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Think Twice

Before Using Instant Tax Refund

Instead of waiting for tax refunds from the Internal Revenue Service, nearly 10 million consumers, many from low- to moderate-income families, borrow against part or all of their expected tax refunds. These refund loans are heavily marketed by paid tax preparers and immediately put cash into the consumer's hands, making it seem to be a quick and "painless" way to get cash. The quick cash comes at a price, however.

According to the Consumer Federation of America, annual interest rates (APR) can range from 50 to 500 percent. The CFA finds that instant tax refunds account for over \$900 million in unnecessary loan fees and other fees.



In other words, consumers are paying \$129 to \$429 to have their taxes prepared and to receive an instant refund. Further, if the taxpayer is not entitled to the refund amount claimed, he or she will owe the lending agency the difference, plus interest.

The federal government now limits interest rates on refund anticipation loans to no more than 36 percent APR for military personnel and their spouse and dependents, because of the economic impact.

By electronically filing taxes with the IRS, if you are eligible for a refund, you may choose direct deposit of your refund into a checking or savings account, or to receive a paper check. Electronic filing can cut the waiting time to as little as five days if the consumer has a bank account. The refund will be directly deposited by the U.S. Department of Treasury. This saves much unnecessary expense of borrowing the money.

There are better alternatives for getting help with tax preparation. Based on the Treasury Department's survey, 81 percent of those surveyed did not know they qualified and could use Volunteer Income Tax Assistance (VITA) sites throughout the state of Kentucky.

At these sites, IRS-trained volunteers will prepare your taxes free of charge; and many will file them electronically for free, as well. They will prepare basic tax returns, including Forms 1040, 1040A, 1040EZ, and Schedules A and B, for individuals earning up to about \$40,000. This service is convenient to you; there are fewer errors with electronic filing; refunds are fast; and Federal and state returns can be filed electronically at the same time. To find the VITA site closest to you, contact the IRS at (800) TAX-1040 or (800) 829-1040. Another alternative is the AARP, whose volunteers help seniors with tax preparation. If you absolutely can't wait to receive your money, *there are better alternatives than rapid refund for borrowing money:*

Family or Friends—If they have the means, a loan from family or friends might be a good option. It's wise not to borrow more than your

refund check will cover or to promise to pay more than you can afford.

Credit Union—The next best place to get a loan is a credit union. Members can borrow at about 11 percent interest (APR), since they usually are able to withdraw payments directly from their paycheck each pay period.

Bank—You might also want to check with a local bank to see if they will make loans for small amounts. If you have a good credit rating, and they make small loans, this might also be a good source, since bank rates are competitive with those of credit unions.



Cash Advance on a Credit Card—If you have a credit card, you can borrow money, in the form of a cash advance, at the rate of about 18-21 percent interest.

Small Loan Company—These firms usually ask for collateral and charge between 24 and 36 percent rates of interest.

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Portions on VITA program taken directly from IRS website:
<http://www.irs.gov/efile/index.html>.