

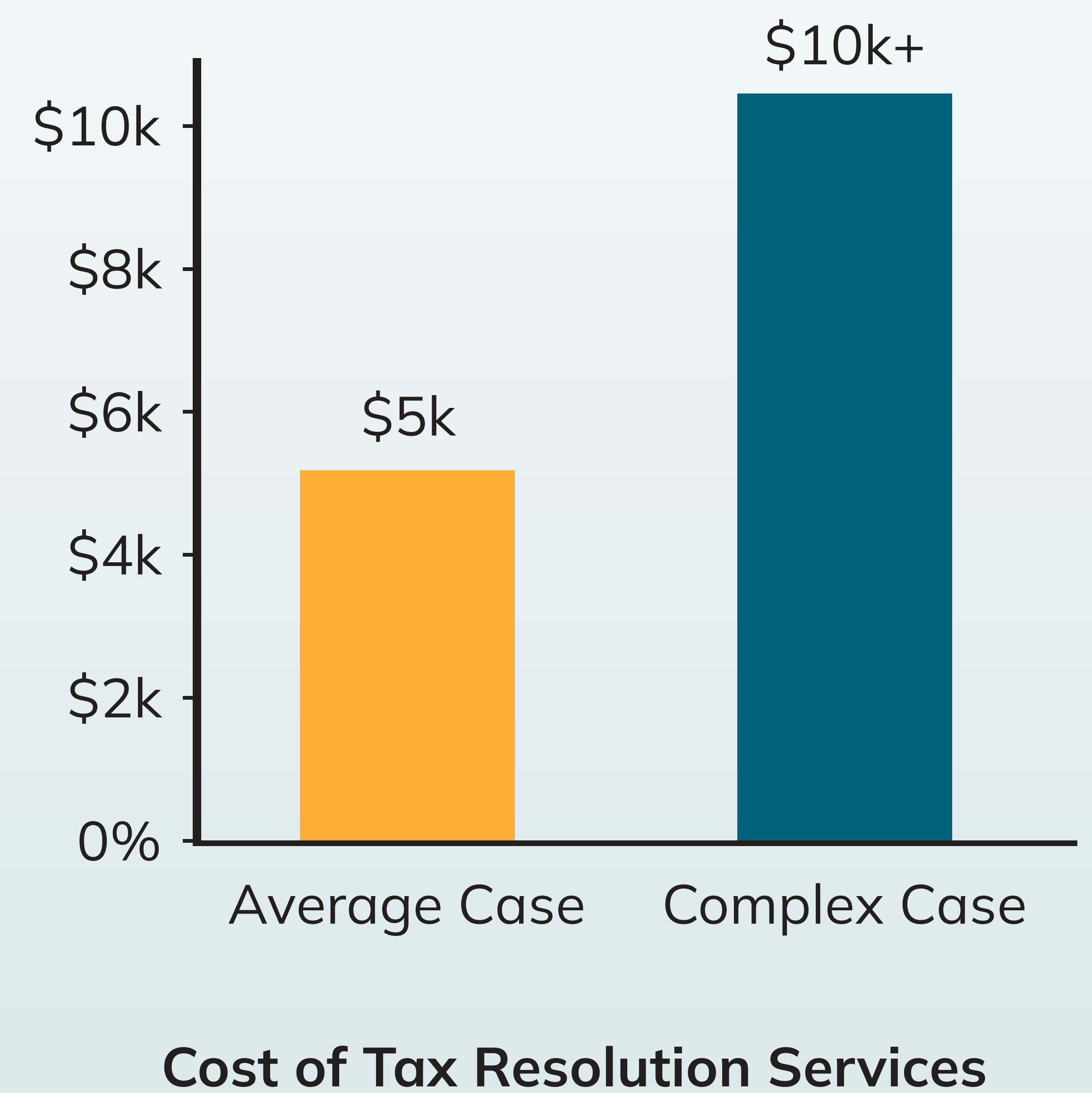
The Client Payment Dilemma:

