Department of Commerce

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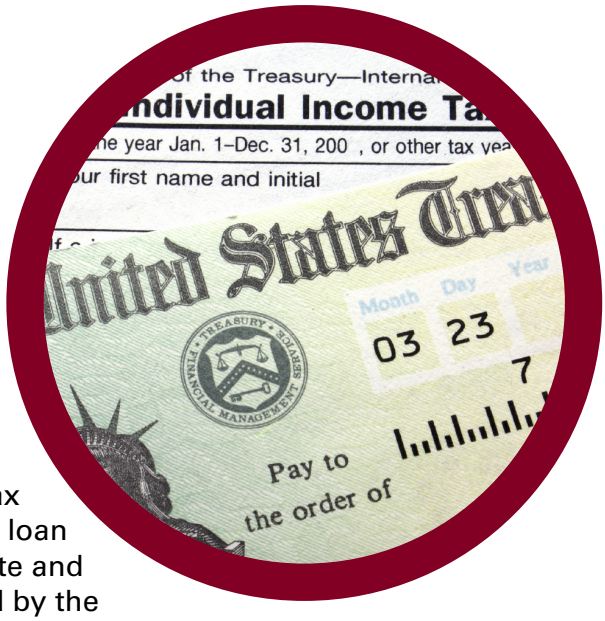
Understanding Refund Anticipation Loans

Refund Anticipation Loans (RAL)



What is a RAL?

A refund anticipation loan (RAL), sometimes called a rapid refund or instant refund, is a type of refund option offered by tax preparation companies. RALs are often advertised as a quick way to access an income tax refund through a cash loan. These loans often include fees and interest rates that may not be clear to consumers when they file their tax return.

Tax preparation companies that offer RALs often advertise the promise of instant cash as the consumer files their tax return. While this may appear to be a refund, it is actually a loan to the consumer until the refund has been processed by state and federal governments. The effective annual interest rate paid by the consumer on this type of loan can be very high. This interest rate, along with the filing fee and a same day processing fee, can result in consumers paying hundreds of dollars to receive their refund just five to 10 days early.

Know the facts

If you decide to use a tax preparation company that offers RALs, be sure that you know the facts before you accept the loan:

- When you take out a RAL, you are paying to borrow your own money.
- With current technology, a tax refund can be filed and in your financial institution account in five to 10 days. This is a free service provided by the State of Ohio. The IRS service is free for households that qualify.
- Unless you desperately need money the day of your tax return is filed, waiting five to 10 days may save you hundreds of dollars.

RAL payment

RALs are issued in one of three forms. A consumer can either receive their RAL through direct deposit into their checking or savings account, a bank issued check, or they can receive a prepaid debit card with the amount of their refund loaded onto the card.

Many consumers choose RALs because they do not have a checking or savings account at a traditional financial institution. By setting up a free or low-fee checking or savings account, a consumer's tax refunds can be deposited directly into their account if they file their taxes electronically. It usually takes five to 10 business days to process and deposit the funds into an account. To learn more about opening a free or low-fee checking or savings account, visit a local bank or credit union.

Alternatives to RALs

Before committing to a RAL, understand that there are other ways to ensure you receive your full tax refund in a timely fashion. There are numerous organizations in Ohio that offer moderate-to-low income households tax preparation services for free or at a reduced cost.

- The Ohio Benefit Bank (OBB) offers free tax preparation assistance to eligible Ohioans. For more information, including OBB sites and tax clinics near you, call 1-800-648-1176.

- Volunteer Income Tax Assistance Program (VITA) also offers free tax preparation help to those who qualify. Households who cannot prepare their own tax returns may call 1-800-829-1040 to learn more about the service. The program is sponsored by the Internal Revenue Service (IRS).

- Military personnel and the families can also receive free tax preparation assistance through the VITA Program. Servicemen and servicewomen can find more information on this program through their military installation.

- Tax Counseling for the Elderly (TCE) offers free tax filing services to those 60 and older. This program is also sponsored by the IRS. For more information on TCE, call 1-800-829-1040.