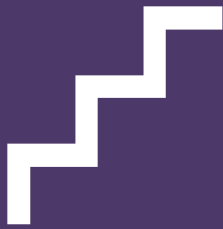




JANUARY 2015



IMPROVING THE TAX PREPARATION EXPERIENCE

David Rothstein and Rachel Black





© 2015 New America

This report carries a Creative Commons license, which permits non-commercial re-use of New America content when proper attribution is provided. This means you are free to copy, display and distribute New America's work, or include our content in derivative works, under the following conditions:

Attribution.

You must clearly attribute the work to New America, and provide a link back to www.newamerica.org

Noncommercial.

You may not use this work for commercial purposes without explicit prior permission from New America.

Share Alike.

If you alter, transform, or build upon this work, you may distribute the resulting work only under a license identical to this one.

For the full legal code of this Creative Commons license, please visit creativecommons.org. If you have any questions about citing or reusing New America content, please contact us.

DC Office

1899 L Street, NW, Suite 400
Washington, DC 20036
www.NewAmerica.org
T: 202-986-2700
F: 202-986-3696

New York Office

199 Lafayette Street, Suite 3B
New York, NY 10012
nyc@newamerica.net

Photo Credits: Shutterstock

IMPROVING THE TAX PREPARATION EXPERIENCE

David Rothstein and Rachel Black

Tax time is often referred to as the “golden moment” for asset building and financial management due to the substantial infusion of resources many households receive in the form of tax refunds. For the tax preparation process to fulfill its potential as a delivery system for asset building resources, there need to be adequate protections in place to ensure its integrity. Yet, there is very little regulation and standardization in the tax preparation industry.¹ Only a handful of states provide oversight for storefront paid tax preparers, and the federal government recently issued regulations requiring testing, registration, and continuing education, only to find them nullified following a court challenge and appeal.²

Tax preparation by commercial paid preparers suffers from a lack of transparency and disclosure in the fees charged, resulting in a diversion of vital, earned public supports away from working families. Clients struggle to compare and contrast prices and services or obtain information about the credentials of paid tax preparers. This brief focuses on the need for standards of preparation as well as price disclosure and transparency. In the final section, we highlight recommendations to improve the tax preparation process for those using paid tax services.

THE DRIVERS AND COSTS OF PAID TAX PREPARATION

The United States tax code operates on a system of voluntary compliance, which does not mean that paying taxes is optional, but that people are expected to voluntarily comply with tax laws. They must pay what they owe and accurately file their tax returns. Many people, including those with low incomes, have an incentive to file because they can receive money back from the government, either because of tax withholding or because they qualify for a tax credit. Nearly 80 percent of filed returns get a refund.

Yet tax rules are complicated and many people choose to seek assistance—most often for a fee—to file their income tax return. This has created a marketplace of paid tax preparation firms. The Internal Revenue Service (IRS) estimates that there are somewhere between 900,000 and 1.2 million paid preparers, which process around 42 million returns, half of which are by preparers who are un-credentialed and un-regulated.

The rise in the number of un-credentialed tax professionals can be attributed to several factors. First and perhaps most significant, the use of electronic software to prepare and submit returns lowered the barriers of entry to the tax preparation field. There were far lower start-up costs and, in the minds of many tax preparers, less of a need to understand tax law since the software was used to drive the preparation process. Second, as social policy and programs such as the Earned Income Tax Credit (EITC) were increasingly delivered through the tax code, refunds were larger and more common.

1 For the purposes of this issue brief, paid tax preparers refer to storefront and online software that are not Enrolled Agents (EAs) or Certified Public Accounts (CPAs). The latter have existing guidance and registration with the IRS.

