



Consumer Corner

by Illinois Attorney General LISA MADIGAN



Warning from Illinois Attorney General Madigan This Tax Season: Beware of the High Cost of Tax Refund Anticipation Loans

Tax season is once again upon us. If you are expecting a refund, a Refund Anticipation Loan (RAL) may sound like a great way to get your money faster. What you may not realize, however, is that an RAL is not a simple shortcut to getting your refund—it is actually an outrageously expensive short-term loan.

Q. *Recently, a friend was telling me about instant income tax refunds. I am running short on funds and the idea of fast cash is tempting. How do these instant refunds work—and are they a good deal?*

A. An instant tax refund may sound tempting, but it's definitely not a good deal. Refund Anticipation Loans, or RALs, are loans that consumers apply for through their tax preparers. In a typical transaction, a tax preparer lends the consumer the amount of his or her expected refund, minus interest and fees, and the consumer receives the money in one to two days. The debt is paid off when the government deposits the consumer's refund directly into the bank that issued the loan. Because the loan is paid back when you receive your tax refund, the term of an RAL is short—usually seven to 14 days.

This may sound like an easy way to get your tax refund a little faster. But make no mistake: an RAL is NOT a shortcut to your tax refund; it is a LOAN, with all of the costs that come with taking out a loan—and then some. Unlike a traditional loan, the interest rate (the annual percentage rate, or APR) for RALs is sky high—in many cases more than 200%. RALs are also packed with numerous fees to squeeze as much revenue as possible from consumers. To obtain an RAL, consumers often 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.

Some lenders will 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 serious risk of not being able to repay the loan.

You probably do not need an RAL. If you file your tax return electronically, you can get your refund very quickly—in approximately two to three weeks—without getting a loan. 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.

Attention Active Duty Service Members: *The Military Lending Act caps the interest rate at 36% for RALs sold to active duty service members. If you are an active duty service member and feel that you've been sold an RAL with an interest rate that exceeds this cap, contact the Attorney General's Military and Veterans Hotline at 1-800-382-3000 (TTY: 1-800-964-3013).*

ATTORNEY GENERAL LISA MADIGAN'S CONSUMER FRAUD HOTLINES

Chicago
1-800-386-5438
1-800-964-3013 (TTY)

Springfield
1-800-243-0618
1-877-844-5461 (TTY)

Carbondale
1-800-243-0607
1-877-675-9339 (TTY)