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Consumer Protection Week: The High Cost of Tax Refund Anticipation Loans

Balderas: Being an informed consumer will help you protect your tax refund

Santa Fe, NM – Today, Attorney General Hector Balderas is warning New Mexicans about the high cost of tax Refund Anticipation Loans (RALs). Patience is not only a virtue, it can also save you money. In the hustle and bustle of tax season, consumers, no doubt, have seen the barrage of tax preparers promising “instant refunds.” What they don’t see are the true cost of those “instant refunds,” which really are no more than short term loans at a very high interest rate, secured by the guarantee of your hard-earned tax refund check.

“Be very careful when considering a tax refund anticipation loan as these short-term, high-interest loans are very expensive and take a large portion out of your tax refund,” said Attorney General Balderas. “Being an informed consumer will help you protect your tax refund and prevent you from creating new debt.”

To obtain these loans, consumers pay over a billion dollars in loan fees each year, essentially paying to borrow their own money at extremely high rates. Per person, these loans typically cost consumers hundreds of dollars. Consumers often don't realize that they're borrowing their own money at high rates or realize that they're signing up for a loan at all. Be patient. If you file your taxes electronically and have your refund directly deposited into your account, it will likely take less than two weeks to receive your actual refund, without the high interest rate and administrative fees.

Many times, taxpayers also feel that they have to use RALs to pay for the preparer services. Taxpayers tempted by RALs should consider cheaper and better alternatives. For example, both the IRS’ Volunteer Income Tax Assistance (VITA) program (1-800-829-1040) and AARP’s Tax Aide (1-888-227-7669) offer free tax preparation for low-income taxpayers. The IRS Free File program is available for all taxpayers at <https://www.irs.gov/uac/Free-File:-Do-Your-Federal-Taxes-for-Free>. Some of the free tax preparation programs can also help taxpayers open bank accounts, which allow them to take advantage of the speed of a direct-deposited refund using electronic filing. When filing your tax returns the best advice is to be informed and be patient.

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