2 Alex H. Levy, (2014), “Rein In Shady Tax Preparers,” The New York Times, April 7, 2014.

The viability of the storefront paid tax preparation industry is intrinsically tied to the EITC, a credit that boosts the value of work for low-wage earners by subsidizing earned income. The EITC is the largest anti-poverty program for working Americans. In the 2013 tax season, the EITC delivered \$65 billion to 27 million households, with an average value of \$2,407 per household and a potential maximum of \$6,143.³

Adding credits and deductions to the tax code increases complexity. Eligibility and benefit determinations are difficult to calculate, and this is particularly true for the EITC. The IRS workbook that presents information about EITC eligibility and benefit determinations exceeds 60 pages. These instructions include details on what types of income qualify for benefit determinations, how one's marital status and number of children affects the benefit amount, and what types of relationships allow someone to claim a qualifying child.⁴ Since the incomes of households receiving the EITC can vary considerably from year to year, moving them in and out of the eligibility range, tax filers must recalculate their earnings annually along with other eligibility criteria.

Predictably, the complexity of this process leads many EITC recipients to enlist the services of paid preparers. In 2013, 60 percent of EITC households (15 million) paid for tax preparation at a cost of approximately \$990 million in fees, not including the costs of additional services and products sold by paid preparers, as described in detail below.⁵ Tax preparation fees can also grow rapidly, and have risen 11 percent over the past two years.⁶ These costs effectively function as a de facto access fee, similar to a fee that a bank may charge to withdraw funds at an ATM, which diverts public resources from families who have earned them.

In addition to tax preparation, commercial preparers offer other products and services, such as Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs), which target low-income consumers and can further deplete the value of their refunds. In 2013, almost half of all EITC filers purchased either a RAL or RAC, including 80 percent of EITC filers using paid preparation.

RALs have been marketed as a mechanism that delivers an expedited refund, an attractive feature to a low-income household that has often mentally expended those resources before they are received. As the name conveys, however, RALs are loans made by a third-party lender (formerly banks) and arranged through a paid preparer in the amount of part or all of their refund. This transaction is costly for clients, amounting to over \$500 million in fees for EITC recipients in 2008, one of the largest years for RAL purchases. And, it produces a minimal benefit. With the advent of e-filing and direct deposit, a tax filer could expect to receive his refund in less than 14 days.

The limited value of this transaction, its relative high cost, and its marketing to lower-income clients led consumer advocates to solicit greater oversight of this product. In the past few years, RALs have sharply declined because of regulatory directives by financial regulators, such as the Office of the Comptroller of Currency (OCC), and the elimination of the debt indicator by the IRS prior to the 2011 filing season, which increased the risk of the loan to banks. The debt indicator had been a free service used by the IRS to flag a return if it was going to be held up from prior year return issues, unpaid child support, or other issues. The Federal Deposit Insurance Corporation (FDIC) barred Republic Bank of Kentucky from offering RALs in December of 2011 as part of a settlement.⁷ The OCC disallowed HSBC Bank, H&R Block's RAL provider, from funding them in 2011.⁸ As a result of these actions, all of

3 Internal Revenue Service, (2014), "Statistics for Tax Returns with EITC."

4 Internal Revenue Service, (2012), "Earned Income Tax Credit Workbook."

5 Author's calculations using data from the Brookings Institution's interactive EITC database.

6 Laura Saunders, (2015), "What Tax Preparers Are Really Charging for 2014 Returns," The Wall Street Journal, January 16, 2015.

7 Robert Barba, (2011), "Republic Bancorp in Kentucky Exiting Tax Refund Lending," American Banker, December 9, 2011.

8 "Government Orders HSBC to Halt RALs for H&R Block," (2010), Accounting Today, December 27, 2010.

the large RAL lending banks have left the market and RALs now are only offered by non-bank lenders at very low scale. In select markets, some private capital is pooled together to sell RALs to cover some portion of the EITC, usually less than \$1,000, though the companies are small and fluctuate in and out of the market. Already in 2015, some storefront preparers advertise “fast money” or “up-front refunds,” which are not the entire tax refund but some portion of it. The loans are usually smaller than \$1,000 and funded by non-bank entities operating under questionable state laws such as functioning as a credit service organization. Others are completely unregulated as a lending entity.⁹

