



January 4, 2011

Tax Refund Anticipation Loans Harder to come by this Year

A new tax filing season has begun with the start of this new year. Typically, each tax year sees many taxpayers apply for Refund Anticipation Loans (RALs) or also known as Rapid Refunds. RALs are typically short-term loans given out by tax preparers in collaboration with financial institutions to taxpayers based on how much tax refunds they are due to receive.

However, the situation this year has changed. Starting from this tax year, RALs are going to get harder to come by. This is because of two major factors.

Firstly, in August last year the IRS has informed everyone that it will no longer furnish taxpayers' 'debt indicators' which is normally used by tax preparers and associated financial institutions as part of their process of giving out RALs. Without the 'debt indicators' it would be impossible for tax preparers and banks to ascertain accurately the amount of debt the taxpayer may have outstanding. These debts would be payable out of the taxpayer's refund amount.

As you can imagine, many tax preparers and their associated banks may

shy away from giving out RALs due to this uncertainty. They would lose money if the IRS deducts more debt than they anticipate out of the taxpayer's refund. In light of this situation, the tax preparers and finance companies would inevitably increase their lending rates to cover for the higher likelihood of their making a loss.

Secondly, the IRS is encouraging all taxpayers to file their tax returns electronically. This would facilitate the tax submission process including the issuance of refunds which can be directly deposited into the taxpayer's bank account. A straightforward electronic filing without any complicated tax issues would allow a taxpayer to receive a refund in as little as 10 working days.

This means there would be no strong need for RALs because the taxpayers do not have to wait long for their refunds.

A refund anticipation check is actually a temporary bank account into which the refund is deposited and out of which the bank issues payments to the taxpayer. This enables taxpayers to have their tax-return preparation and filing fees deducted from their refund, rather than paying those costs upfront. RALs are favored by low-income taxpayers who file their taxes early in the season and do not have the cash to pay for tax preparation services.

Hence with the new developments, taxpayers would be hard pressed to get approval for RALs this year.