

Inside Grundy County
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Tax Season: Understand Refund Anticipation Loans

There's always a first time. For my wife and me, it meant hiring someone to do our taxes this year. Hiring someone to do taxes has a cost, of course, but the expertise was needed this year. Hiring a tax preparer provided us some relief and reassurance it was done right. I also learned it's one thing to pay someone to do taxes, but quite discerning to learn that some tax preparers (not ours) may invite you to get a "Refund Anticipation Loan (RAL)" which is a loan borrowed against your expected tax refund," ISU Extension family management specialist, Brenda Schmitt, ISU Extension Program Specialist said such loans may come a few days faster than a refund, but you pay extremely high fees to borrow your own money.

A RAL is a very short-term loan, arranged by a tax preparer and secured by your expected tax refund. You pay finance charges and tax-preparation fees. The loan is repaid when the IRS sends your full refund to the lending bank. Refund anticipation loans are expensive. According to a 2009 report by the Consumer Federation of America and the National Consumer Law Center, consumers paid over \$833 million in loan fees on RALs in 2007. The average loan costs include a \$34 to \$130 loan fee and administrative or application fees that can range from \$25 to hundreds of dollars. With all costs and fees, the APR (annual percentage rate) for RALs varies from 50% to 1300%! That's a bad bargain for an "advance" of just a few days.

Brenda went on to say that refund anticipation loans encourage fraud. A 2008 IRS study found that RAL filings were 27% to 36% more likely to be non-compliant than were returns without a loan. If someone asks you if you want the money right now, then as a consumer, you need to ask

some tough questions. Brenda Schmitt advises asking the following questions if you are ever offered a RAL.

“How much will I pay for the loan?” The typical RAL finance charge for a \$3,000 refund is \$62-\$110, or a 77%-140% APR. Those costs can double or triple with additional fees for tax preparation, electronic filing, or check-cashing. “What does the fee buy me?” An RAL gets your refund to you in 1-4 days, compared to just 7-10 days for an ordinary electronic refund deposit to your bank.

Brenda and I were talking about people who had taxes prepared in December, before they even received their W-2 forms, and then received a refund right away. These are known as “pay stub RALs”. Pay stub RALs are based on a taxpayer’s estimated tax refund as indicated on his or her latest pay stub. Because they are offered before a taxpayer receives their W-2 form, the estimated amount may be incorrect and the taxpayer will have to pay the full amount, whether or not the refund is large enough to cover all costs and fees. Pay stub RALs charge high fees just like other RALs.

IRS data shows that nearly one in fifteen taxpayers took out an RAL in 2007. Two-thirds of these were low-income workers or Earned Income Tax Credit recipients (EITC) who can receive free tax assistance. For more information about Refund Anticipation Loans, contact the Attorney General's Consumer Protection Division. Call 515-281-5926, or 888-777-4590 toll-free.

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