As the presence of RALs has declined, RACs have become the dominant tax filing add-on product offered by the paid tax preparer industry (See Figure 1). RACs offer a means to pay tax preparation fees out of the refund by creating a temporary account for the refund to be deposited into by the IRS and deducting the fees once this transfer has taken place. Due to this feature, it can be particularly attractive to filers without a pre-existing bank account. The cost of purchasing a RAC can also be accompanied by multiple add-on fees, such as e-filing or data processing, and increasingly, many RACs are now provided in the form of a prepaid debit card rather than a paper check, which presents new fee structures and challenges for clients.

While designed for the unbanked, RACs are commonly taken out by clients with bank accounts, suggesting that there are other considerations driving this decision. One possibility is that many tax filers are unable to pay for tax preparation with cash on hand, creating the need to direct a portion of the refund itself toward those costs. In this way, the RAC functions as a short-term loan in the amount of the tax preparation fees. A typical RAC (though not a form of credit) costs at least \$30, which would represent a 414 percent APR on a \$189 preparation fee.¹⁰ Table 1 displays some of the leaders in the RAC market and the corresponding prices.

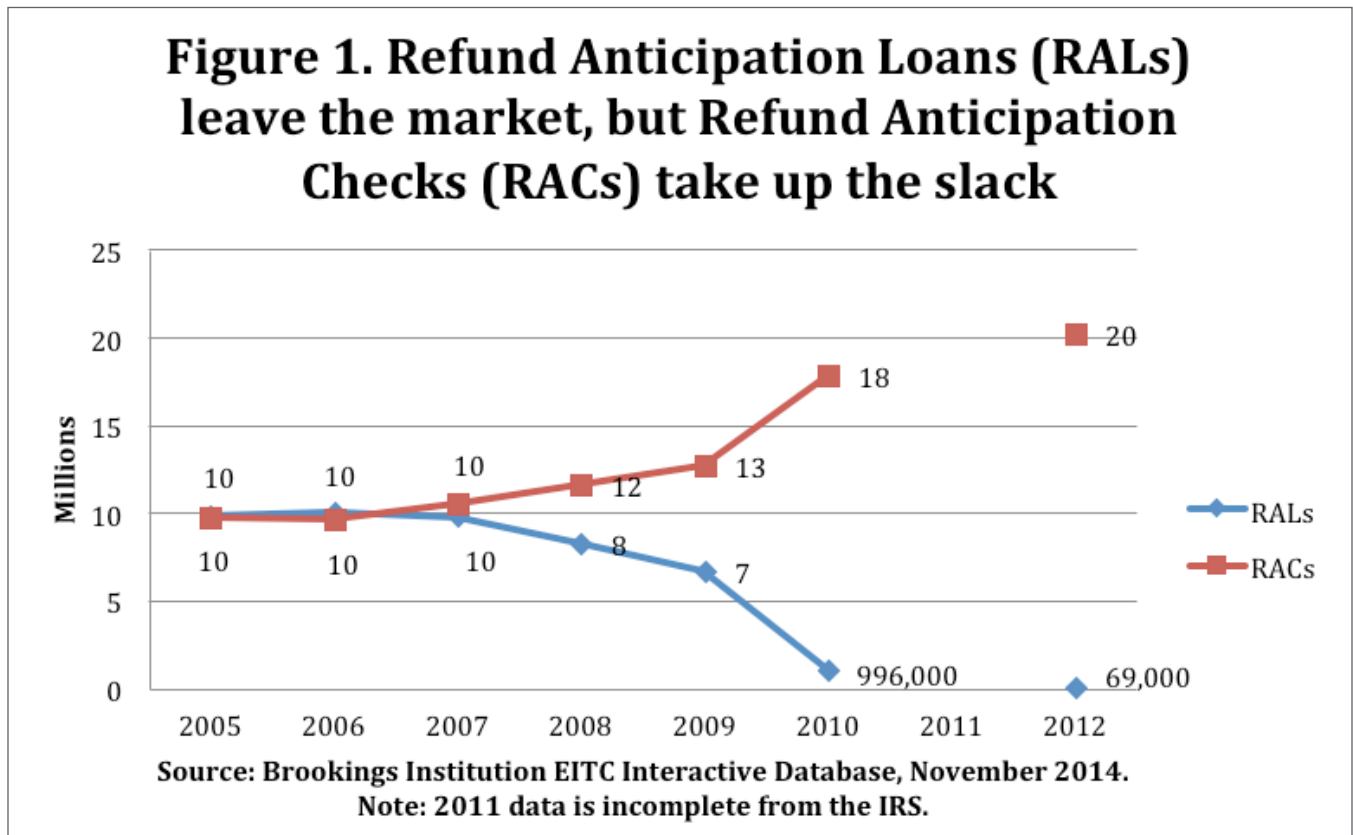
TABLE 1. EXAMPLES OF COSTS ASSOCIATED WITH REFUND ANTICIPATION CHECKS (RACS)		
Provider	Service	Cost
H&R Block	RAC delivered on an Emerald Card or via direct deposit	\$34.95
	RAC delivered via paper check	\$54.95
Jackson Hewitt	RAC	\$32.95
River City Bank	RAC	\$32.95
Republic Bank & Trust	RAC delivered on a prepaid card	\$9.95
	RAC delivered via direct deposit	\$19.95
	RAC delivered by check	\$31.95

