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Consumer and Community Groups Seek State Solutions for Tax-Preparer Mistakes and Fraud After Federal Standards Struck Down in 2014

WASHINGTON D.C.—As millions of consumers turn to paid tax preparers to help complete what, for many taxpayers, is their largest financial transaction of the year, a coalition of consumer and community organizations and advocates is calling on federal and state policymakers to ensure that taxpayers are protected from fraud or incorrectly prepared returns. However, a recent lawsuit has blocked the ability of the Internal Revenue Service to institute minimum licensing and training requirements, shifting the responsibility to protect consumers to state legislatures.

A report, released today entitled *Protecting Consumers at Tax Time: Federal and State Efforts to Address Common Problems Associated with Paid Tax Preparation*, details the challenge consumers face when trying to pick a paid tax provider and the key components of a successful state reform effort.

“Transparency of pricing, minimum training and competency standards, regulation of credit products and a prohibition on junk fees represent the key components of meaningful reform,” said Michael Best, Policy Advocate at Consumer Federation of America.

The report is available here: <http://bit.ly/1Dhtewn>

The prevalence of incorrect returns from paid tax preparers

More than half of all federal tax returns are completed by a paid preparer, and nearly 60 percent of low-income taxpayers claiming the Earned Income Tax Credit use paid preparers. However, multiple rounds of mystery shopper tests of tax preparers found instances of incompetence and even fraud, with 24 percent of the returns in a 2008 test and 44 percent of returns in a 2011 test presenting problems. In 2014, the Government Accountability Office sent undercover investigators to 19 randomly selected tax preparer offices. Only two of the 19, or 11 percent, of the returns had the correct refund amount. The mistakes ranged from giving taxpayers \$52 less to \$3,718 more than they were entitled to.

“Taxpayers with incorrectly prepared returns face harsh penalties and may even lose the ability to claim the Earned Income Tax Credit for up to ten years,” according to Chi Chi Wu, National Consumer Law Center staff attorney.

“This tax season in particular is gearing up to be the most complicated in decades. With the implementation of the Affordable Care Act and new tax filing requirements for those who either did not have insurance or gained coverage through healthcare.gov, it is essential that all consumers receive accurate information on how this will impact their refunds. We will likely see more predatory and uninformed preparers than usual provide incorrect information this tax season as a result.” said Elise Blasingame, Director of Community Education for the consumer advocacy organization, Georgia Watch.

Federal and state standards are necessary to protect consumers

Previous federal efforts to improve the oversight of paid tax preparers have been unsuccessful. In February 2014, the DC Court of Appeals held that the Internal Revenue Service (IRS) lacks the authority to regulate tax return preparers. In response, the IRS implemented a voluntary standard which includes that preparers will receive a Record of Completion in a searchable database after completing continuing education requirements with a comprehension test component administered by third parties.

“A voluntary federal standard is an important first step, but states need to take up this issue and ensure that taxpayers, particularly low-wealth taxpayers are protected from fraud and return errors that can result in considerable fines and other penalties,” said Alice Vickers, Director of the Florida Alliance for Consumer Protection.

“The Maryland law protects taxpayers and tax preparers who are doing the right thing, but the lack of clarity or consistency in the IRS’ role creates a loophole for bad actors to flourish,” said Robin McKinney, Director of the Maryland CASH (Creating Assets, Savings & Hope) Campaign. “Federal and state laws should work in tandem for maximum quality, transparency, and accountability for taxpayers.”

Recognition at state level of need for consumer protections

Four states, California, Maryland, New York and Oregon, have enacted laws to regulate the practice of tax preparation. Recent proposals include, in Ohio, a standardized disclosure box that would list the cost of services for particular tax forms and any fees, and a bill in Colorado, narrowly defeated in 2014, would have required paid tax preparers to provide consumer disclosures about qualifications, fees, year-round contact information, and the preparer's obligation to sign any returns they prepare.

