

**Crystal Socha**

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**From:** Tina Kotek [tina@cfo.org]  
**Sent:** Tuesday, April 26, 2005 2:01 PM  
**To:** Crystal Socha; Debbie Kaufman (CFFO); Beth Kapsch; Robin Christian  
**Subject:** FW: FYI - Sen. Smith on RAL reform

fyi - Sen. Smith on RALs - woohoo! TK

-----Original Message-----

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April 21, 2005

**Smith Introduces Legislation to Protect Low-Income Taxpayers from Unscrupulous Loan Providers**

Washington, DC – Senator Gordon Smith (R-OR) has introduced the Taxpayer Protection and Assistance Act (S. 832) with a bipartisan group of leading Finance Committee members to improve oversight of businesses that issue Refund Anticipation Loans.

“RALs can be helpful for families in tight financial situations,” said Smith. “But these costs are outrageous and take advantage of people desperate for money. We need to make sure people understand what they’re getting into.”

Refund Anticipation Loans (RALs) are high-interest, high cost short-term loans secured by a taxpayer’s expected tax refund. Over 10 million RALs are taken each year by consumers seeking quick cash in exchange for their tax refunds. In 2003 alone, consumers paid an estimated \$1 billion in RAL fees, plus an additional \$389 million in administrative or application fees. RAL providers do business mainly with low-income Americans, over half of whom receive the Earned Income Tax Credit. According to the Internal Revenue Service, 79% of RAL borrowers have incomes of \$35,000 or less, and it is estimated that most have an average income of \$17,800. Despite the prevalence of RALs, consumers have little understanding of their true nature. A nationwide survey indicated that two-thirds did not know that a RAL is a loan, yet effective annualized interest rates for RALs often exceed 100%.

The Taxpayer Protection and Assistance Act of 2005 (TPAA) requires the annual registration of refund anticipation loan (RAL) facilitators with the Secretary of the Treasury. The TPAA permits the Treasury Secretary to impose monetary penalties on RAL facilitators who fail to meet the registration or disclosure requirements. In addition, the bill requires the Secretary to conduct a public awareness campaign to educate the public on the costs associated with refund anticipation loans. The bill also requires that RAL facilitators disclose the following information to taxpayers:

- that taxpayers have the right to file an electronic tax return without applying for a RAL, and the cost of filing such an electronic return compared to the cost of the RAL
- all fees and interest charges associated with the loan, and provide a comparison with fees and interest charges associated with other types of consumer credit.
- the expected time within which tax refunds are typically paid based on different filing options, the risk

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