

# LEGAL AID SOCIETY

## OF MIDDLE TENNESSEE AND THE CUMBERLANDS

Information for Release

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### LEGAL AID ADVOCATES WARN AGAINST TAX REFUND LOANS

*These short-term loans can end up costing more than you bargain for*

NASHVILLE, Tenn. Jan. 15, 2010 – As the holidays wind down and tax season approaches, some people will be looking to their tax refund as their next big source of cash. It is tempting to sign up for a “fast” refund loan to get to that money quickly, but the Legal Aid Society warns that rapid refunds never a good idea.

“People don’t understand that when you sign up to get your tax refund back within a couple of days, you’re actually taking out a loan against your tax refund,” said Gary Housepian, executive director for the Legal Aid Society, the state’s largest non-profit law firm. “This short-term loan can have an effective interest rate of up to 1,300 percent.”

Housepian explained that refund anticipation loans are bank loans secured by the taxpayer’s expected refund. They last about 7-14 days until the IRS refund pays the loan. Taxpayers may not realize they will have to pay back the loan if the IRS holds or freezes their refund. This is another cost of refund anticipation loans.

“That’s a good indication of how unnecessary most of these loans are,” he said. “Most taxpayers can have their refund in two weeks or less without a costly loan.”

Housepian warned that some tax preparers might charge one or more add-on fees from \$25 to several hundred dollars. Taxpayers can pay as much as seven percent to get their refunds back a few days early. For example, a 10-day loan for \$3,000 will cost \$210. That’s an effective annual interest rate of 1,300 percent.

“The price of a refund anticipation loan includes several parts,” said Housepian. “By the time you’ve paid a loan fee, a bank fee and application, administrative, e-filing, service bureau, transmission or processing fees you end up paying way too much for a loan you probably don’t need in the first place.”

Housepian suggested that there are several ways a taxpayer can save money when it is time to file. You can get your taxes done for free through the Volunteer Income Tax

Assistance program (VITA) if your income is below \$49,000. Call 1-800-829-1040 for a location of a VITA site near you. The local IRS office may also prepare your taxes for free. Both the IRS and VITA will file your taxes by computer. If you make less than \$57,000 a year, you can go to [www.irs.gov](http://www.irs.gov) and click on “free file” to find businesses that will file your taxes for free.

“If you file electronically and have the refund automatically deposited in your bank account, you should get your refund in as few as 10 days,” said Housepian. “You’ve waited all year for your refund, why lose so much of it to fees when you don’t have to?”

The Legal Aid Society offers help to low-income taxpayers who have disputes with the IRS. If you have a tax problem, you can call (615) 244-6610 in Middle Tennessee or (866) 481-3669 outside Middle Tennessee.

“The bottom line is that taking out a short-term loan to receive your refund a few days early is a costly mistake,” said Housepian.

The Legal Aid Society gives free civil legal aid to people who have nowhere else to turn. It serves 48 counties from offices in Clarksville, Columbia, Cookeville, Gallatin, Murfreesboro, Nashville, Oak Ridge, and Tullahoma. The Legal Aid Society is funded in part by United Way.

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