



NEW YORK STATE SENATOR

Liz Krueger

Krueger Applauds NYS Human Rights Officials for Filing Civil Complaints Against Discriminatory Tax Prep Firms; Calls for Passage of Her Refund Anticipation Loan Act

LIZ KRUEGER January 17, 2008

Two Firms Believed to Target High-Interest Loans to Black, Hispanic and Military Families Against Their Income Tax Rebates

New York—Saying "low income New Yorkers deserve better," State Senator Liz Krueger today applauded New York State's Division of Human Rights for filing a civil complaint against Jackson Hewitt and Liberty Tax Service, two tax preparation companies believed to target high-interest loans to Black, Hispanic and Military families against their income tax rebates. To protect these families Krueger introduced S1677, the Refund Anticipation Loan Act (RAL), in April of 2004. Unfortunately, Senate Republicans have blocked the bill from moving forward.

"Consumers are being misled into thinking that refund anticipation loans are merely quick refunds," explained Senator Krueger. "By targeting families that are often strapped for cash already, these loans against a family's tax rebate can end up costing them more than the rebate they end up getting because of administration and processing fees, along with very high interest rates and other predatory charges."

Refund Anticipation Loans are short-term, high cost loans secured by and repaid from the proceeds of a consumer's tax refund from the Internal Revenue Service (IRS). Instead of waiting to receive tax refunds, RAL customers borrow against part or all of their expected tax refund. Consumers pay several fees to get a RAL, including a loan fee for the RAL, a fee to set up a "dummy" bank account into which the IRS will wire the tax refund, an "administrative" or "electronic filing" fee, and a fee to a commercial tax preparer for filling out the federal and state tax forms. In 2004, typical loan fees ranged from \$35 to \$105. Administrative fees can range from \$30 to \$55, and tax preparation fees average around \$120. What the consumer receives in hand is the refund minus the loan fee, the administrative fee, and the tax preparation fee. For the average refund of about \$2,100, the total amount of the three fees might be around \$250.

Krueger's RAL act includes provisions to limit RAL fees, prohibit debt collection abuses by facilitators, and prevent referrals to check cashers. It provides for mandatory disclosures accompanying the RAL application. In addition, the bill contains registration and bonding requirements designed to ensure oversight and assure compliance with the act. Importantly, the act grants consumers with a private right of action to recover damages, costs and attorneys fees.

Because RALs only last about 10 days, fees for these loans translate into outrageous annualized interest rates ranging from 70% to over 700%.

"It seems that more and more banks and tax preparers are trying to get in on the business of taking a cut out of consumers' tax refunds. It is great that the state is starting to crack down on this practice, but their efforts only highlight why it is so important that my legislation be passed immediately in order to stop this practice by requiring greater disclosure and making refund anticipation loans more transparent," Senator Krueger concluded.

