

IRS takes a stick to high-interest refund loans

Agency no longer will share with professional tax preparers some of the key info on customers that helps determine the size of costly “rapid refund” loans.

By **Erik Engquist**

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The Internal Revenue Service is making it harder for shady tax preparers to lure unsophisticated customers into high-cost loans, which are typically provide money only a few days faster than taxpayers could otherwise receive their refunds from the government.

The IRS said on Wednesday it would stop providing tax preparers with a “debt indicator” for electronically filed returns. The debt indicator is the amount by which a tax refund will be reduced because of the taxpayer’s past delinquencies, such as outstanding child support or student loans. Without this information, issuing so-called “rapid refund” loans would be riskier because the refund could end up being much smaller than the loan balance.

Lenders could still get the information through consumer credit reports, but they are not free and not always complete, and it is a more onerous process.

“We’re really happy that the IRS has come around to doing this,” said Josh Zinner, co-director of the Manhattan-based Neighborhood Economic Development Advocacy Project. “It will go along way toward ending abusive tax prep practices.”

He called the IRS’s past practice shameful: “By providing the debt indicator, they were aiding and abetting an industry that siphoned wealth out of low-income communities,” Mr. Zinner said.

The IRS said there is no point to consumers taking refund-anticipation loans, which are prevalent in minority neighborhoods, because refunds can be provided via direct deposit in just 10 days.

The one-to-two week loans made by banks and distributed via paid tax preparers drain \$54 million from New Yorkers’ refunds each year, according to the Neighborhood Economic Development Advocacy Project. They are pervasive in the South Bronx and central Brooklyn.

Nationally, the loans skimmed \$738 million from the refunds of 8.4 million American taxpayers in 2008, the group reported. Some lenders charge fees that translate into annual percentage rates of 60% to nearly 700%, according to the state Banking Department.

“Refund-anticipation loans are often targeted at lower-income taxpayers,” IRS Commissioner Doug Shulman said in a press release. “We encourage taxpayers to use e-file with direct deposit so they can get their refunds in just a few days.”

Under pressure from advocacy groups, some major banks have stopped issuing the loans. J.P. Morgan Chase announced in April that it was pulling out of the business, after having made as many as 1.5 million of the loans in 2008, according to the National Consumer Law Center.

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