



Refund Anticipation Loans (RALs)

What Is a Tax Refund Loan?

A tax refund loan is an extremely short-term loan that you apply for through your tax preparer, using your anticipated tax return as security. Tax preparers prefer the term “instant tax refund” to describe these loans, but make no mistake: an “instant tax refund” is a LOAN, with all of the costs and fees associated with borrowing money—and then some. Also, you will NOT get your refund that much faster if you take out one of these expensive loans. They simply aren’t worth the price.

When you take out a tax refund loan, your tax preparer (working in partnership with a bank) lends you the amount of the tax refund that you expect to get back, but charges you a significant amount in interest and fees. Then, when the government sends your actual refund check, it is direct-deposited into the bank that made the loan. Because the loan is paid back when you receive your tax refund, the term of a tax refund loan is short—usually seven to 14 days.

Unlike a traditional loan, the interest rate (the annual percentage rate or APR) for tax refund loans is sky high—in many cases more than 200%. Some lenders will even allow you to borrow more than the expected amount of your refund. In these cases, the high interest rate applies to the entire loan amount, not just the amount of the refund, and can quickly snare you in a debt trap. Consumers who borrow beyond their refund at these high rates are at risk of not being able to pay back the loan.

Tax preparers pack these loans with numerous fees to drain as much revenue as possible from consumers. To obtain a tax refund loan, consumers typically pay a loan fee, an electronic filing fee, a document preparation fee, and a tax preparation fee. After receiving their loan, consumers often must pay an additional fee just to cash their loan check.

Who Takes the Hit?

According to a study by the Consumer Federation of America and the National Consumer Law Center, taxpayers lost nearly \$1 billion of their 2006 tax refunds to loan fees and other charges. Also, many of these loans are sold to low-income families who can least afford to pay a significant portion of their tax refund in loan fees and interest.

Protections for Active Duty Service Members

The Military Lending Act caps the interest rate at 36% for tax refund loans sold to active duty service members. If you are an active duty service member and feel that you’ve been sold a tax refund loan with an interest rate that exceeds this cap, please contact the Attorney General’s Military and Veterans Hotline at 1-800-382-3000 (TTY: 1-800-964-3013).

It’s Your Refund—Here’s How to Keep More of It!

You probably do not need a tax refund loan. If you file your tax return electronically, you can get your refund very quickly—in approximately two to three weeks—without getting a loan. There are organizations that will help you for free. You can find an organization willing to help you prepare and file your taxes for free by calling the Center for Economic Progress at 312-252-0280 or visiting this Web site for resources near you:

www.dhs.state.il.us/projects/Initiatives/EITC/eitcTaxCS2002.asp.

For more information about tax refund loans and other types of credit, please contact us.

Consumer Fraud Hotlines

Chicago

1-800-386-5438

TTY: 1-800-964-3013

Springfield

1-800-243-0618

TTY: 1-877-844-5461

Carbondale

1-800-243-0607

TTY: 1-877-675-9339

Please visit www.IllinoisAttorneyGeneral.gov