



NEW YORK STATE SENATOR

William Larkin

Why You Shouldn't Borrow Against Your Tax Refund

WILLIAM J. LARKIN JR. February 2, 2006

This week, Senator Bill Larkin urges residents to be patient while waiting for their tax refund and not to fall prey to the high interest rates of "Tax Refund Loans."

Tax Refund Loans are short-term cash advances against a customer's anticipated income tax refund. But the interest rates can range from about 40% to over 700% APR. More than 12 million American taxpayers opted for these loans in 2003.

"Believe it or not, thousands of New Yorkers look forward to tax season," said Senator Larkin. "They are sure they are getting refunds and desperately need that check from the Internal Revenue Service. In fact, many don't even want to wait for Uncle Sam so they turn instead to refund anticipation loans. But what they don't know enough about is the exorbitant annual percentage rates on these loans."

Critics of refund loans point to the fact that these interest rates average well into triple figures, all for the privilege of getting money a few days earlier. "It's an outrageous rate for a really short-term loan," said Larkin. "In many cases, it's just a 10-day loan, so why not just wait?"

Tax preparers and lenders strip about \$1.57 billion in fees each year from the earned-income tax credits paid to working families, according to a 2005 study by the National Consumer

Law Center.

But tax preparers are by no means the only refund loan vendors. Many car dealers offer deals to let you use your anticipated refund toward auto down payments as a way of pulling in more buyers. Check-cashing services, retailers, Internet sites and tax-software companies also promote the loans as incentives to get more business. Tax preparers also say the loans are popular ways for impatient taxpayers to pay for vacations, large appliances or home entertainment systems.

Senator Larkin added, "I would strongly encourage residents to resist the urge to speed up your refund. Why give away your hard earned money because of a little impatience? The cost just isn't worth it."