

Protecting Wisconsin Consumers for 75 Years

Tax refunds that really aren't *It's your money – make sure you get all of it*

Many “Quick Tax Refunds” are actually high cost loans.

The ads are enticing. “Instant Refunds”, “Fast Cash Refunds”, and “Quick Money”, might make you want to rush to your nearest tax preparation service not only to get your income tax returns prepared, but more importantly, to get your refund on the spot.

Unfortunately, many of these fast “refunds” are actually loans called “refund anticipation loans” (RAL’s). When you get a RAL, you’re actually borrowing your own money, money that you’re getting as a tax refund.

When you receive a RAL, your tax preparer lends you the amount of your tax refund less the cost of interest and fees for the loan. When the government sends your actual refund check, it is direct deposited into the bank that made the loan.

RAL’s come in all shapes and sizes.

Don’t be fooled by the commercial that encourages you to bring your taxes into the local car dealer or furniture store where the merchant will not only prepare your taxes for you, but also permit you to use your refund as a down payment on a car or new furniture. Other merchants may offer you debit or “cash” cards with the amount of your refund on it so that you can get cash or purchase items you want.

Some of these offers might be good deals, but others might simply be RAL’s under another name.

Be sure you read the fine print and ask a lot of questions.

- What is the interest rate?
- What fees are you being charged?
- What happens if your tax refund is less than you thought it would be?

Only by finding out all the facts can you make a choice that’s right for you.

So it’s a loan. What’s the big deal?

You might be thinking, “So what if it’s a loan? I can get my refund now.” True, but the loan you’re getting is usually very, very expensive.

Americans pay close to **\$1.4 BILLION** in RAL costs and fees. RAL’s often carry annual percentage interest rates ranging anywhere from 70% to more than 700%.

In addition, there are often other charges including electronic filing fees, application fees, and a fee to cash the loan check. When all the costs of a RAL are added up, you can be spending more than 10% of your refund just to get your money a few days sooner.

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Another risk of RAL's

Sometimes the refund your tax return says you're supposed to get might not be the refund you actually get. Things like unpaid child support or traffic tickets can often be deducted from your refund before it's sent to you.

If you get a RAL for the entire amount of the refund shown on your tax return without knowing about these deductions, you will still owe the entire amount of the RAL even though your refund might be substantially less. If that happens, those extremely high interest rates still apply and you might have big problems in repaying the RAL.

Non-payment will hurt your credit rating and might subject you to litigation and garnishment of your wages.

Win-win alternatives

You can avoid the high cost and risks of RAL's and get your tax refund back quickly at the same time. Here are some ways to do that:

- **E-File with direct deposit.** File your tax returns electronically and tell the IRS and state to direct deposit your refund into your bank account.

- **Get a bank account** if you don't have one – Many taxpayers don't think they can e-file their tax returns since they don't have a bank account into which their refund can be deposited. Well, open one, even if you will hardly ever use it. Banks and credit unions often allow you to open an account with as little as a \$5 or \$10 deposit. Opening an account will allow the government to deposit your refund directly into the account which will get your refund to you more quickly.

- **Plan ahead.** With e-file and direct deposit, most taxpayers can get their refunds in less than 10 days without having to pay the costs of a RAL. File your taxes as soon as you possibly can so that you're able to wait 10 days for your refund. If you have an urgent bill to pay, tell your creditor that you've e-filed your return and expect your refund soon. Your creditor might very well be able to wait the extra time and you won't be taking out a new, expensive debt to pay an old debt.

- **Avoid check cashers.** Check cashers can be expensive, and some charge extra to cash RAL and refund checks. Some charge as much as \$60 to cash a refund check or RAL of \$2,000. Go to the bank where you have your account and cash the check there. It will either be free or at a much lower cost.

- **Use a VITA site to get your tax return prepared and filed.** VITA (Volunteer Income Tax Assistance) sites provide free tax preparation for low and moderate income people. Many will also e-file your return for free. To find out the nearest VITA site, call the Consumer Protection Hotline at (800) 422-7128 or visit the Wisconsin Department of Revenue website at:

www.dor.state.wi.us/faqs/pcs/vita-loc.html

For more information or to file a complaint, visit our website or contact the Bureau of Consumer Protection.

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