The increase in the RAC market with the plummeting RAL market mirrors the outcome of other consumer regulations that lead to similar products popping up. More than 20 million RACs were purchased in tax year 2012, a 60 percent increase from 2 years prior. And, according to IRS data, 84 percent of tax filers who obtained a RAC in 2013 had low incomes, and about 40 percent of EITC recipients obtained a RAC.

9 Chi Chi Wu, (2014), “It’s a Wild World: Consumers at Risk from Tax-Time Financial Products and Unregulated Preparers,” Boston, MA: National Consumer Law Center.

10 Chi Chi Wu and Jean Ann Fox, (2011), “End of the Rapid Rip-Off: An Epilogue for Quickie Tax Loans,” Boston, MA: National Consumer Law Center.

Another reason for the popularity of this product is a perception that it expedites delivery of the tax refund. However, the process for receiving a RAC is the same (if not slower) than if the client were receiving it via direct deposit into his own bank account. There is no value added in receiving a RAC for clients with an existing bank account; however, some preparers continue to market RACs using terms such as “quick cash” or “get cash now.”¹¹ RACs may, in fact, be accidentally purchased by consumers who don’t realize they are not a condition of the preparation but rather a payment method. The statistics show that as RALs have declined, RACs have taken up the slack. We have moved from allowing a predatory practice of a short-term financing of tax refunds to the widespread practice of financing the costs of simply filing taxes. It is worth considering if this is a move in the right direction and what else public policy can do to achieve better outcomes for lower-income tax filers.



EVALUATING PAID TAX PREPARER COSTS

The cost of a RAC, in addition to the basic fee of tax preparation, significantly erodes the value of the tax refund many lower-income families receive. Paying anywhere from \$200 to more than \$500 for tax preparation and a RAC would represent a full 20 percent of the EITC’s value for the average household. These are resources that are being diverted from more productive uses, such as saving, and are of questionable value to the consumers who are paying for them.

Consumers within this market encounter opaque pricing structures that make evaluating the utility of these products and services difficult. Phone calls and store visits yield little data since there are no requirements or standards to post or provide transparent fee structures before engaging tax preparation services. Although some stores provided general pricing or average costs for a typical 1040 form and Schedule EITC of \$200 to \$300, prices for specific clients were only disclosed at the end of the transaction. Using information from former tax preparation clients, free tax sites, attorneys representing tax clients, and visits to paid tax preparers, we have been able to observe a high degree of variation in disclosure and terminology between companies, employees, and locations.

