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Massachusetts Office of Consumer Affairs & Business Regulation

CONSUMER ADVISORY

Don't Borrow Your Own Money!

Consumer Affairs Advises Tax Payers to Steer Clear of Tax Refund Anticipation Loans

With tax season looming, the Office of Consumer Affairs and Business Regulation advises tax payers to be wary of tax refund loans, also known as *refund anticipation loans* (RALs). RALs are secured by and repaid from a pending income tax refund.

Because the loans are short term, the annualized interest rates are very high.

Statistics show that more than half of those who receive the loans are low-income recipients of the Earned Income Tax Credit (EITC), a major federal anti-poverty program.

A refund anticipation loan is a risky proposition because it must be repaid even if the taxpayer's refund is denied, less than expected, or frozen. If the taxpayer cannot pay back the RAL, the lender may send the account to a debt collector.

The following are better alternatives to RALs:

1. Open a bank account (if you haven't already) and take advantage of direct deposit for both your tax refund and your pay check. Many banks reduce or eliminate checking account fees when you have your pay check deposited directly to your checking account.
2. File your tax return electronically (E-file) with the refund deposited directly into your bank account. You should receive your refund in three to four business days. Last year, the Massachusetts Department of Revenue issued 2.3 million refunds worth an average amount of \$480.
3. When you do receive your refund, avoid check cashers. They charge fees to cash RAL and tax refund checks. Cash your check at a bank instead.
4. Reduce your income tax withholding so that you won't have to wait for a refund next year.

For **free** tax preparation, low- to moderate-income tax payers can take part in the *Volunteer Income Tax Assistance* (VITA) program, which is coordinated by the IRS. VITA sites can be found in libraries, community centers, local governmental offices, non-profit organizations, and other locations during tax season. Most locations offer free electronic filing to expedite the receipt of tax refunds. To locate the nearest VITA site, call 800-829-1040.

For more information on the VITA program, go to the IRS website at www.irs.gov/individuals/article/0,,id=107626,00.html. If you earned \$54,000 or less in 2007, you can use the IRS *Free File* program to prepare your taxes online at www.irs.gov/efile.

The AARP *Tax-Aide* program provides free tax preparation and assistance services to millions of low- and middle-income taxpayers, with special attention to those ages 60 and older. Electronic filing and online counseling are also offered by the program. See https://locator.aarp.org/vmis/sites/tax_aide_locator.jsp for more information.

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