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Tax-refund loans can be costly

Recipients hit with high fees, critics say

By Tracy Turner

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Tax returns can be filed beginning today, but some businesses have jumped the gun on the IRS, offering early-bird refund loans to consumers.

In one case, consumers don't even need a W-2.

Instant Tax Service allows taxpayers to walk in with their last pay stub from 2005 and walk out 10 minutes later with a refund anticipation loan.

Such deals often are costly for consumers, who can be charged higher-than-standard interest rates and fees for these short-term loans, according to the National Consumer Law Center.

For example, it wouldn't be unusual for someone receiving a refund of \$2,000 to pay more than \$200 in fees and preparation costs, or more than 10 percent of the total, the center said.

"It's a bad deal for consumers," said Chi Chi Wu, a lawyer with the center, based in Boston.

"Consumers need to realize these aren't their tax refunds; these are loans against their refunds."

H &R Block also offers consumers loans backed by anticipated tax refunds.

The loans are based on the estimated amount of the refund, minus the loan fees. The actual refund is sent later by the IRS to the bank that provided the money for the loan. Preparers earn a fee from the banks for serving as loan brokers.

Taxpayers paid \$1.4 billion in loans and other fees in 2003 for these loans, according to the law center.

More than 70 percent of consumers who received them didn't realize they were loans, the center said.

H &R Block, which has been criticized for these practices by consumer advocates, is preparing to pay nearly 8 million consumers in 23 states nearly \$62.5 million to settle a class-action lawsuit for not clearly disclosing the interest rates for such loans.

Ohio consumers who received the loans between 2000 and 2005 from H&R Block are eligible for therefund, company spokeswoman Janine Smiley said. Affected consumers will begin receiving notices about

the settlement in March, she said.

The refund loans are an option, and consumers aren't forced to take out a loan, said Richard Meza, spokesman for Instant Tax Service, based in Dayton. The company has four Columbus locations.

The company discloses its fees and the loan interest rates to consumers after their tax preparation is complete, Meza said. "They know exactly what they are getting," he said. "They have every opportunity to walk out the door if they don't want the loan."

But most consumers don't realize that, said Lashell Alexander of the Columbus office of the Association of Community Organizations for Reform Now.

The group offers free tax preparation to low-income workers to help them avoid companies that offer refund anticipation loans.

"People are getting ripped off," Alexander said. "Because people are so anxious to get their refund, they really don't understand what's going on."

The services are legal, IRS spokesman Chris Kerns said, but the agency urges caution.

"Many times, people need that service," Kerns said. "But consumers should know that they can file their returns for free online and can get their refunds in as quick as 10 days."

The market for companies that offer refund-anticipation loans has expanded during the past five years because many people need their refunds quickly to pay bills, said Pete Magaritis, an accountant at GBQ Partners in Columbus.

He also advises consumers to ask preparers upfront about the fees and rates for such loans. "Do the research. Don't go in blindly, because it's your money."