



# Consumer Issues



## Does it Pay to Wait? The Lowdown on Instant Tax Returns

Instant tax returns are a myth. When a taxpayer receives an “instant refund”, they are actually receiving a refund

anticipation loan (RAL). A RAL is a short-term loan that is secured by the promise of a consumer’s tax refund. These loans can end up having annual percentage rates (APR), also commonly referred to as interest rate, that range from 67% to 774%. Many consumers who get an “instant refund” do not realize they have taken out a loan against their tax refund.

A refund anticipation loan breaks down into three fees:

1. A fee to a commercial tax preparer for filling out the federal and state tax forms. Fees can range from \$60 to \$300.
2. A fee for filing the return electronically, with the average fee being \$40.
3. A loan fee to the lender. This amount varies based on the amount of the expected refund. Typical loan fees range from \$39 to \$89, but can be as high as half the refund amount.

In the end, the amount the consumer receives is the refund minus these three fees. RAL’s do expedite the receipt of cash from tax refunds. But, is this quick cash worth the cost?

Usually, the answer is NO! Even though the refund anticipation loan puts cash into the consumer’s hand in one or two days, consumers can opt to wait. Instead of taking the quick cash, try filing your taxes electronically or wait just a few more days. Electronic filing can cut the refund wait period to about fourteen days, if you have a bank account where the refund can be deposited electronically. The chart on page two describes the wait time for refund checks by filing methods.

### Inside this Issue...

- ◆ **Does it Pay to Wait? The Lowdown on Instant Tax Returns**
- ◆ **When Can I Expect My Refund Check?**
- ◆ **Tax Preparers Benefit from Earned Income Tax Credit**
- ◆ **Don’t Forget! National Credit Education Week**
- ◆ **Plastic Perils: Top Five Consumer Concerns about Credit or Debit Cards**
- ◆ **IRS Offers Class Resource for Understanding Taxes**
- ◆ **Key Differences Between Credit and Debit Cards**
- ◆ **2003 Tax Credits at a Glance**

## When Can I Expect My Refund Check?

Filing Method	Refund Checks Issued
Paper return with a paper check	6 to 8 weeks
Paper return with direct deposit of refund check to a bank account	5 to 7 weeks
Electronic filing with a paper check	3 to 4 weeks
Electronic filing with direct deposit of refund check to a bank account	About 2 weeks

Sources:

"Refund Anticipation Loan Report. Tax Preparers Peddle High Priced Tax Refund Loans: Millions Skimmed from the Working Poor and the U.S. Treasury." Consumer Federation of America (CFA) and the National Consumer Law Center (NCLC). January 31, 2002.  
<http://www.consumer.fed.org/taxpreparers.PDF>.

"Frequently Asked Tax Questions and Answers, Keyword: Refund." *The Digital Daily*, The Internal Revenue Service. Accessed January 31, 2003 at  
<http://www.irs.gov/faqs/page/0,,id%3D105571.00.html>

## Tax Preparers Benefit from Earned Income Tax Credit

A recently released report authored by Alan Berube, a Brookings Institution research analyst states that a combination of steep tax filing charges and high interest repaid refund loans allowed tax preparation services to recapture \$212 million of the earned income tax credit (EITC) refunds sent to low income families in 1999. On average, low income workers spent about \$200 of their \$1,700 in expected EITC refunds to cover tax preparation fees and refund anticipation loan costs.

The full report is available at:

<http://www.brookings.edu/es/urban/publications/berubetaxcode.htm>

Source: *This Could Be Reason They're Low Income*. *Investment News*, February 10, 2003.

Don't forget!  
 National Credit  
 Education Week is  
 April 14-19, 2003



## Plastic Perils: Top Five Consumer Concerns about Credit or Debit Cards

Based on consumer inquiries in 2002, the Federal Deposit Insurance Corporation (FDIC) released the top five consumer concerns about credit or debit cards and reminders of ways to minimize or handle credit or debit card related problems.

- ◆ **Errors and other disputed transactions.** Errors can include charges on your credit card bill or incorrect dollar amounts on a credit or debit card purchase. Consumers have complained about payments that are not reflected on billing statements or disputes with merchants over purchases.

Review monthly statements within a week after receiving them. Remember, the Fair Credit Billing Act (FCBA) protects consumers from paying for purchases that are not yours or that you did not authorize. However, you must send a written complaint by certified mail, with a return-receipt, to the address given for *billing inquiries* and it must reach the creditor within 60 days after receiving the first bill with the error. Be sure to include *copies* of receipts that support your claim. Keep originals of receipts and other documentation for your records.

If an incorrect amount for a debit card transaction is subtracted from your account the Electronic Fund Transfer Act (EFTA) offers some protection. As soon as you find an error with a debit card purchase, notify your bank or credit union immediately, either by a phone call or in writing.

- ◆ **Application denied or downgraded.** Some consumers have been denied for a credit card or offered less favorable options because of incorrect information on their credit report. To prevent this from happening, get a copy of your credit report annually to make sure everything is correct.