*Financing Challenges in
the **Tax Relief Industry***



Introduction

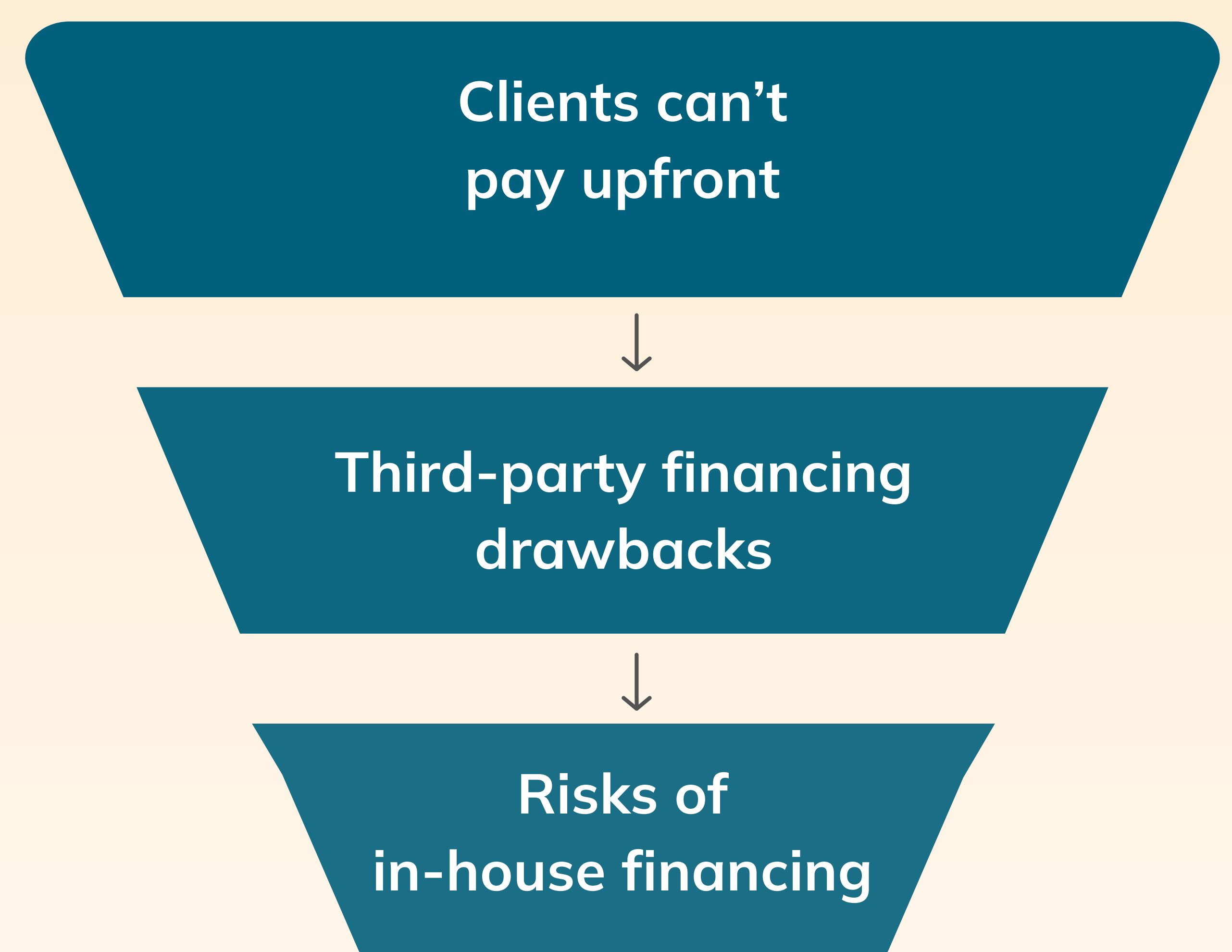
Tax relief firms provide a vital service to individuals and businesses struggling with tax debts. However, these services often come with substantial fees, creating a financing challenge for both clients and firms. The average tax resolution case costs around \$5,000 (and can reach \$10,000+ for complex cases), sums that many distressed taxpayers cannot readily afford. In fact, 37% of Americans cannot handle an unexpected \$400 expense (and 21% have no emergency savings), highlighting the financial precarity of many potential tax relief clients. This gap between service costs and client liquidity poses significant hurdles in delivering tax relief assistance.



“ 37% of Americans cannot cover a \$400 emergency expense, and 21% have no emergency savings at all. ”

Executives in the tax relief industry must navigate three key financing challenges: (1) clients who cannot pay fees upfront, (2) the drawbacks of using third-party financing lenders, and (3) the risks of offering in-house financing plans. This whitepaper analyzes each area with current U.S. data and real-world implications, providing a structured view of the obstacles firms face when bridging the payment gap for clients. The goal is to inform strategic decisions about how to manage client financing in a way that balances business viability with client needs.

