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Refund anticipation loans

(Salem) As tax season approaches, the Oregon Division of Finance and Corporate Securities wants to remind consumers that although refund-anticipation loans (RALs) get your tax refund into your hands faster, there will be considerably less of it than if you file electronically and can wait a short time.

RALs are short-term, high-cost loans secured by and repaid from the proceeds of a consumer's tax refund. These loans have become extremely popular for taxpayers who want to access their refunds more quickly than waiting for a paper check or even direct deposit. Nationwide in 2002, consumers took out 12.7 million RALs and paid \$1.14 billion in associated fees, according to a recent report by the National Consumer Law Center and the Consumer Federation of America.

RALs target the working poor who receive the earned income tax credit (EITC). Using data from the Internal Revenue Service for tax years 2000-2002, the report mentioned above found that in Oregon 192,600 families received the EITC. Of this number, approximately 43,000 families got an RAL. More than 18,000 of these families were in small cities or in rural areas of the state.

RALs cost the average taxpayer from \$35 to \$300 in fees. The effective annualized percentage rate can range from 70 percent for a \$5,000 loan to 700 percent for a \$200 loan. Example: a taxpayer due a refund of \$1,000 might pay a \$30 loan fee to the lender, plus a tax-preparation fee of \$120, and an administrative fee of \$25 to the tax preparer. That taxpayer would receive \$825, instead of the \$1,000 he or she could receive.

If instant cash is a desire rather than a need, consider these alternatives to avoid the costs of an RAL:

- **Go electronic:** Abandon the traditional paper return and file from your computer. Last year, around 52 million taxpayers filed their returns electronically. You will get the money in two to three weeks – without paying loan fees or interest. A new Internal Revenue Service (IRS) partnership with tax preparers and software companies offers free online tax preparation and electronic filing. You can contact the IRS, (800) 829-1040 or visit www.irs.gov/efile.
- **Direct deposit:** Electronic filers who opt for a direct-deposit refund do even better. The IRS says the money generally shows up in taxpayer bank accounts in 10 to 14 days. Almost 42 million people got their refunds this way last year.

To check to see if your tax preparer is licensed or to file a complaint about a tax preparer, you can contact the Oregon State Board of Tax Practitioners, (503) 378-4034 or visit www.open.org/~ortaxbrd.

If you want general information on consumer protection, contact the Oregon attorney general's consumer hotline, 1-877-877-9392, or visit www.doj.state.or.us.

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