

Don't Borrow Your Own Money! Steer Clear of Tax Refund Anticipation Loans

The Office of Consumer Affairs and Business Regulation advises taxpayers to steer clear of tax refund loans, also known as refund anticipation loans (RALs). RALs are secured by and repaid from a pending federal tax refund.

A RAL is a risky proposition because it must be repaid even if the taxpayer's refund is denied, less than expected, or frozen. If the taxpayer cannot pay back the RAL, the lender may send the account to a debt collector.

According to a report issued by the National Consumer Law Center and Consumer Federation of America, 8.4 million RALs were issued to taxpayers in 2008.

Because RALs are short term the annualized interest rates are very high.

For free tax preparation, low- to moderate-income tax payers can take part in the Volunteer Income Tax Assistance (VITA) program, which is coordinated by the IRS. VITA sites can be found in libraries, community centers, and other locations during tax season. If you earned \$57,000 or less in 2009, you can use the IRS Free File program to prepare your federal income taxes online at IRS Free File.

The AARP Tax-Aide program provides free tax preparation and assistance services to millions of low- and middle-income taxpayers, with special attention to those ages 60 and older. See www.aarp.org/money/taxaide for more information.

The Department of Revenue's Circuit Breaker tax credit is available to Massachusetts seniors ages 65 or older who own or rent the property they live in. Further details are available at www.mass.gov/dor.

Tax Payers Consider the Following Alternatives to RALs

1. File your tax return electronically (E-file) with the refund deposited directly into your bank account. Massachusetts taxpayers can now e-file their state income tax returns directly with the Department of Revenue (DOR) using the "WebFile for Income" program. WebFile for Income is free, fast, and secure. For more information, visit the DOR's web site at DOR WebFile for Income.
2. When you do receive your refund, avoid check cashers. They charge fees to cash RAL and tax refund checks. Undersecretary Anthony .If you don't have a bank account, open one so that you can take advantage of direct deposit for your tax refund and your pay check. Many banks reduce or eliminate fees when you have your pay check deposited directly to your account.
3. A list of banks that participate in the Commonwealth's Basic Banking for Massachusetts program as well as a description of the program's low cost bank account is available at Basic Banking for Massachusetts.
4. Reduce your income tax withholding so that you won't have to wait for a refund next year.