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State Makes Bid to End Costly Tax-Refund Loans

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New York officials filed civil complaints on Thursday against two tax preparation firms that offer high-interest loans against income-tax refunds, saying the companies had aimed the loans at low-income black and Hispanic families and military families in violation of state antidiscrimination laws.

The two firms, Jackson Hewitt and Liberty Tax Service, are among the largest tax-preparation companies in the country, with hundreds of thousands of customers each tax season. Jackson Hewitt and Liberty Tax each team up with banks to offer high-interest, short-term loans known as “refund anticipation loans,” based on customers’ estimated income-tax refunds.

Such loans can carry annualized interest rates as high as 700 percent — though the period of the loan is normally days or weeks — and have been called predatory by some advocates.

The complaints ask that the firms stop the practice.

The tax preparation firms earn hundreds of millions of dollars annually by charging administrative and processing fees on top of those interest payments, even though most taxpayers who file online can get their federal income tax refund directly from the [Internal Revenue Service](#), at no cost, within 10 days of filing, according to state officials.

In an interview, John T. Hewitt, the founder and chief executive of Liberty, denied that Liberty marketed the loans specifically to black and Hispanic families or military families, and said that the company did not collect data on its customers’ race or ethnicity. He also said that refund loans had been around for decades and that the company would vigorously contest the complaint.

“I guess the timing is not a surprise,” Mr. Hewitt said of the lawsuit. “I think they want a little publicity.”

A spokeswoman for Jackson Hewitt said the allegations against the firm were “without merit.”

According to one outside study cited in the complaints, in New York, the loans are made disproportionately to lower-income blacks and Hispanics, as well as to people in the military and their families.

“You can focus on the abusiveness of the product itself, which other entities have done, but the most egregious thing is that they target the most vulnerable people in the community,” said Kumiki Gibson, commissioner of the state’s Division of Human Rights. “They are targeted specifically for these products because of their status as people of color, people in the military.”

State officials said some customers end up owing the firms more than they get in refunds, because the interest and fees are so high and because the refund estimates are often inaccurate. The complaints also say that the loans are undermining federal tax credits intended to support the working poor, like the Earned Income Tax Credit. Nationwide, according to a study by the National Consumer Law Center, half of all people who obtain the refund loans also get the tax credit.

Refund-anticipation loans have attracted scrutiny in recent years from officials in several other states. But Thursday’s complaints appear to be the first based on a state’s antidiscrimination laws. New York is one of only a handful of states where those laws make the families of military personnel a protected class along with racial and ethnic minorities and other groups.

Over a 10-month investigation, officials said, the Division of Human Rights amassed several years’ worth of statistical evidence indicating that the loans had been marketed to those groups.

The complaints also rely on outside data, like a study of tax returns from 2002 to 2005 by the Neighborhood Economic Development Advocacy Project, a New York-based advocacy group for low-income people.

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