¹¹ Wu and Fox (2011).

The National Taxpayer Advocate (NTA), the IRS office in charge of evaluating the taxpayer experience, continues to emphasize that the lack of regulation, opaque pricing, and add-on products are on the rise and destabilizing to filers. The latest Annual Report from the NTA states:

“The findings also suggest that low income taxpayers are more vulnerable and more likely than the population at large to be taken advantage of by unskilled or unscrupulous tax return preparers. More than 15% of those relying on a preparer said they either did not receive a copy of their return or the preparer did not sign the return. Put differently, for nearly one in six low income taxpayers who used preparers, the preparers did not follow the basic statutory requirements established for commercial tax return preparation.”¹²

Other studies provide an indication of the high price of tax preparation, the drive to sell tax loans, and a lack of transparency.¹³ Mystery shopper testing from consumer groups, advocacy groups, and others have found tax preparation fees as high as \$400 or \$500, as well as numerous examples of preparers giving low-ball estimates on preparation fees or even refusing to provide testers with a quote.¹⁴ Outright fraud, specifically involving EITC filers using paid tax preparation is also common.¹⁵ The U.S. Department of Justice’s lawsuit against Instant Tax Service is the latest example of these types of abuses. The DOJ alleged that “Instant Tax Service’s tax preparation and junk fees typically average more than \$400-\$500, and sometimes run as high as \$1,000 for as little as 15 minutes of tax return preparation.”¹⁶ At the time of the lawsuit, Instant Tax Service was the fourth-largest chain in the country operating in dozens of states with hundreds of store fronts. The complaint found that Instant Tax Service “engaged in a pattern of false and deceptive practices in all facets of its operations – from marketing the franchises to the preparation of returns and the offering of loan products.”¹⁷

These fees are in stark contrast to the costs of utilizing other options for tax filing. Costs of paid tax preparation from a recent survey by tax accountant professionals indicated that \$246 was the average cost for a basic return and state return.¹⁸

Web-based and online computer preparation software are often less, from \$29 to \$59 plus some additional fees for state returns. The majority of states with personal income taxes provide free filing for state returns. These disparities raise the issue as to whether public policy can more effectively promote low-cost avenues for people, especially those with lower incomes, to file their tax returns.

12 National Taxpayer Advocate, (2014), Annual Report to Congress, volume 2, Washington, D.C.: Internal Revenue Service.

13 Wu (2014); Gary Rivlin, (2011), “Secrets of the Tax Prep-Business,” Mother Jones, March/April 2011.

14 Benjamin Marks, Sarah Dewees, and Shawn Spruce, (2012), “More Tax Time Troubles: Mystery Shopper Testing Exposes Refund Anticipation Loans in Reservation Border Towns,” Longmont, CO: First Nations Development Institute; Sara Dewees, (2011), “Tax Time Troubles: Mystery Shopper Testing Exposes Poor Quality Tax Preparation and Refund Anticipation Check Abuses,” Longmont, CO: First Nations Development Institute; Chi Chi Wu et al., (2011), “Tax Time 2011: Mystery Shopper Testing In New York And North Carolina Finds Continuing Problems With Tax Preparers,” Boston, MA: National Consumer Law Center. Chi Chi Wu et al., (2010), “Tax Preparers Out of Compliance: Mystery Shopper Testing Exposes Violations of Refund Anticipation Loan Laws in Arkansas, New York and North Carolina,” Boston, MA: National Consumer Law Center. Chi Chi Wu et al., (2008), “Tax Preparers Take a Bite Out of Refunds: Mystery Shopper Test Exposes Refund Anticipation Loan Abuses in Durham and Philadelphia,” Boston, MA: National Consumer Law Center.

