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West Virginia Tax Refund Loans Called into Question

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The Center on Budget and Policy released a report estimating \$13 million spent on the short-term loans in 2006.  [Watch Story Video](#)

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MORGANTOWN -- Some tax services offer instant refunds, which are really short-term loans. The Center on Budget and Policy says those loans are costing state tax payers too much.

The loans come with a one-time flat fee amounting to interest rates in the hundreds of percent, once they're computed out into and Annual Percentage Rate.

West Virginia University professor and expert on the refund anticipation loans, Dr. Russel Sobel says that's not the best way to analyze the situation.

"It's almost an unfair comparison though as saying how much of that money goes to FedEx for overnight shipping on the things those people buy with that money from Amazon."

Dr. Sobel's analysis is that people pay for the convenience of immediate access to their refund to pay for mortgages and other bills instead of waiting for the money to come through the IRS.

He views it in the same light as express shipping for an online purchase.

"I can pay \$5 and get it shipped there in five or six days," Dr. Sobel says, "or pay \$17 and get it shipped there overnight. That \$12 extra for four days is actually a much higher percentage rate on that than is charges tax preparation services and the banks on the refund loans."

Though, most of the people who use the service probably couldn't secure any other kind of bank loan. Research shows they usually have bad credit and many don't have bank accounts. That excludes them from opting into online refund deposits, which usually come faster than the mailed version.

"These people need help sooner rather than later," Dr. Sobel says. "And basically, what happens with the Earned Income Tax credit is they realize, here's the help the government is going to give me, but it's not going to come for six to eight weeks, and they might need help sooner. And really what it shows is the opportunities that present itself if government could find a way to get the money to these people quicker."

The West Virginia Center on Budget and Policy is calling for more education on the subject state-wide to help ensure that taxpayers are well-informed of their options and can then make the best decision.

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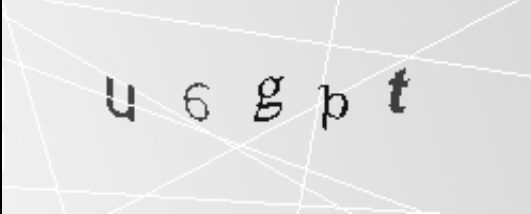
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