

Quick tax return loans costly

BY SANDRA GUY sguy@suntimes.com

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Rhonda Jones said that when she saw a flier for a free income-tax service sponsored by the Center for Economic Progress, she realized she was surrendering hundreds of dollars needlessly. (Scott Stewart/Sun-Times)

Rhonda Jones remembers racing to a neighborhood tax preparer to get her federal income-tax refund in just five days -- for fees ranging from \$300 to \$500.

Only after Jones saw a flier for a free income-tax service sponsored by the Center for Economic Progress did she realize she was surrendering hundreds of dollars needlessly.

"I was so shocked that it didn't cost anything to get my income taxes prepared and my refund, and that I would get all of my refund money back," she said. "I hadn't realized I was taking out a loan for the fees I had been paying."

Tax preparers who tout refund anticipation loans, known as RALs, often don't tell their clients that in order to get the quick tax returns, they are paying fees and taking out an interest-bearing loan, said Katie Buitrago, policy and communications associate for the Woodstock Institute, a Chicago-based advocacy group that is reporting today that the problem is most acute in African-American neighborhoods.

Jones, a high-school guidance counselor aide who lives in the Brainerd neighborhood, now volunteers at the Center for Economic Progress' income-tax assistance site in the Auburn-Gresham neighborhood.

She regularly warns anyone who will listen to avoid taking out quick-tax-return loans, especially when people who file their tax returns electronically and allow the government to deposit their refunds directly into their checking accounts get their refunds just as quickly.

"Now I know all of the tax rules and the new tax laws," said Jones, who has taken training courses from the Internal Revenue Service as part of her volunteer work.

Five Chicago neighborhoods were tops in the state in the amounts that tax filers paid for refund loans in 2006, the latest data available, according to the report by the Woodstock Institute. Those neighborhoods are, in order, Auburn Gresham, the far South Side, West Humboldt Park, Austin and Chatham/Grand Crossing.

The report shows the city's five neighborhoods where tax filers paid the highest percentage of their tax returns for quickie loans were, in order, Englewood, Garfield Park, Austin, West Englewood and West Humboldt Park.

"Refund anticipation loans cost Illinoisans more than \$114 million in 2006, with tax filers in African-American communities three-and-a-half times more likely to use [the] loans than the state average," Buitrago said.

The data show that the loan providers marketed their services to people who receive the Earned Income Tax Credit, primarily because those refunds often total in the thousands of dollars, she said. "The lenders can get more money from the Earned Income Tax Credit filers," Buitrago said.

Buitrago encourages tax filers to seek out a local Volunteer Income Tax Assistance Program site, where people with low and moderate incomes, generally \$57,000 and below, can get free tax-return help. To locate the nearest VITA site, call 1-800-829-1040.