

CONSUMER ADVISORY

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By Attorney General Tom Miller

Avoid Rapid Tax-Refund Loans

A very costly way to gain just a few days on tax refunds

It's tax season, and tax preparers may invite you to get a "Refund Anticipation Loan" or "RAL" – a loan borrowed against the expected tax refund. Such a loan may come a few days faster than a refund – but *you pay extremely high fees to borrow your own money.*

Remember, a "Refund Anticipation Loan" is a very short-term loan, secured by your expected tax refund, arranged by a tax preparer through a bank. You pay finance charges and, most often, you pay tax-preparation charges as well. (The loan is repaid when the IRS sends your full refund to the lending bank.)

Refund anticipation loans are expensive. According to a 2006 report by the Consumer Federation of America and the National Consumer Law Center, the loans cost \$100, on average, depending on the size of the refund. And then they add an extra \$146 charge for tax preparation, and another \$100 for assorted other fees. That means the interest rate on "RAL" loans could range from about 40% to over 700% APR (annual percentage rate of interest). That's a bad bargain for an "advance" of just 7 to 10 days.

Consumers need to ask tough questions:

- ◆ **"How much will I pay for the loan?"** An average refund is about \$2150, with a typical finance charge of \$100 for a refund anticipation loan -- a 178% APR. Fees for tax preparation, electronic filing, or check-cashing can double or triple that cost.
- ◆ **"What does the fee buy me?"** An RAL loan gets your refund to you in 1-4 days, compared to just 7-10 days if by ordinary electronic refund deposit to your bank.

Beware also of "pay stub RALs." Pay stub RALs are offered earlier than traditional RALs, before a taxpayer receives a W-2. The loans are based on a taxpayer's latest pay stub, which indicates his or her estimated tax return. However, the estimated amount may be incorrect. The taxpayer will have to pay the full amount estimated on the pay stub, whether or not the refund is large enough to cover the cost of the loan and fees. Pay stub RALs charge high fees like other RALs.

IRS data shows that nearly one in three low-income workers or Earned Income Tax Credit recipients (EITC) took out an RAL. Avoid high costs – get free help from organizations that assist low-income filers. In February, a list of "Volunteer Income Tax Assistance" sites and a list of "Tax Counseling for the Elderly" sites in Iowa will be available at www.IowaAttorneyGeneral.org. For more information, contact the Attorney General's Consumer Protection Division. Call 515-281-5926, or 888-777-4590 toll-free.