

Tax Tips for Older Adults

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As the 2018 tax season begins to draw to a close, older adults should be wary of two tax time products offered by tax return preparers and lenders that could drain their hard-earned tax refunds: Refund Anticipation Checks (RAC) and Refund Anticipation Loans (RALs).

Refund Anticipation Checks

Refund Anticipation Checks (RACs), also commonly called “Refund Transfers”, remain the most common tax-time financial product. Over 20 million households in 2017 opted for RACs in conjunction with their tax preparation services, spending over \$500 million on them. With a RAC, the preparer receives the refund in a temporary bank account, deducts the tax preparation fee and any other authorized fees, and then disburses what’s left to the consumer on a prepaid card or by check. Average RAC fees hover around \$30 to \$40.

Older adults should note that choosing a RAC does not deliver the refund more quickly. Rather, it is essentially a short-term loan of the tax return preparation fee by deferring payment until the refund arrives. An older adult who pays \$40 to defer a tax preparation fee of \$300 for three weeks could be seen as paying an annual percentage rate (APR) of 232% for a short-term loan to pay tax prep fees. Older adults should carefully compare the benefits of a RAC to its cost when deciding whether to take one.

Refund Anticipation Loans

In the past, refund anticipation loans (RALs) were a widespread form of predatory lending, providing loans to be repaid through a tax refund and they featured fees with interest rates of several hundred percent. Although these traditional RALs are largely a thing of the past, older adults should remain cautious at tax time. Tax preparers and lenders have again re-vamped RAL offerings in the ongoing quest to skim as much of taxpayers’ refunds as possible.

Lenders are combining the following two RAL options into one consumer application process that could result in the offer of a “no fee” RAL, an interest-bearing RAL, or no RAL at all.

The no-fee RAL used to be marketed as not imposing costs or risks to borrowers. This year they are still marketed as having no costs, but the “no risk” language has been removed. With a no-fee RAL, the taxpayer borrows a limited amount when filing the return. Lenders call these “advances,” but they are actually loans secured by the anticipated tax refund. The lenders promise to not pursue collection if the IRS doesn’t approve the refund. However, the tax preparer makes no similar promises in their marketing materials. While these loans purport not to impose a fee or interest charge on the consumer, there are still risks and costs. Lenders charge preparers a fee on each approved RAL, which provides an incentive to recoup it from the consumer. The higher RAC fee charged by some of these programs has the effect of shifting the preparer’s loan fee to the consumer. Additionally, tax preparers could raise their fees or impose additional add-on fees to try to recoup the cost they pay to offer the RAL. With the lack of price transparency in this sector, it could be hard to know if this is happening to you.

Some tax preparers may also offer much larger RALs to consumers if they agree to forgo the alternatively available “no-fee” RAL. These RALs impose interest on the full amount of the loan and in some cases

charge origination fees. These loans have disclosed interest rates from 24% to 36%, but older adults should nevertheless proceed with caution, because certain additional fees can make the real interest rate even higher.

Older adults can avoid tax preparation fees altogether by using one of several free alternatives for tax preparation and filing. The **Tax Counseling for the Elderly (TCE) program** offers free tax help for all taxpayers, particularly those who are 60 years of age and older, specializing in questions about pensions and retirement-related issues unique to seniors. The IRS-certified volunteers who provide tax counseling are often retired individuals associated with non-profit organizations that receive grants from the IRS. Also, the AARP Tax-Aide program provides free return preparation and e-filing for taxpayers over 50.

The **Volunteer Income Tax Assistance (VITA) program** offers free tax help to people who generally make \$55,000 or less, persons with disabilities, and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS certified volunteers provide free basic tax return preparation with electronic filing to qualified individuals.

VITA and TCE sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations across the country. To locate the nearest VITA or TCE site near you, use the [VITA Locator Tool](#) or call (800) 906-9887. When looking for a TCE site, keep in mind that a majority of the TCE sites are operated by the AARP Foundation Tax-Aide. To locate the nearest AARP TCE Tax-Aide site between January and April use the [AARP Site Locator Tool](#) or call (888) 227-7669. Other organizations may also sponsor TCE sites.

Options for Older Adults who Cannot Afford their Tax Debt

Here are options for older adults who may struggle to pay their tax debt:

- Always file the return on time, even if you cannot immediately pay the taxes owed. You will avoid the Failure to File penalty by filing on time. This will reduce your penalties and interest.
- You have the right to an installment agreement you can afford. Apply online, over the phone, or by mail using Form 9465. If you apply online, the user fee will be lower.
- If financial circumstances warrant, you can apply for an Offer In Compromise to settle the tax debt for a reduced amount.
- If you do not have sufficient assets or income to pay your basic living expenses, you can request “Currently Not Collectible” status, which stops all collection efforts until your financial circumstances improve.
- Low-Income Taxpayer Clinics based at law schools and legal services offices can help with these options. Clinic locations and contact information are published in IRS Publication 4134. Many of the clinics listed help taxpayers in their entire state, so don't be discouraged if there isn't one in your city.
- Another possible source of assistance is the IRS Taxpayer Advocate Service, an independent organization within the IRS. Call (877) 777-4778 or file a Form 911. You can read more about what services the Taxpayer Advocate Service provides here: taxpayeradvocate.irs.gov/contact-us
- For more details, see NCLC's [Surviving Debt, Chapter 23](#).

Please contact ConsultNCLER@acl.hhs.gov for free case consultation assistance. Sign up for our email list and access more resources at NCLER.acl.gov.