15 “Oakland-Based Tax Preparer Allegedly Bilked Low-Income Customers Out Of Their Earned Income Credit Money,” (2014), CBS San Francisco Bay Area, November 20, 2014.

16 Complaint, United States v. Fesum Ogbazion, Civil No. 3:12-cv-95 (S.D. Ohio. Mar. 28, 2012).

17 Kelly Phillips Erb, (2013), “Fourth Largest Tax Prep Business In The Country Shut Down By Feds,” Forbes, November 10, 2013.

18 “Tax Return Preparation Fee Averages \$261,” (2013), National Society of Accountants.

CURRENT REGULATORY ENVIRONMENT

There has been increased discussion and guidance around the regulation of paid tax preparers. In 2012, the IRS announced a program for registering and testing the estimated 1 million paid tax preparers operating nationwide. Since 2000, there have been calls from consumer advocates, members of Congress, tax professionals, and the IRS for more requirements for paid tax professionals. The IRS has the authority to issue sanctions and fines for fraud and abuse of tax professionals, as in the above-mentioned case of Instant Tax Service. Yet the question of whether the IRS has the authority to regulate or to require credentials of paid tax preparers remains open to interpretation.

The 2012 program called for initial testing, minimum education requirements, a more thorough background check, and continuing education for un-credentialed tax preparers. A recent lawsuit and successful appeal ruling canceled this regulatory structure by indicating the IRS needs legislative authority to register paid tax professionals. The IRS argued that to ensure an adequate system of preparation with fewer errors and fraud with more tracking, a more robust, inclusive system of registration is needed. The Institute for Justice, representing independent and small preparers countered with the argument that legislative approval was needed for this kind of action along with the basis that small—or “mom and pop”—shops would be adversely affected by this program. The Institute and several groups representing small preparers also questioned the costs, effectiveness, and lawfulness of this program.

States and localities possess the authority to pursue increased regulation on their own. Four states passed legislation to regulate paid tax preparer operations: California, Oregon, New York, and Maryland. All four states require a combination of education, registration fees, passing an exam, and continued education. The cities of Chicago and New York are also large municipalities that require registration and rules for paid tax preparers. Those city ordinances require preparers to meet certain education, testing, and continuing-education requirements, and to register with the state. In 2013 and 2014, legislation was introduced in many states intended to protect taxpayers, but lawmakers in many of these states waited to see how the IRS court case would be resolved.

A MORE TRANSPARENT APPROACH

In addition to the concerns about credentials and the process of preparing a tax return, the costs associated with tax preparation are on the rise and often confusing. The market for paid tax preparer storefronts is opaque and the lack of transparency and disclosure is stunning. Very few stores report fees and costs for preparation before the client enters the store or before the return is prepared. This presents a large market failure as clients cannot comparison shop, understand their return and its costs, and decipher how the preparer’s credentials connect to costs. This is to say that simply regulating paid preparers through testing, background checks, and continuing education is a floor and not the ceiling.

Similar to the “Schumer Box” for credit card transparency and the new Consumer Financial Protection Bureau (CFPB) guidance on prepaid debit



cards,¹⁹ there should be a prepared and standardized cost-comparison tool for consumers (see Figure 2). Disclosures are extremely useful tools for ensuring that consumers have access to the information that they need to make financial decisions. The recent changes to credit card statements in the form of the “Schumer Box” have benefited thousands of families, helping them pay off more debt and understand their usage. A similar approach to tax preparation would enable families to comparison shop, learn about refund options, and maximize their tax credits.