Key Financing Challenges for Tax Relief Firms



Clients Unable to Pay Upfront Fees

Many tax relief clients are in acute financial distress and simply cannot afford to pay the firm’s fees upfront. Tax relief companies often require a significant portion of fees at the start of an engagement, sometimes the entire amount. The Federal Trade Commission warns that these upfront fees can be “thousands of dollars” in exchange for promised help. For a taxpayer already grappling with IRS collections, coming up with, say, a \$4,000 lump-sum payment is a daunting barrier.

The reality is that a large share of Americans live paycheck to paycheck – recent research found 37% of Americans would struggle to cover even a \$400 emergency expense. It is not surprising, then, that many prospective clients cannot readily pull together several thousand dollars to pay a tax relief firm all at once. This mismatch between fee requirements and clients’ liquid funds is a fundamental challenge.

Implications of Upfront Cost Barriers:

- **Lost Sales Opportunities:** High upfront fees can lead cash-strapped prospects to delay or forgo professional tax help. Distressed taxpayers often walk away from tax relief services they desperately need because they cannot pay immediately. Every prospective client who “walks” represents lost revenue for the firm and an unresolved tax problem for the individual.
- **Lower Client Conversions:** Even when clients see the value of tax relief, sticker shock at the upfront price can result in low conversion rates. Clients may attempt to negotiate smaller initial payments or seek DIY solutions.
- **Client Hardship and Delayed Resolutions:** Those who defer seeking help due to cost often see their tax penalties and interest accumulate. Delaying tax resolution can compound a client’s financial woes.
- **Ad-hoc Installment Strains:** In some cases, firms try to accommodate clients by splitting fees into a few installments. However, without a formal financing structure, this can strain operations (needing manual reminders, tracking, etc.) and still risks non-payment before the service is completed.

