

- Low-Income taxpayers tend to have their returns prepared at brick-and-mortar retail locations in their neighborhoods
- As preparers are largely unregulated, retail stores tend not to compete on price and quality but rather size of refund and other incentives



Problems with IRS Modernization for low-income taxpayers

- Many take advantage of low-income taxpayers price-insensitivity and lack of sophistication by charging exorbitant and sometimes hidden fees for simple return items
- Large fees can create bad incentives for preparers to inflate income items, which puts the taxpayer at high risk of being audited

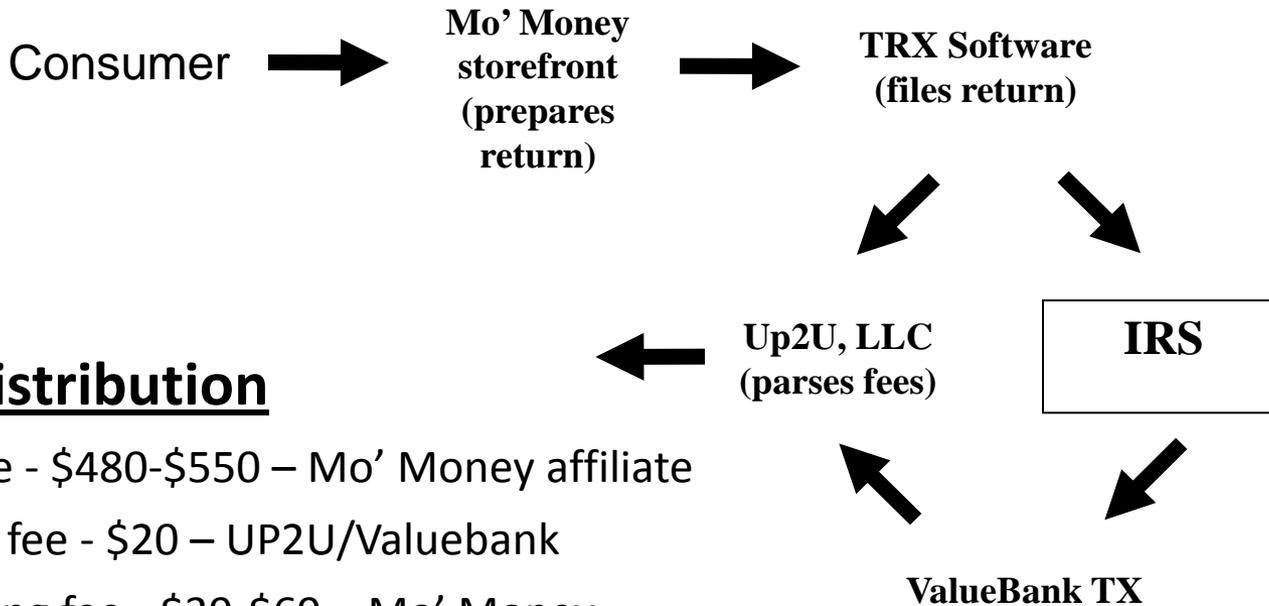


People v. Mo' Money

- Mo' Money was a large chain with approximately 250 stores nationally at its height.
- In 2012, Mo' Money engaged in a phantom Refund Anticipation Loan (RAL) bait-and-switch: Mo' Money had no financing for the RALs it advertised
- Consumers who applied for RALs had to fill out 8879 in order to apply for RALs, which Mo' Money used to file unauthorized returns and issues RACs with significant fees



Mo' Money Fee distribution



Fee Distribution

Prep Fee - \$480-\$550 – Mo' Money affiliate

Product fee - \$20 – UP2U/Valuebank

Processing fee - \$39-\$69 – Mo' Money

Service Bureau Fee - \$27-\$42 – Mo' Money affiliate

Technology Fee - \$29.95 – Mo' Money affiliate

Transmitter fee - \$18 – TRX Software

Consumer – Refund net ~ \$615-\$730 in fees



Litigation

- Illinois Attorney General sued Mo' Money on March 14, 2012 for engaging unfair and deceptive practices
- Department of Justice files civil suit on December 5, 2012
- Partial proceeds from scheme interpleaded and partially recovered as restitution and to offset tax liabilities, *ValueBank, TX v. UP2U, LLC et al, Civil No. 2:12-cv-00294 (S.D. TX)*



Mo' Money good example of how bad prep can exacerbate noncompliance

- Mo' Money instructed its employees to routinely apply for refundable education credits
- Government's case turned on the fact that vast majority of Mo' Money consumers received education credits without corresponding 1098s



People v. Individual Income Tax Service

- Recent lawsuit we filed against a Chicago-based group of preparers for charging and collecting illegal fees from consumers who financed the cost of tax preparation with refund anticipation checks (RACs).
- Some consumers were allegedly charged over \$330 in illegal fees.
- We alleged that one preparer consistently charged over \$650 for relatively simple returns (1040A with Schedule EIC)



Dollar Summary

This section is intended to provide estimated payment and fee amounts based on anticipated responses from the bank. These are only estimates. Actual amounts are determined by the bank when they process the product request. **Bank documents/disclosures supersede information on this page.**

Refund Transfer

Federal Refund		\$ <u>5,689.00</u>
Selected Federal Amount		\$ <u>5,689.00</u>
Selected State Amount		\$ _____
<hr/>		
Account Fee	<u>32.95</u>	
State Account Fee	_____	
Total Projected Bank Fee		\$ <u>32.95</u>
<hr/>		
Tax Preparation	<u>606.00</u>	
Franchise/Network Fee paid to _____	_____	
Total Preparer Fees		\$ <u>606.00</u>
<hr/>		
Software Fee paid to <u>Drake Software</u>	<u>13.95</u>	
Fee withheld on behalf of: <u>35</u>	<u>35.00</u>	
Audit protection fee	_____	
Total Other Fees		\$ <u>48.95</u>

Projected Checks (after fees) Time frame and amounts are estimated

Refund Transfer (Approx. 2 wks)		\$ <u>5,001.10</u>
State Refund Transfer _____		\$ _____
State Refund Transfer _____		\$ _____
State Refund Transfer _____		\$ _____



People v. Cokenour et al

- Criminal action filed against Gerrie Cokenour and Nycole Simms-Stevens, owners the Tax Advocators, Inc., Joliet, IL based preparer.
- Over the course of several years, Cokenour and Simms-Stevens allegedly prepared 764 fraudulent state income tax returns. Tax returns allegedly contained inflated and fraudulent property tax data and other fraudulent deductions, which cost the state more than \$400,000.



Takeaway

- These examples illustrate the perils taxpayers face when using unscrupulous brick-and-mortar stores.
- Though modernization may have many benefits, could potentially pose great hazards for low-income taxpayers in an environment where there are no strong regulations on tax preparers.



Thank you!

- For more information on the topics discussed or for additional information:
 - Vijay Raghavan
 - vraghavan@atg.state.il.us
 - Office: 312-814-4986