FIGURE 2	
PROPOSED TAX PREPARATION FEE BOX	
Service	Cost [examples]
1040 EZ return	—
Basic 1040 return	\$150.00
• Schedule A (itemized deductions)	—
• Schedule B (interest and dividends)	—
• Schedule C-EZ (self-employment)	—
• Schedule C (self-employment)	—
• Schedule EIC (earned income credit)	\$50.00
• Other Schedules (list as needed)	—
State return	\$50.00
Local return	\$25.00
Total preparation fees	\$275.00
Processing fees	
• Document storage and copying	\$25.00
Filing fees	
• Electronic filing and acknowledgement	\$30.00
• Paper filing	—
Additional fees	—
• Tax refund loan	—
• Tax refund check	\$30.00
• Audit protection	\$25.00
• Return review	—
• Tax planning and research	—
• Third party fees from bank or servicer	—
Total fees	\$110.00
Refund options	
• Direct deposit to a bank account	—
• Split refund (Form 8888)	—
• U.S. Savings Bond	—
Total Preparation Cost	\$385.00
<i>Questions? Call xxx-xxx-xxxx</i>	

The key to any disclosure box is to ensure it is displayed before and during the preparation process. Storefronts should be required to display the box at their store and hand them out to clients.

¹⁹ Chris Morran, (2014), “New Prepaid Debit Card Rules Would Add Protections, Curb Overdraft Abuse,” Consumerist, November 13, 2014.

A disclosure box that improves the transparency of the tax filing process in a form that benefits the consumer should integrate the following features:

Standardization. Tax forms and preparation can be complicated for a consumer. In our analysis of typical terms and pricing used, we found a lack of consistency in how tax forms, processes, and refunds are described. For instance, it was unclear whether “document processing” fees were the same as “administrative” fees when comparing across storefronts. There was also no consistency around how tax-related financial products were described. Some stores used the term “refund anticipation loan” while others used terms like “money now” or clauses that did not mention that the money offered was a loan. Other stores did not mention that clients were purchasing RACs but rather included them as default for receiving the tax preparation. In Maryland and Ohio, for instance, document review of consumer complaints through Attorneys General offices found dozens of cases where RACs were purchased unknowingly and were built into the default mechanism for EITC returns.

Transparency and disclosure. We found a lack of transparency and disclosure around the tax preparation process. Clients do not know the pricing and overall cost of their return until it has been prepared. Equally concerning is that many of the returns listed an overall cost but not a breakdown of how the total was calculated. Tax preparation is one of the few consumer services in the United States for which consumers cannot obtain a price for the services before they incur them. Tax preparers assert that they charge by the form, and cannot predict which forms will be generated until they actually finish the tax preparation. Thus, consumers cannot comparison shop or predict how much tax preparation will cost them.

Refund options. Tax preparation clients often have a variety of options to receive tax refunds. The most common are through direct deposit or a government-issued check. However, RACs as discussed above, represent a growing option.

Both the 1040 EZ and standard form allow for direct deposit or a paper check for a tax refund. In 2010, President Obama approved the sale of U.S. Savings Bonds on the 1040 tax form. Bonds have a rich history of being a safe, semi-liquid, and giftable savings product. Recent changes to the tax form allow filers to split their tax refund into four different bank accounts and Savings Bonds. Very few materials at storefront preparers stressed direct deposit and U.S. Savings Bonds as available refund options.

Three broad policy solutions would help the disclosure and transparency aspects of the tax preparation process. It is important for federal and state regulation in this area. While federal regulation from the IRS would set a floor, each state has particular aspects to their economy and tax system that might require additional facets of a paid tax preparer program. Additionally, some states have stronger consumer laws already recorded that could mesh with a paid preparer program. Working with Enrolled Agents and Certified Public Accountants already tested and certified by the IRS would serve consumer advocates well. It remains in the public interest to better regulate paid preparers, especially given that tax refunds begin as dollars from the state and federal governments.

First, requiring a paid tax preparation disclosure box, similar to what the nonprofit financial services group Center for Financial Services Innovation (CFSI) has recommended for prepaid debit cards, would go a long way toward ensuring transparency in pricing.²⁰ Requiring paid preparers to use the disclosure box before tax preparation would allow customers to compare and contrast services with other preparers and online software. It is important that the box serve as a guide and be concise and easy to read.²¹ The box should predict expected costs and help consumers understand how their returns and refunds are structured.

