



Refund Anticipation Loans

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Many Utahns want their tax refunds quickly and will pay a considerable amount of money to get their refund sooner by taking out a high-cost loan. A study by the Consumer Federation of America and the national Consumer Law Center found that these loans drained the refunds of about 7.2 million American taxpayers in 2009, costing them in the neighborhood of \$606 million in loan fees, plus over \$58 million in other fees. In addition, another 12.9 million taxpayers spent \$387 million on related financial products to receive their refunds. Americans are paying a lot to use their own money.

A refund anticipation loan (RAL) is a short-term consumer loan secured by a taxpayer's expected tax refund and designed to offer customers quicker access to funds. Also called rapid refund loans and tax return advances, they are a way to receive your tax refund sooner, almost instantly, but they come at a high cost.

Let's say that you are due to receive a refund of \$2,500. Your tax preparer then offers to pay you the money right then, minus what he tells you are "nominal" fees for the service. This fee can range from \$65 to 10 percent of the refund, or \$250. The tax preparation company may also charge administrative fees, electronic transfer fees and check cashing fees. The grand total can range from \$165 to \$350. Are you willing to pay this amount for money the government owes you?

In today's world, you can receive your tax refund electronically in as few as 5 to 7 working

days with direct deposit into your bank account. If you have multiple accounts, by filing tax form 8888, you can even have your return deposited in up to three accounts. Your financial institution can help you set up the accounts for your return before you file.

The ideal alternative to a tax refund is to adjust your withholdings so you neither owe nor receive a tax refund at the end of the year. No one wants to loan the government money only to get it back at the end of the year without interest.

There are those who may argue that refunds are a great way to save money. Many feel if they never see the dollars in their checks, it's easier to put aside money for that big-screen plasma TV or other large purchases.

However, the smartest financial option is to let your money work for you. Sign up for a payroll savings deduction. Increase your retirement plan contributions. Buy savings bonds. Start an emergency fund. Put an extra \$50 per paycheck into a money-market fund.

If you decide you still want to go the refund anticipation loan route, be aware that significant developments in the RAL landscape will mean fewer and more expensive RALs. Consumer advocates suggest that taxpayers who are looking for quick refund cash should consider lower-cost or free alternatives:

- Taxpayers with a bank account can get their tax refunds within days through e-filing and direct deposit.

- Taxpayers without a bank account can get a fast refund by e-filing and having their refund deposited to a prepaid card, including any existing payroll or prepaid cards the taxpayer already has.

- Consider using a Volunteer Income Tax Assistance (VITA) site, where trained community volunteers prepare taxes free of charge. They will help with special credits, such as Earned Income Tax Credit, Child Tax Credit and Credit for the Elderly or the Disabled. In addition to free tax return preparation assistance, most sites also offer free electronic filing. To qualify for tax assistance, individuals and families must fall into low- to moderate-income levels of \$50,000 and below. To learn more, go to <http://utahtaxhelp.org/> or dial 2-1-1.

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