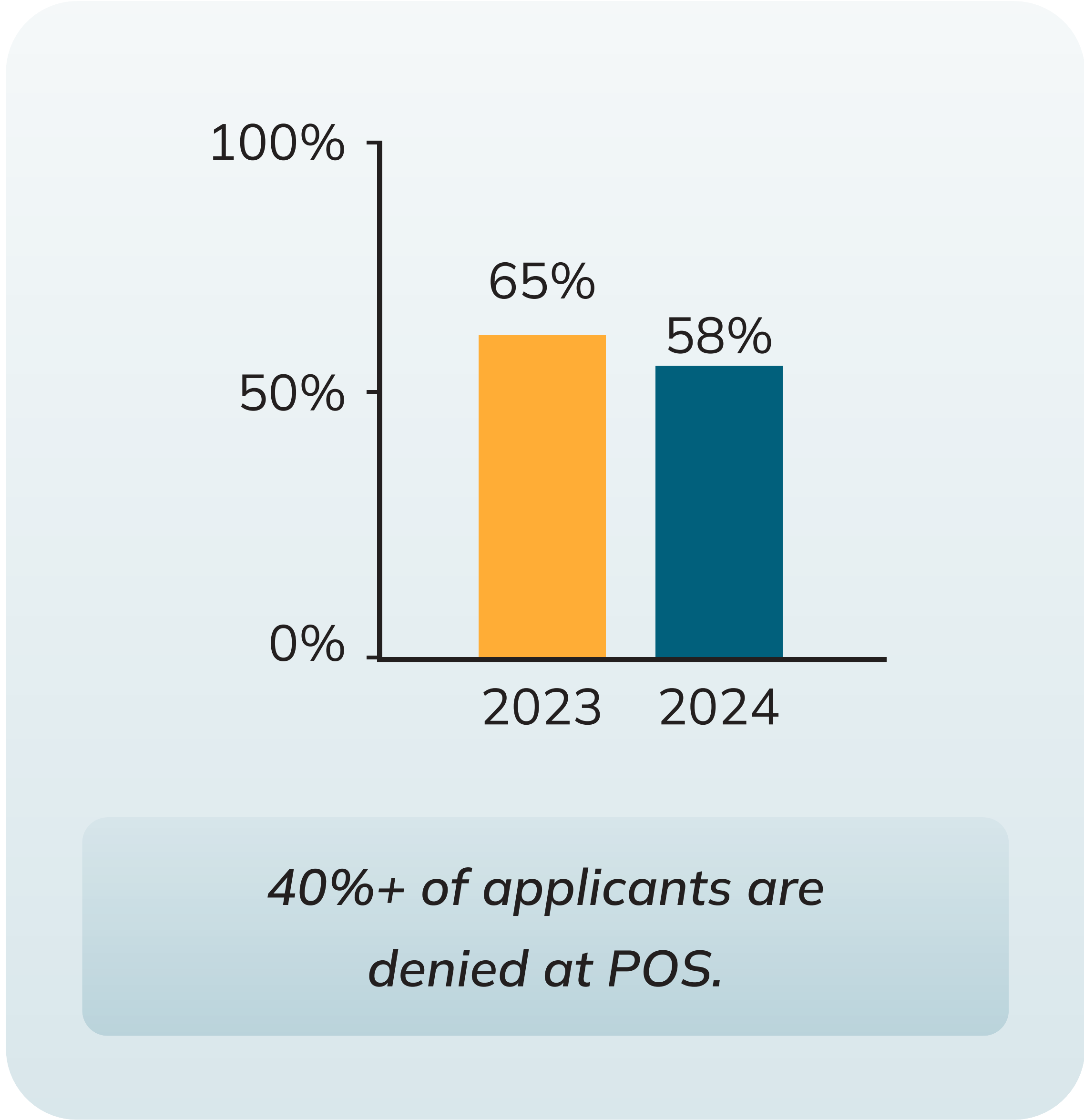
Overall Impact

On Firms	On Clients
Fewer clients, lower revenue, higher operational strain.	Delayed help, compounding debt, worsened hardship.

Challenges with Third-Party Lender Financing

To help clients who can't pay upfront, tax relief firms often turn to third-party consumer financing partners. In theory, this approach is win-win: the client secures funding to pay the fee, and the firm receives its money upfront from the lender. In practice, however, third-party financing comes with significant limitations and frictions that executives must carefully consider.

Low Approval Rates for Distressed Clients: Third-party lenders impose credit and underwriting criteria that many tax relief clients struggle to meet. Clients in serious tax debt often have poor credit scores or high debt-to-income ratios, resulting in many loan applications being declined. Recent data across consumer financing programs show that approval rates have dropped as lenders tighten standards – in 2024 the average approval rate was only 58% (down from 65% previously). This means over 40% of applicants are denied financing at point-of-sale.



High Financing Costs and Client Impact: Even when third-party financing is approved, it often comes at a high cost. Lenders mitigate risk by charging steep interest rates or fees, especially for subprime borrowers. As of 2024, personal loans to consumers with “bad” credit (scores below 630) carried average APRs around 21.7%, and many point-of-sale financing offers top out at 30–36% APR for the riskiest tiers. Such high interest adds to the client’s financial burden – a client who finances a \$4,000 fee could end up repaying thousands more in interest over a few years. In some cases, the firm itself may bear costs as well, such as paying a “dealer fee” or discount rate to the lender.

The Hidden Price of Financing

Average APR for “bad credit	Point-of-sale APRs
(<630 score): 21.7%	30–36%

Operational Friction and Integration Challenges: Implementing third-party financing is not as simple as flipping a switch. There are operational and customer experience hurdles:

Multi-Step

Application Process: *(Applications, delays, restarts if declined)*



Instead of a one-click payment, the client must apply with the lender, fill out credit forms, and await a decision. If the application is declined, the process often has to start over with another lender, causing delays.

Technology and

Compliance Burdens: *(95% of merchants face POS financing challenges)*



Integrating a financing option into the firm's sales flow and IT systems requires effort. According to surveys, 95% of merchants faced challenges managing point-of-sale financing, citing compliance requirements, lack of IT/resources, and data security concerns as top issues.

Reputational and Customer

Experience Risks: *(Slow, invasive process frustrates clients & hurts firm's reputation)*



When a firm hands a client off to a third-party lender, it partially cedes control of the customer experience. If the lender's process is slow, invasive, or declines the customer, the client's frustration may be directed at the tax firm as well.

In summary, third-party financing can alleviate the firm's immediate cash flow needs and offload credit risk, but a sizable percentage of clients will not be approved. Those who are approved may face high costs, potentially undermining their long-term financial recovery. And administratively, partnering with lenders introduces complexity.

