

Ban On 'instant Refund' Loans Sought; Tax Preparers Charge Low-income Filers Too Much, Groups In Durham, Philly Say

BY: TIM SIMMONS, STAFF WRITER

Recent spot checks of tax preparation offices in Durham and Philadelphia prompted consumer advocates Tuesday to urge the Internal Revenue Service to ban tax preparers from offering "refund anticipation loans."

The cost of those loans is often a large cut of a taxpayer's refund and triggers the release of personal information to a wide range of marketers, the groups said. The problem is acute among low-income taxpayers who qualify for federal tax credits.

"Taxpayers put their trust ... in the hands of commercial preparers," said Chi Chi Wu, a lawyer at the National Consumer Law Center in Boston. "Unfortunately, that trust may not always be well placed."

The spot checks were conducted in February and March by the Community Reinvestment Association of North Carolina and two consumer groups in Philadelphia. Taxpayers volunteered to work with the groups at 17 sites. Twelve of those preparers work in the Durham area, said Peter Skillern, director of the Community Reinvestment Association, which is based in Durham.

At 15 of the 17 sites, taxpayers were encouraged to sign up for high-

interest "refund anticipation loans" or "anticipation checks" based on the value of their expected refunds.

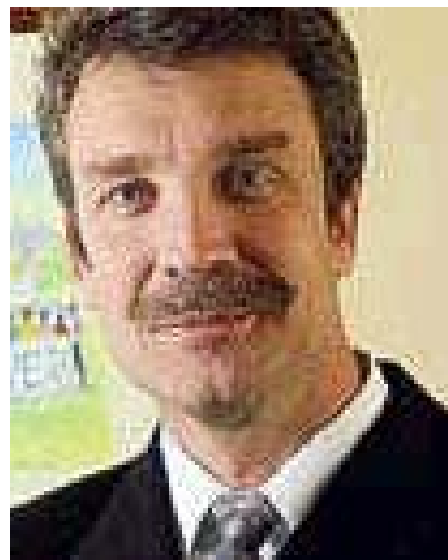
Fees and other costs for the short-term loans translated into annual interest rates ranging from 50 percent to 500 percent. In return, taxpayers could get the remainder of their refund in a matter of hours or days, compared with several weeks.

But the volunteers who worked with the advocacy groups said many preparers failed to inform customers about free filing options or they did not give clear price information about the refund loans, Skillern said.

The high-interest loans and "instant refunds" have been the target of numerous complaints and lawsuits because they can cut deeply into taxpayers' refunds. Almost two-thirds of those who use the service are low-income filers who qualify for tax credits.

That means hundreds of millions of dollars nationally intended to reach low-income families through tax credits are instead siphoned off by private companies handling the loans, Skillern said.

The loans are possible because of an IRS ruling that allows tax preparers to share information with banks, who technically handle the loans. The



Skillern says companies siphon off families' tax credits.

process requires that the taxpayer approve the release of personal information, but it isn't possible to get the loan without agreeing.

The information — which includes Social Security numbers, assets, income and other tax information — can then be shared with those who do business with the bank, according to the study.

The study comes at a time when the IRS is considering rule changes that would effectively stop tax preparers from arranging refund anticipation loans.

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