



Tax Refund Anticipation Loans and Checks

From the Office of Minnesota Attorney General Lori Swanson

Refund Anticipation Loans

Some tax preparers claim that they can process “instant” tax refunds for their customers. Although “instant” cash may sound good to those who are financially squeezed by the downturn in the economy, consumers who seek and obtain “instant refunds” pay a heavy price for doing so. This is because “instant refunds” are not “early” or “fast” tax refunds at all; rather, they are short-term, high-interest refund anticipation loans (RALs). Since tax preparers and their affiliated lenders charge high fees and interest for such loans, consumers who utilize RALs receive much less of their tax refund than they are entitled to! Tax preparers and their affiliated lenders have skimmed billions of dollars from consumers’ tax refunds in recent years. Each year millions of consumers who utilize RALs pay hundreds of millions dollars in fees and add-on fees such as “application,” “administrative,” “transmission,” and “document processing” fees.

As a result of recent crack-downs by the IRS and regulatory agencies, few RAL applications are approved. Thus, many consumers who incur tax preparation and add-on fees for the express purpose of obtaining a RAL find out too late that they have wasted their money. Most of these consumers could have prepared and filed their own returns at little or no cost and obtained the full amount of their tax refund if they were told upfront by their tax preparer that they likely would not qualify for an “instant refund.”

Even when consumers qualify for RALs, they only get their “instant refund” a few days earlier than they would have received their tax refund directly from the IRS. The IRS has improved tax return processing times in recent years, and most consumers who e-file and use direct deposit will receive their tax refund in 8 to 15 days.

Facts About Instant Refunds

1. **“Instant refunds” are actually loans.** An “instant refund” is not a shortcut to your tax refund—it is a short-term, high-interest loan secured by your anticipated refund amount.
2. **Few consumers qualify for “instant refunds.”** Due to increased regulatory action, few “instant refund” loan applications are approved. Most consumers will not get their tax refund any faster by utilizing a tax preparer who offers “instant refunds” than by preparing and filing their returns themselves.
3. **“Instant refunds” must be paid back.** You must pay back the full amount of your “instant refund” even if tax authorities deny or reduce the amount of your tax refund. You will incur additional fees and interest if you do not pay your loan back quickly.
4. **“Instant refunds” decrease the amount of tax refund you ultimately receive.** Because tax preparers and lenders charge high fees and interest rates for “instant refunds,” the amount of tax refund you ultimately receive is diminished.
5. **“Instant refunds” are not the only way to get “fast” refunds.** Most consumers who e-file and use direct deposit will get their tax refund from the IRS within 8 to 15 days.

THE BOTTOM LINE

Don’t pay to borrow your own money. “Instant Refunds” are actually short-term, high-interest loans secured by your anticipated tax refund.

Beware of Refund Anticipation Checks

Because of the crackdown on RALs, many tax preparers have shifted their focus to selling refund anticipation checks (RACs). With RACs, a bank affiliated with the tax preparer opens up a temporary account into which the customer's tax refund is direct deposited. The bank then deducts tax preparation and other add-on fees, issues a paper check or prepaid debit card to the consumer for the remaining balance, and closes the account. In some instances, customers incur additional fees to cash the check, or find that the debit card has hidden terms and conditions.

Each year consumers pay hundreds of millions of dollars to utilize RACs. These consumers would have received their tax refunds in the same amount of time and avoided paying RAC fees if they had direct deposited their refunds into their checking or savings accounts. Consumers who do not have checking or savings accounts should consider opening one to speed receipt of their tax refunds and avoid check cashing fees. Taxpayers with existing debit cards and payroll cards can also have their refunds direct deposited into those accounts.

Further, the Treasury Department has begun a pilot program that allows some taxpayers to receive their tax refunds on prepaid debit cards. These taxpayers can use the cards to get cash at ATMs and retail locations, make purchases, and pay bills. They can also add money to the cards by making cash and direct deposits.

Consumers who prepare their own taxes online or by using tax preparation software should be careful not to purchase RACs by mistake. In some instances, consumers have purchased RACs without understanding the nature of the product or the fees associated with their use.

THE BOTTOM LINE

Don't use refund anticipation checks. Have your tax refund direct deposited into your own banking account.

Things to Consider Before Hiring a Tax Preparer

- 1. Do you really need to hire a tax preparer?** If you can prepare and file your own tax return, there is no reason to pay someone else to do it. Hiring a tax preparer will not speed the payment of your tax refund.
- 2. Obtain Free Tax Assistance.** Before paying someone to prepare your taxes, consider utilizing the free assistance provided by the IRS. To learn more about free telephone and in-person tax preparation help, contact:

Internal Revenue Service

800-829-1040

800-829-4059 (TDD)

www.irs.gov

In addition, there are volunteer tax assistants in Minnesota who offer free tax help to seniors, people with low incomes or disabilities, and non-English speakers. To find a volunteer near you, contact:

Minnesota Department of Revenue

651-296-3781

800-652-9094

www.revenue.state.mn.us

- 3. Ask questions before hiring a tax preparer.** Unscrupulous tax return preparers exist and can cause considerable financial and legal problems for their clients. Before hiring a tax preparer, be sure to ask about their education and experience, and insist that they explain the basis for each portion of their fee. Find out if the preparer is affiliated with a professional organization that provides or requires its members to pursue continuing education and holds them accountable to a code of ethics. Also, make sure that the preparer is registered with the IRS, and will sign your return as required by law.