Risks and Burdens of Offering In-House Financing

When many clients cannot pay upfront and a large share can't get approved by third-party lenders, tax relief firms may attempt to offer financing in-house – essentially letting clients pay the fee over time directly to the firm. While this approach can help close sales, it transforms the firm into a de facto lender.



Credit Risk & Defaults

(Firm absorbs losses if clients stop paying)

Becoming a Lender – Credit Risk and

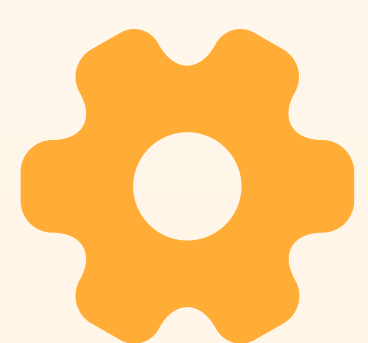
Defaults: The moment a firm allows a client to pay over 6, 12, or 24 months, it is assuming the risk of non-payment. Unlike with third-party financing, in an in-house model the firm itself bears the full brunt if the client stops paying. Small and mid-sized businesses typically are not equipped to assess creditworthiness with the rigor of a bank, nor can they easily absorb losses from unpaid debts. Defaults are not a hypothetical concern – they are a likely outcome with a subset of financially distressed clients.



Case Delay

(Creating a bottleneck in the flow of work)

A less obvious but equally damaging effect of in-house financing is its impact on case timelines. Because case managers know there is a risk that clients may stop making payments once their case is completed, many firms adopt a “pay-as-you-go” workflow. This means they **delay case submissions to the IRS until sufficient installments have been collected**, slowing progress dramatically. Cases then move at the pace of the client's payments, not the firm's capabilities. The result is a **backlog of delayed cases**, frustrated clients, negative reviews, and in some cases disputes or chargebacks — all of which erode both profitability and reputation.



Admin Overhead *(Credit checks, billing, collections, compliance)*

Administrative and Operational Overhead: Running an in-house financing program is operationally complex. The firm must handle all the tasks a lender would: evaluating who is a good credit risk, setting up financing agreements, processing and tracking payments, sending bills or reminders, managing delinquencies and collections, and accounting properly. These are tasks far outside the normal scope of tax resolution work. Without specialized software or procedures, payments might slip through the cracks, leading to lost revenue. Handling sensitive financial data introduces data security and regulatory compliance duties as well.



Scalability Limits *(Each financed client ties up capital & bandwidth.)*

Scalability and Strategic Trade-offs: Offering in-house financing is a double-edged sword. On one hand, it can boost sales and client access. On the other, it fundamentally changes the firm's business model: you are now part tax resolution firm, part finance company. This shift can inhibit scalability. Every new financed client ties up capital and bandwidth. As the portfolio of financed accounts grows, so do cumulative risks and management challenges. The burdens of in-house financing – credit risk, cash flow drain, and admin overhead – tend to grow exponentially as volume increases.

Conclusion

Client financing is a critical issue in the U.S. tax relief industry, directly influencing a firm's growth and client success. Executives must contend with a delicate balancing act:

- Many clients cannot pay upfront, and without some financing option, firms will lose a significant segment of potential business.
- Third-party financing solutions, while helpful, have inherent limitations. Approval rates for the credit-challenged clients common in tax relief are modest at best, and a large fraction of would-be clients will be declined. Those who are approved face interest rates or terms that can be onerous.
- In-house financing puts all the risk and burden on the firm. It can enable more sales and help clients get needed services, but it exposes the firm to non-payment risk, ties up cash, and demands an ongoing administrative commitment that can strain resources.

There is no one-size-fits-all answer; each approach carries trade-offs. Tax relief firm leaders need to rigorously analyze their client base and financial capacity when formulating a financing strategy. Some firms may adopt a hybrid approach to mitigate downsides. Others may innovate with creative solutions like partnering with investors or fintech platforms to share risk. What's clear is that client financing must be managed strategically. By understanding the challenges – from upfront affordability gaps to lender approval bottlenecks to the weight of acting as creditor – tax relief executives can make informed choices that align with their firm's financial health and mission to help taxpayers in need.



About the Author

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Ankur has worked with tax relief firm owners and executives across the United States to better understand the financial and operational challenges of client payment models. His research and industry engagement inform this analysis of how financing approaches impact both firm sustainability and client outcomes.



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