
TAX REFUND ANTICIPATION LOANS

WHAT IS A TAX REFUND ANTICIPATION LOAN (RAL)?

A tax refund anticipation loan (RAL) is a short-term loan with a high interest rate. A RAL is based on the amount of the refund you expect to get from the IRS. RALs are also called “instant refund loans” or “fast cash refunds.”

Most national tax preparers offer RALs. Other businesses, like car dealerships, furniture stores, and check cashing companies, may also offer RALs.

HOW DOES A RAL WORK?

You can only get a RAL if you expect to get a refund for the tax year. When you file your tax return, you have the choice to:

- Get a paper refund check from the IRS, or
- Have your refund put into your own bank account through Direct Deposit.

When you are making this choice, your tax preparer may offer you a RAL. With a RAL, instead of getting your money from the IRS, your tax preparer can lend you money that can be repaid when your tax refund comes in.

If you choose to take out a RAL, you will be charged fees to get a loan for the amount of your refund. Most tax preparers work with a partner bank (or lender) that makes the RAL to you. When you get a RAL, you sign a loan contract directly with the bank.

When you apply for a RAL, your tax preparer will have you fill out an application for the loan. If your application is approved, you will get a check from the lender. Then, when your refund comes in from the IRS, the refund is put in a special bank account set up by the lender to repay the loan. With a RAL, you can usually get your refund in one or two days, if not faster.

Because a RAL is a loan against your tax refund, you are really just paying a bank to let you borrow your own tax refund money!

ARE RALS FREE?

No. There are high fees and costs connected with a RAL. To get a RAL, most companies charge you loan fees and administrative (or filing) fees. Loan fees range from \$35 to \$90 or more. Administrative (or filing) fees are usually around \$40.

You may be charged more fees if you want to get your RAL on the same day as you file your taxes or if you want to set up a temporary account where your refund check can be deposited. All of these fees are in addition to the normal fee that you are charged just to have your taxes prepared!

WHAT ARE THE DANGERS THAT COME WITH RALS?

First, RALs are expensive. You end up paying many high fees to get money that is already coming to you.

Second, if you apply for a RAL and are turned down, you will probably still be charged a fee. So you may have to pay a fee even though you did not get your money early.

Third, the agreement you sign will let the bank take money out of your new refund to pay off any old RALs. If you did not pay your RALs from past years, the bank can take money from your newest refund to pay off those old debts! That means you may get back even less of your refund. Plus, you must pay all fees for your most recent RAL.

Finally, a RAL is a loan. In addition to the fees, you will be charged interest if your refund is held up by the IRS for any reason. This means that you may owe even more money. You will also owe more money if the tax refund you get from the IRS is smaller than you expected or if the IRS denies part of your refund for any reason. You will be asked to pay the difference!

SO RALS CAN HURT MY CREDIT?

Yes. Like any other type of loan, it will hurt your credit if you do not pay back a RAL. If RALs are so bad, why do so many people get them? Many people do not know about all the costs and risks that come with a RAL. Some people do not have a bank account and think it will be cheaper to get a RAL and pay check-cashing fees than to open one. Other people think it will take too long to wait for a regular refund.

The truth is that a RAL is the most costly way to get your refund. Many people could get their refund from the IRS in just one or two weeks through Direct Deposit without having to pay the costs of a RAL.

WHAT ELSE DO I NEED TO KNOW ABOUT RALS?

You should know that under SC law, you must be charged less to cash a government check than a RAL or any other non-government check. The difference can be as much as \$50.00 for a \$1,000.00 check. If you were to wait to get your refund check from the government, you would pay a lower fee for having the check cashed than if you try to cash a RAL check.

WHAT CAN I DO TO PROTECT MYSELF AGAINST RALS?

There are many steps you can take to protect yourself from the high costs and fees that come with a RAL. You can:

- Read all paperwork that you get when you have your taxes prepared. Many of the costs and fees for a RAL are in the fine print.
- Have your tax refund check deposited into your own bank account with a regular bank. Many banks will offer free or lowcost accounts to new customers. Another choice is to have your refund check mailed to you.
- Choose a reliable person to prepare your taxes. There are free tax preparers that can electronically file your tax return so that you can get your tax refund faster. The Volunteer Income Tax Assistance Program (VITA) helps low-income people file their tax returns for free, sometimes electronically. You can find a VITA site by calling 1-800-906-9887.

This is not all the information you need to know if you have questions about tax refund anticipation loans. You may want to talk to a lawyer about your situation.

If you do not have a lawyer, the South Carolina Bar Lawyer Referral Service can give you the name of a lawyer who is willing to meet with you and advise you at a lower rate. For the name of a lawyer in your area, call the Lawyer Referral Service at 1-800-868- 2284 statewide or (803) 799-7100 in Columbia.

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