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Few complying with law governing cash advances on tax refunds

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LITTLE ROCK — A study released ahead of Thursday's deadline to file federal income taxes finds little compliance with a 2009 state law governing cash advances on tax refunds.

The study released today by Arkansans Against Abusive Payday Lending found that none of the nine paid preparers surveyed was in full compliance with the state law, and that Refund Anticipation Loans and tax preparation fees were generally high.

"These types of products cost hundreds of dollars in fees and can carry interest rates in the triple digits," said Michael Rowett, chairman of Arkansans Against Abusive Payday Lending.

Rep. Darrin Williams, D-Little Rock, who sponsored legislation last year to place restrictions on businesses that offer the refund anticipation loans, urged last-minute tax filers to avoid them.

"Given how quickly someone can get their money back now, within eight to 15 days, there's really almost no reason for consumers to have to pay the exorbitant fees, so I hope that will continue to be addressed," Williams said in a conference call with reporters.

"You can get your refund fast and all of it," he said. "We encourage Arkansas consumers to get all of their money, not to utilize these refund loans ... because they take money out of the pockets of Arkansas consumers who really need it for daily necessities."

Act 1402 of 2009 requires companies that offer cash advances against a consumer's anticipated tax return to disclose to the consumer all fees that apply and state that the advance is actually a short-term loan.

The legislation also bans some practices, such as requiring a consumer to enter into a loan agreement in order to have his or her return prepared.

The study, done by the National Consumer Law Center, used nine mystery shoppers to shop at paid tax preparers in the state. Similar studies also were done in New York and North Carolina.

Results of the study showed none of the nine preparers in Arkansas was in full compliance with Act 1402. Also, in some cases, the quality of the tax preparation itself was poor and in some cases potentially fraudulent. Fees charged on the percentage of the tax refund ranged from 3.8 percent to 25 percent, Rowett said.

There are currently no educational regulations for paid tax preparers, but the IRS has new regulations that are to take effect next year, Rowett said.

The new rules will require tax preparers to pass a competency test, complete 15 hours of annual professional education and adhere to an ethics policy.

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