20 See David Newville, (2012), “Thinking Inside the Box: Improving Consumer Outcomes through better Fee Disclosure,” Chicago, IL: Center for Financial Services Innovation.

21 Jeanne M. Hogarth and Ellen A. Merry, (2011), “Designing Disclosures to Inform Consumer Financial Decisionmaking: Lessons Learned from Consumer Testing,” Federal Reserve Bulletin 97.

If the preparer uses an hourly fee instead of charging by schedule, the preparer should disclose “hourly” in the fee column and a row disclosing the hourly fee. This table should be in a prominent location in the preparer’s waiting area and on their website, and should be provided automatically for telephone customers. Currently, it is nearly impossible to request price estimates over the phone. The table could also include a minimum of two sample tax scenarios showing the cost for the average Earned Income Credit tax return as well as another common return (for example, Schedule A and C returns).

The table should also show different refund options and the costs associated with them. If an hourly rate is provided, a good-faith estimate of time for the return should also be completed. This will help clients avoid refund settlement options that are unnecessary for their tax situation.

Second, allowing the IRS to regulate paid tax preparers with licensing and education components will ensure a floor for quality of tax preparation. As the IRS is deemed to lack the authority to institute paid preparer regulations, Congress should pass legislation granting that authority. A recent bill introduced by Senators Ron Wyden (D-OR) and Ben Cardin (D-MD) would overrule the IRS court decision in favor of protecting consumers.²² The role of the CFPB, while undefined, is an important part of this disclosure movement. As an agency, it has not been given guidance on regulations of paid tax preparers. However, the CFPB is given authority through the Dodd-Frank Wall Street Reform Act to promote the EITC and asset building at tax time. Combined with its authority to regulate financial transactions, a strong case can be made that the CFPB has a role to play in paid tax preparer disclosures, specifically around the refund settlement options. When financial products are sold at tax time, particularly loans made to prepaid cards, the CFPB should better regulate those transactions. RACs and RALs are add-ons to paid tax preparation and are included in the purview of the CFPB.

Third, states can play an important role in paid tax preparer disclosure. Maryland, California, New York, and Oregon regulate paid tax preparers but do not require a fee disclosure box. At the city level, Chicago and New York recently passed ordinances granting their consumer affairs divisions the authority to regulate paid tax preparers and requiring price disclosure, warnings about refund settlement products, and estimates of the total cost of preparation. While these cities do not require disclosure boxes, they do require estimates of the total charges.²³ The flyer advertising rights for taxpayers include explicit warnings such as “You have the right NOT to utilize an alternative settlement product (for example, refund anticipation loan or refund anticipation check).”

²² “Wyden, Cardin Introduce Legislation to Help Protect Consumers from Fraudulent Tax Preparers,” (2015), United States Senate Committee on Finance press release, January 09, 2015.

²³ See, ex., “Consumer Bill of Rights Regarding Tax Preparation Services,” (n.d.), City of Chicago, IL.

CONCLUSION

Tax preparation fees are opaque, unpredictable and often an avenue for outright fraud. They also function as a de facto tax on earned public supports, undermining the effectiveness of public policy and harming the financial stability of vulnerable American families. The policy steps outlined above are critical to ensuring that customers receive quality tax preparation and unfettered access to the tax credits, deductions, and public supports they are entitled to. Disclosure establishes a strong floor for paid tax preparation. But disclosure by itself is insufficient: The overall process would benefit from registration of paid tax preparers, continued education for preparers, and better refund options. Engaging the CFPB and the Department of the Treasury would provide not only more oversight but also more options for tax preparation, EITC awareness, and opportunities to encourage consumers to open bank accounts at tax time. Federal standards would limit fraud, increase transparency in the marketplace and help to build greater financial security for striving American families. Important roles remain for State and Local actors now and in the future, as the financial health of working families is deeply connected to the economic well-being of the regions in which they live.

