



IRS Expands Taxpayers' Options for Direct Deposit of Refunds

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WASHINGTON — Hoping to encourage higher savings and more banking, the Internal Revenue Service announced today that it will create a new program to allow taxpayers who use direct deposit to divide their refunds in up to three financial accounts.

The IRS will create a new form, Form 8888, which will give taxpayers greater control over their refunds. Form 8888 will give taxpayers a choice of selecting one, two or three accounts such as checking, savings and retirement account. Taxpayers who want all their refund deposited directly into one account can still use the appropriate line on the Form 1040 series.

"Direct deposit is growing rapidly and is now used by over half of all refund filers," said IRS Commissioner Mark W. Everson. "This program will give taxpayers the option of depositing a refund into more than one account. Split refunds should encourage saving, and we hope it will dampen demand for refund anticipation loans."

Exact details of the split-refund program, including a draft of Form 8888, are still being decided. The IRS intends to meet with a number of consumer, tax professional and software associations to seek suggestions on operational and promotional details. The program will take effect in January 2007.

More than three-quarters of the nation's taxpayers receive refunds each year. Last year, the average refund was \$2,171. The IRS repeatedly has encouraged taxpayers to adjust their payroll withholding to ensure they pay only the taxes required, but some people appear to view payroll withholding as a way to save money.

Direct deposit of refunds was first offered in 1987. Last year, the IRS issued 100 million refunds (from 133 million tax returns) amounting to \$217.6 billion. Of those figures, 52.7 million refunds amounting to \$134.2 billion were deposited directly into bank accounts.

Currently, taxpayers have two options for receiving their individual federal income tax refunds — a paper check or a direct deposit (electronic funds transfer) into a checking or savings account. The electronic funds transfer gives taxpayers the safety and speed of direct deposit. Taxpayers who file their tax return electronically and opt for direct deposit can receive their refund in two weeks or less.

The split-refund program will allow taxpayers to conveniently designate — at the time they file — and deposit their refunds with any U.S. financial institution as long as they provide valid routing and account numbers. Taxpayers will attach a new Form 8888 to their returns indicating amounts for each allocation and providing account information.

This ability to split or allocate their direct deposit refunds among multiple accounts will be available to all individual filers, whether they file Forms 1040, 1040A/EZ, 1040NR or any of the other 1040 series forms.

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