

Tax Refund Loans—A Bad Idea - by Brett Weiss, Maryland Bankruptcy Attorney on January 26, 2009 ·

Since tax season is on hand, the media is full of ads touting tax refund loans. “Get your money NOW!” “In today’s economic climate, can you afford to wait for your tax refund?”

Well, the easy answer is, especially in today’s economic climate you should not get a tax refund loan. Why not? It costs you, big time.

Tax refund loans are huge moneymakers for H&R Block and other tax preparers. Why? The interest rates and fees are staggering, despite the very low risk of default. How much do they make? According to the National Consumer Law Center:

New figures reveal that RALs [Refund Anticipation Loans] drained the refunds of 8.67 million American taxpayers in 2007, costing them \$833 million in loan fees, plus over \$68 million in other fees. In addition, another 11.2 million taxpayers spent \$336 million on related financial products to receive their refunds.

How are these fees charged? First, there’s a “loan fee”—a charge for the privilege of borrowing money—ranging from \$34 to \$130. These fees are usually called “Refund Account” or “Bank Fees.” Some tax preparers charge “application,” “administrative,” “e-filing,” “service bureau,” “transmission,” or “processing” fees, which push the total even higher.

Then there’s the interest rate. These rates typically run from 50 percent to nearly 500 percent. And when you include the “loan fees,” the effective APRs range from about 85 percent to nearly 1,300 percent. That’s loan shark territory.

But things are tight, and you need the money now. You can’t afford to wait 60 or 90 days to get your money.

You don’t have to. According to the IRS, most refunds, particularly where you have the refund deposited directly into your bank account, arrive within a week or two. Why pay lots of money you don’t need to when you need it?