

# Refund Loans: They're not worth it!

For families trying to make ends meet, a tax refund is exciting. After waiting all year, struggling families can receive a large lump sum to pay off debt, solve other financial problems or purchase something that they really need or want. Quick tax loans, or refund anticipation loans, sound like a great idea for taxpayers who are in a hurry to get a refund. You can go to a paid tax preparer to get your tax return filled out and filed electronically, and you can borrow the full amount of your anticipated refund immediately.

There is a good reason that tax preparers heavily promote refund anticipation loans. In 2002, according to the National Consumer Law Center, refund anticipation loans cost U.S. taxpayers nearly \$2 billion — that is \$2 billion that could have been spent on bills or items that families need or want.

## Are they really worth the cost?

Many people have a fear for filling out forms, and if you don't think about the high cost of interest, the fees may not sound that bad. But refund anticipation loans can greatly lower the value of a tax refund, and they may not be necessary. These loans cost borrowers from \$35 to \$90 in loan fees, and around \$40 in electronic filing fees — for a loan that lasts about 10 days. Refund anticipation loans carry Annual Percentage Rates (APRs) from 97 percent to over 2,000 percent, according to the Consumer Federation of America.

There is another potential pitfall with refund anticipation loans. If, for any reason, the refund does not come back from the IRS in the amount the preparer told you to expect, you will have to repay the tax service or its loan company the full amount of the difference anyway. If you've already spent the full amount of the loan, that presents a problem.

It is not necessary to turn to such costly services and loans. Free help is available in many communities through the Volunteer Income Tax Assistance (VITA) program sponsored by the IRS. VITA provides trained volunteers who can fill out and electronically file tax returns for low- to moderate-income families. The refund will come back within two weeks or less (and even faster for those who have their refund check deposited directly into a bank account).

**Call the IRS at 800.829.1040 to find help locating the VITA site nearest you.**