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Using the law to fight poverty, empower clients, and improve access to justice.

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Tips for Keeping More of Your Refund Money

Many low- or mid-income taxpayers look forward to tax season for one simple reason -- the opportunity to receive a much needed tax refund to help them pay the bills. In fact, many people plan their finances around the anticipation of receiving hundreds or even thousands of dollars after filing their tax returns.

However, because taxpayers may be eager or even desperate to receive tax refund money, they may be convinced to pay unnecessary costs. Two examples of costs that may be particularly unnecessary for taxpayers include a **Refund Anticipation Check (RAC)** and a **Refund Anticipation Loan (RAL)**.

What is a Refund Anticipation Loan?

An RAL is a loan you get based upon the tax refund you expect to get. Generally, you pay a tax preparer to do your taxes, file the taxes electronically, and then get a loan for the amount of your expected tax refund. When your tax refund comes in, you repay the loan. The loan can come from the tax preparation company or from some other company.

What is a Refund Anticipation Check?

With RACs, a bank opens a temporary bank account into which the IRS direct deposits the refund monies. After the refund is deposited, the bank issues the consumer a check or prepaid card and closes the temporary account. This service is usually accompanied by a fee of \$25 to \$60. RACs are a major tax-time financial product on the market. There were an estimated 21.6 million taxpayers who received a RAC in 2014.

What are the risks?

The primary risk of these types of financial products is that taxpayers will pay unnecessary fees in order to obtain their tax refunds. RACs do not deliver refund monies any faster than the IRS can, yet they cost \$25 to \$60. Some preparers charge additional "add-on" junk fees for RACs, fees that can range from \$25 to several hundred dollars.

Taxpayers may also be hit with additional fees from the lenders if their tax refund is delayed.

Remember, there are no guarantees that the Department of the Treasury deposits refunds within a specified time or in their entirety. For example, it may delay a refund due to processing problems or, it may offset some or all of the refund.

The IRS is in no way involved in or responsible for RALs, RACs or other financial products, and has provided a [list of requirements](#) that Authorized IRS e-file Providers must follow.

For more information on this subject, read [this report](#) from the National Consumer Law Center about the risks taxpayers face during tax season, including tax refund-related financial products.

What else can I do to get my refund quickly without paying so much money?

Two free alternatives for low-income taxpayers are [Volunteer Income Tax Assistance \(VITA\) sites](#) and [AARP Tax-Aide sites](#). Choosing a VITA or AARP Tax-Aide site saves eligible taxpayers the cost of a tax preparation fee. Many VITA sites can also help taxpayers open a bank account or get a low-cost prepaid card, which enables taxpayers to get fast refunds without paying a fee. The [IRS Free File program](#) includes websites that allow some low- and middle-income taxpayers to prepare and file their taxes online for free.

 [NCLC_A Minefield of Risks for Taxpayers](#)

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<http://www.indianalegalservices.org/Tax Refund-Related Financial Products>

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