



Refund Anticipation Loans (RALs)

What Is a Tax Refund Loan?

A tax refund loan is an extremely short-term loan that you apply for through your tax preparer, using your anticipated tax return as security. Tax preparers prefer the term “instant cash advance” to describe these loans, but make no mistake: an “instant cash advance” is a LOAN, with all of the costs and fees associated with borrowing money—and then some. Also, you will NOT get your refund that much faster if you take out one of these expensive loans. They simply aren’t worth the price.

When you take out a tax refund loan, your tax preparer (working in partnership with a bank) lends you the amount of the tax refund that you expect to get back, but may charge you a significant amount in interest and fees. Then, when the government sends your actual refund check, it is direct-deposited into the bank that made the loan. Because the loan is paid back when you receive your tax refund, the term of a tax refund loan is short—usually seven to 14 days.

Unlike rates on a traditional loan, the interest rate (the annual percentage rate or APR) for tax refund loans can be more than 100%. Moreover, many tax preparers misleadingly describe tax refund loans as “interest free” or low cost when, in fact, tax preparers pack these loans with numerous fees to drain as much revenue as possible from consumers. To obtain a tax refund loan, consumers may be charged the following fees in addition to a tax preparation fee: a bank fee, software or technology fee, service bureau fee and transmitter fee. In addition, tax preparers often charge consumers who obtain tax refund loans a much higher fee for tax preparation.

Who Takes the Hit?

According to a study by the Consumer Federation of America and the National Consumer Law Center, taxpayers paid a minimum of \$648 million of their 2013 tax refunds for tax-related financial products including tax refund loans. Many of these products are offered to low-income families who can least afford to pay a significant portion of their tax refund in fees and other costs.

Protections for Illinois Consumers and Active Duty Service Members

The Illinois Tax Refund Anticipation Loan Reform Act caps the interest rate at 36% for tax refund loans issued to Illinois consumers by non-bank lenders. The Act also prohibits tax preparers from charging consumers higher tax preparation fees or any ancillary fees for obtaining a tax refund loan or other tax-related financial product. If you feel that you’ve been charged any illegal fees for tax preparation or sold a non-bank tax refund loan with an interest rate that exceeds 36%, please contact the Attorney General’s Consumer Fraud Hotline at the number below.

The Military Lending Act caps the interest rate at 36% for tax refund loans sold to active duty service members. If you are an active duty service member and feel that you’ve been sold a tax refund loan with an interest rate that exceeds this cap, please contact the Attorney General’s Military and Veterans Hotline at 1-800-382-3000 (TTY: 1-800-964-3013).

It’s Your Refund—Here’s How to Keep More of It!

You probably do not need a tax refund loan. If you file your tax return electronically, you can get your refund very quickly—in approximately two to three weeks—without getting a loan. You can find an organization willing to help you prepare and file your taxes for free by calling the Center for Economic Progress at 312-252-0280 or visiting this website for resources near you: <http://irs.treasury.gov/freetaxprep/>.

For more information about tax refund loans and other types of credit, please contact us.

Consumer Fraud Hotlines

Chicago
1-800-386-5438
TTY: 1-800-964-3013

Springfield
1-800-243-0618
TTY: 1-877-844-5461

Carbondale
1-800-243-0607
TTY: 1-877-675-9339

www.IllinoisAttorneyGeneral.gov