

Money for Life

February 2007

Dear Readers,

More than 75 percent of U.S. taxpayers are entitled to a tax refund (averaging \$2,171) each year. This month's newsletter focuses on options for receiving tax refunds, refund anticipation loans, and the new telephone tax refund.

Receiving Tax Refunds



You can receive your refund in the form of a check or a direct deposit to either your checking or savings account as indicated on Form 1040. There is safety and

speed in direct depositing tax refunds. Direct deposits, first offered in 1987, are being used now by about half of all refund filers. You must provide valid routing and account numbers before the transaction can be made. Refunds are received in two weeks or less.

You can directly deposit the total refund in one account. In addition, you will now be able to specify more than one account as a direct depositor. The new split-refund option will allow you to conveniently designate accounts – at the time of filing – and deposit the refund into your preferred U.S. financial institution. You attach the new Form 8888 to the return indicating amounts for each allocation and with information for each account. This ability to split or allocate direct deposit refunds among multiple accounts is available to all individual filers using any of the 1040 series forms.

By using a new Form 8888, you can specify one, two or three accounts (such as checking, health savings and retirement accounts). Computer users can download the form from the IRS website. There is no minimum amount requirement.

This option could mean greater savings and more banking for families who might otherwise quickly “blow” the whole amount on one major purchase instead of setting aside at least part of their tax refund for future use.

Other Refund Options



Many perceive paying in enough to get a tax refund as a good way to force themselves to save money.

However, you can have that money available to you throughout the year by adjusting your W2 statement to limit the payroll withholding amount. You are actually better off taking the additional amount and depositing it in an account that would earn interest during the year. The federal government does not pay interest, although it has the use of taxpayer money that is stashed away in payroll withholding accounts until the taxpayer requests the excess when he or she pays taxes by April 15 of every year.

For individuals and families receiving the Earned Income Tax Credit, the Advanced Payment Option allows you to receive part of your EIC throughout the year in each paycheck and receive the rest of the credit after filing a tax return. To get the Advance EIC, eligible workers complete IRS Form W-5 and give to their employer. The W-5 is available from employers, by calling 1-800-TAX-FORM, or downloading from the IRS website. The form can be filed at any time during the year and a new one must be filed at the beginning of each new year.

Refund Anticipation Loans

Many commercial tax preparers offer refund anticipation loans (RALs) to enable the taxpayer to get a check in the amount of his or her refund (less the charges for preparing the return and the RAL fee) within a day or two. Actually, the “refund” is not coming from the IRS—it is a loan from a bank arranged by the commercial preparer. The bank is repaid when the IRS sends it the actual refund check for the taxpayer. The fees charged for RALs are actually up-front interest payments on the loan.

RALs are extremely expensive. Loan fees typically range from \$30 to \$90, which translates into Annual Percentage Rates (APRs) of about 60% to over 700%. RAL fees, combined with tax preparation, electronic filing, and others fees, can take away a large part of your refund.

In addition to their high costs, RALs can be risky. Since the RAL is a loan it must be repaid even if the IRS denies or delays your refund, or your refund is smaller than expected. If you don't pay back the RAL, the lender will take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to take your tax refund to pay for old tax loan debts that the lender claims you owe.

Also avoid check cashers who charge an extra fee to cash RAL and tax refund checks. Some check cashers charge up to 7% to cash a RAL check—the average is about 3%. So if you receive a \$2,000 refund, it would cost you an average of \$60 to cash the RAL check—on top of the RAL and tax preparation fees.

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Long-Distance Telephone Tax Refund



The IRS will be providing a refund to telephone customers who paid federal tax on their long-distance service between February 28, 2003 and August 1, 2006. Telephone customers qualify if they had the

following services:

- Standard land-line telephone with long-distance service
- Cell phone service
- Internet long-distance calling plans

Individual taxpayers can file a request for the telephone tax refund with any 2006 federal tax return form (1040, 1040A, or 1040EZ) which will have specific instructions for this refund.

Individuals entitled to the telephone tax refund who otherwise have no reason to file a federal tax return may use a special short form, the new 1040EZ-T. It is not a tax return and can only be used to request the telephone tax refund.

The IRS has calculated standard refund amounts that filers can choose to request, based upon the size of a filer's family in 2006. No further calculations, additional forms, copies of telephone bills, or other documentation are required to request the standard amount. The standard refund amounts are based on the number of exemptions a taxpayer can claim in 2006. For example, with three exemptions the standard refund amount is \$50. Tax filers who choose the standard amount may request only one refund, even if they had more than one long-distance service.

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