Checking the information on your credit report can be to your advantage if you plan to apply for other types of credit, such as a mortgage or car loan. If you find an error, write to the credit bureau that issued your report and include copies of documentation to explain the error.

- ◆ **Late payment fees.** Some consumers wait until the last possible moment to pay bills and may end up being assessed with a late fee. In fact, the Truth in Lending Act (TILA) states that card issuers must credit your payment on the date it is received, not the postmark date. That is why card issuers suggest allowing seven to 10 days for payments to be received and posted. Also, consumers should be aware that some electronic bill payment services take two or more days to receive the disbursed funds. The bottom line...to avoid late fees, allow plenty of time for your payment to be processed.
- ◆ **Changes in terms.** Credit card companies reserve the right to change interest rates or terms as long as they follow the guideline in the card member agreement. However, if changes are made you must be notified at least 15 days before the changes take effect. For debit cards, a notice of changes in terms must be sent at least 21 days before the effective date. If you do not want to accept a change, you can try to negotiate with the issuer. If you choose to close the account, be sure to do so in writing and understand the terms for cancellation.

- ◆ **Confusion over promotional offers.** If you receive an offer for zero percent interest or a similar offer, realize these offers are usually for a limited time period. Read the fine print and understand the limits of the offer before you charge. One late payment or not paying in full by the due date could result in unexpected interest charges. Read before signing any agreements.

Source: "Problems with Plastic: Our Tips for Tackling Your Top Five Concerns." FDIC Consumer News, Fall 2002.

### IRS Offers Class Resource for Understanding Taxes

Do you need help understanding taxes? If so, *Understanding Taxes*, an interactive tax education program developed by the Internal Revenue Service and educators may be just what you need. This easy-to-use program was developed for high school and community college classrooms. It is available online with downloadable print resources that may be used as a complete unit or can be presented as individual lessons. The course content is divided into the Hows of Taxes and the Whys of Taxes. Lesson plans are available online as well as links to national and state educational standards are included where applicable. Students can use interactive features to help them understand the basics of taxes using tutorials, tax simulations, and online graded assignments. To check out this resource, simply go to the new *Understanding Taxes* website at <http://www.irs.gov/app/understandingTaxes/index.jsp>

<b>Key Differences Between Credit and Debit Cards</b>		
	<b>Credit Cards</b>	<b>Debit Cards</b>
<b>Payments</b>	Buy now, <i>pay later</i> .	Buy now, <i>pay now</i> .
<b>Interest Charges</b>	<b>Yes</b> if you carry a balance or your card offers no "grace period."	<b>No.</b>
<b>Other Potential Benefits</b>	<b>Freebies</b> , such as cash rebates and bonus points good for travel deals. Some <b>purchase protections</b> .	Easier and <b>faster than writing a check</b> . Avoid debt problems. More cards now offering freebies. Some <b>purchase protections</b> .
<b>Other Potential Concerns</b>	<b>Fees and penalties</b> . Also, <b>not all cards offer grace periods</b> (time to repay without incurring interest). Overspending can cause <b>debt problems</b> .	<b>Fees</b> on certain transactions. You may <b>overdraw your account</b> if you're lax about recording debit card transactions.

Source: "Credit Cards and Debit Cards...At a Glance." FDIC Consumer News. Fall 2002.

## 2003 Tax Credits at a Glance

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### Earned Income Tax Credit



The Earned Income Credit (EIC) is a special tax benefit for working people who earn low or moderate incomes. Workers who qualify for the EIC and file a federal tax return can get back some or all of the federal income tax that was taken out of their pay during 2002. Even if you do not owe income tax, you could get the EIC! Eligible persons must have a valid social security number, be a U.S. citizen, or resident all year, and cannot have investment income in excess of \$2,550, and fit one of the following categories:

- ◆ If you lived with one child in 2002 and your family earned less than \$29,201 (for married workers \$30,201) you can get up to \$2,506.
- ◆ If you lived with two or more children in 2002 and your family earned less than \$33,178 (for married workers, \$34,178) you can get up to \$4,140.
- ◆ If you had no children living with you in 2002 and you earned less than \$11,060 (for married workers \$12,060) AND you were between the ages 25 and 64, you can get up to \$376.

### Child Tax Credit



The Child Tax Credit (CTC) is a federal tax credit, worth up to \$600 per child in 2002, for families with dependent children under age 17. In 2001, Congress made changes to the credit making it available to millions more low- and moderate-income working families and increasing the amount of the credit. The CTC is refundable, i.e. you could receive the credit, even if you owe no income tax. To be eligible, a married or single worker must:

- ◆ Be able to claim an exemption for a dependent child under age 17 on his or her tax return.
- ◆ Have taxable earned income above \$10,350.
- ◆ Have either a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security Number. *Immigrant workers with either type of number may be able to claim the CTC.*

Source: EIC Income Credit Campaign 2003. Center on Budget and Policy Priorities. December 2002.

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