"The lack of any real regulations or requirements for paid tax preparers is astounding when you think about it. Consumers are bombarded by false or misleading advertising claims, taxpayers have little or no protection from unscrupulous actors and inaccurate or fraudulent filings increase government costs. For the sake of everyone involved – the millions of hardworking taxpayers, thousands of competent and honest tax professionals, and taxing agencies – we need to pass reasonable reforms and protections in the tax preparation industry," said Ross H. Yednock, program director for the Michigan Economic Impact Coalition.

"In Colorado, we had broad support for a state solution to tax preparer error and fraud. We recognized this issue as a critical consumer protection measure and we are encouraged to see other groups from across the country also working on policy changes regarding tax preparation," stated Ali Mickelson, Director of Tax and Legislative Policy at the Colorado Fiscal Institute. "As we say in Colorado, you wouldn't give your social security number to the hot dog vendor or your bank statements to your hairdresser; yet these professions are more regulated than tax preparers," noted Ali Mickelson.

According to George Awuor, Policy Analyst at The Bell Policy Center, "while working on the legislation in Colorado, there was recognition that errors, incompetence and in some cases fraud during the tax preparation, denied many citizens the chance to claim and receive the EITC. To ensure that the EITC reaches those who qualify, EITC groups became important coalition members in support of the regulation of tax preparers in Colorado."

"One critical move that state and federal policymakers can make is to enact a disclosure box policy that allows consumers to compare and contrast fees and services," said David Rothstein. A white paper on the disclosure box concept is being released Friday by the Asset Building program at the New America Foundation.

To supplement the voluntary IRS program and make sure that taxpayers, especially low-income taxpayers, receive the funds they are entitled to, state legislatures need to enact much-needed consumer protections. The report, *Protecting Consumers at Tax Time: Federal and State Efforts to Address Common Problems Associated with Paid Tax Preparation*, will help policymakers do that by framing the problem and pointing legislatures to solutions and resources, such as the [model state tax preparer law](#) developed by the National Consumer Law Center.

"The Model Law is based on the strongest elements of the existing state laws and the IRS program," explained Chi Chi Wu of NCLC, "We urge the 46 states that do not regulate tax preparers to join the four that do."

The Consumer Federation of America is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy and education.
www.consumerfed.org

*The **Bell Policy Center** is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to making Colorado a state of opportunity for all. With expert policy research and analysis, we advocate for policies that help children grow up strong, young people prepare for good jobs and working families save for the future. www.bellpolicy.org*

***Colorado Fiscal Institute** is a nonprofit, nonpartisan organization that provides credible, independent and accessible analyses of fiscal and economic issues facing Colorado in order to inform policy debates and foster greater economic prosperity for all. www.coloradofiscal.org*

***Florida Alliance for Consumer Protection** is a nonprofit, nonpartisan enterprise whose mission is to advance consumer protection and tenants rights through research, education and advocacy. www.flacp.org*

*Founded in 2002, **Georgia Watch** is a statewide consumer advocacy organization working to empower and protect Georgia consumers on matters that impact their wallets and quality of life. Through education, advocacy and policy development, Georgia Watch focuses on safeguarding consumer protections in personal finance, as well as ensuring lower utility bills, cleaner energy, access to quality, affordable healthcare, protecting the right to trial by jury and promoting access to the courts. www.georgiawatch.org*

*The **Maryland CASH (Creating Assets, Savings & Hope) Campaign**[™] is a statewide network of organizations that promotes programs, products and policies to increase the financial security of low-to-moderate income individuals and families across Maryland, advocating on their behalf, as well as providing financial education programs such as the Maryland CASH Academy. www.mdcash.org*

*The **Michigan Economic Impact Coalition** unites individuals, organizations and local initiatives committed to supporting tax credit and asset building opportunities for Michigan families through improved access to free, quality, income tax preparation assistance. www.meic.cedam.info/*

*Since 1969, the nonprofit **National Consumer Law Center**[®] (NCLC[®]) has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. www.nclc.org*

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