

A Primer on Fringe Products Associated with RALs*

Dey DelRio and Chris Keeley, Neighborhood Economic Development Advocacy Project

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Below is a summary of some of the fringe and predatory financial services that are offered by tax preparers in connection with Refund Anticipation Loans (RALs).

A. Rent-to-Own Stores

Tax preparers, notably Jackson Hewitt, have partnered with rent-to-own stores, which rent furniture, appliances and other items at what many consider to be overpriced and often egregious terms. Rent-to-own stores are overwhelmingly concentrated in lower income neighborhoods and communities of color.

- Jackson Hewitt - Rent-A-Center partnership (Nov. 2003)
 - Exclusive cross marketing
 - Employee discounts
 - Jackson Hewitt agents in select Rent-A-Center stores
 - Taxpayers are encouraged to use their tax refund to rent items at the Rent-a-Center.
 - Rent-a-Center provides coupons to Jackson Hewitt customers for two weeks free rental when they pay for two weeks on a new agreement and use their Jackson Hewitt Tax Service CashCard.

B. Stored Value Cards

Taxpayers may choose to have their tax refund or RAL proceeds deposited onto a stored value card. Some tax preparers offer their own stored value cards limited to the balance of the refund/RAL, while others partner with prominent stored value card companies.

- Jackson Hewitt CashCard (stored-value MasterCard)
 - Balance limited to amount of the customer's RAL or tax refund proceeds, minus tax prep fees.
- Jackson Hewitt - Rush Prepaid Visa Card
 - Rush card holders can redeem discount coupons at JH
 - Tax refund or RAL loaded onto Rush card
 - Rush card fees include \$19.95 for activation and \$1 for most transactions
- Amscot - NetSpend Corp.
 - Offer taxpayers prepaid cash-based debit card issued by Inter National Bank, N.A.

* For more information on this and related topics, see the companion documents "Refund Loan Products and VITA: A Summary of Issues and Options," "Building a Better Refund Anticipation Loan: Options for VITA Sites," "Building a Better Refund Anticipation Check: Options for VITA Sites" and "Building a Better Stored Value Card: Options for VITA Sites." All documents are available on the National Consumer Law Center's website at www.nclc.org.

C. Check Cashers

Tax preparers have entered into partnerships with check cashers, for example, to place check cashing machines in their offices. Similar to the fees charged by storefront check cashers, check cashing machines charge a percentage of the check amount, plus surcharges in some cases, to cash tax refund or RALs checks.

- H&R Block - ACE Cash Express (since 2001)
 - ACE Check Cashing machines are placed in tax prep offices to cash RAL checks issued by tax preparer (and government tax refund checks); fee is up to 4% of check amount + \$3 surcharge
 - In 2003, ACE Check Cashing machines were in 248 H&R Block offices in 21 states.
 - ACE refers check cashing and payday loan clients to H&R Block; H&R offers \$10 off tax prep

- Jackson Hewitt - CashWorks
 - CashWorks software provides ATM-based service that cashes tax refunds and RAL checks. Fee is 2%-3% of check amount.
 - CashWorks has exclusive, multi-year agreement with Jackson Hewitt, which now provides check cashing at 350 locations in a dozen states.
 - Company expects to cash nearly \$40 million in tax refund
 - CashWorks says product is especially well suited to the thriving tax refund anticipation loan business.

D. Car Dealerships

A number of tax preparers, including Liberty Tax, have developed partnerships with car dealers. Dealerships market tax preparation and RALs, which the taxpayer uses as a down payment for an auto.

- TaxMax/RALs - Car Dealerships
 - A customer brings W-2 forms and identification to car dealership. Dealer faxes them to TaxMax, which e-files tax forms to the IRS. Customer receives RAL which is used as a down payment for a car (minus the RAL fee). Customer's tax refund is deposited into dealership's account.
 - About 1,000 dealers participated in "TaxMax" program in 2002; and filed approx. 7,000 returns in 2001.
 - TaxMax sells its service to car dealers across country and claims that dealers can sell about 15 more cars if they offer refund loans to customers.
 - Dealers pay a one-time fee of \$395 to TaxMax and do not share in any of the fees generated by TaxMax.

- Liberty Tax & others have similar partnerships with car dealerships.

E. Cross-Marketing of Other Products, Including Fringe or High-Cost Services

Lenders routinely market credit cards, loans, and other product to RAL customers.

- H&R Block markets its mortgage, brokerage and financial advisory services to tax prep clients
- RAL lenders cross-market credit cards, loans, etc. to taxpayers
- Identity theft insurance

F. Incentives to Nonprofits for Client Referral

Tax preparers routinely offer incentives to senior centers, community groups, and other nonprofit organizations that refer taxpayers to their tax preparation.

- Liberty Tax and Jackson Hewitt, for example, offer referral fees or donations to nonprofits that refer people for tax prep; e.g. \$10 - 20 per person