

CONSUMER ADVISORY

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By Attorney General Tom Miller

Tax Refund Loans: High Costs for Quick Cash

A "Refund Anticipation Loan" or "RAL" is a loan borrowed against and secured by a taxpayer's expected tax return. Arranged by a tax preparer, the loan is attractive in that it promises quick access to income tax refunds. The truth, however, is that an "RAL" burdens taxpayers with hefty finance charges and tax-preparation fees. So before taking out an "RAL" consider the following:

Fees

With an "RAL" taxpayers pay for the convenience of getting their money quickly by borrowing someone else's money, and the costs add up quickly. To begin with, an "RAL" can cost anywhere between \$30 and well over \$100. Republic Bank, the bank providing the bulk of "RALs" for Jackson Hewitt, announced that this year it will charge \$61.22 for an "RAL" of \$1,500, which translates to an interest rate of 149%. Additionally, tax preparers charge their own fees on top of those already charged by the bank, which can be as little as \$25 and as large as several hundred dollars. In short, an "RAL" charges taxpayers heavily for what ends up being nothing more than a pay advance of a few days.

Time saved? Not much if you file electronically!

Indeed, an "RAL" does not always provide faster access to tax return money than the IRS. For instance, it often takes two days or longer for an "RAL" recipient to receive his or her refund. Taxpayers with bank accounts generally obtain their refunds in just 8-15 days through e-filing and direct deposit. Even without a bank account, taxpayers can receive a fast refund by e-filing and having their refund deposited to a prepaid card. Most importantly, neither of these alternatives carries the costs and fees that an "RAL" does.

Accuracy

According to a 2008 IRS study, "RAL" returns were 27% to 35% more likely to contain errors than were returns without "RAL" loans; such errors can lead to many problems like tax audits.

Volunteer Income Tax Assistance (VITA)

You can seek free income tax preparation assistance through the Volunteer Income Tax Assistance (VITA) program. VITA is designed to assist low and moderate income individuals and families along with the elderly and handicapped. For more information or to locate the VITA site in Iowa nearest you, call the VITA site locator number at 1-800-906-9887, or go to the IRS.gov website and type the search term "VITA."

To file a complaint or get more information, contact the Iowa Attorney General's Consumer Protection Division, Hoover Bldg., Des Moines, IA 50319. Call 515-281-5926, or outside Des Moines call toll-free at 1-888-777-4590. Our website is: www.iowaAttorneyGeneral.gov.