



Consumer Federation of America



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“Mystery Shopper” Tests Show Problem with over 90 Percent of Tax Returns Filed by Paid Preparers

Tests latest in a series showing a need for better regulation of paid preparers

WASHINGTON, D.C. (April 15, 2015)—As the deadline for filing 2014 taxes looms, and consumers turn to paid tax preparers, a coalition of consumer and community organizations and advocates is calling attention to a recent report, [Prepared in Error: Mystery Shoppers in Florida and North Carolina Uncover Serious Tax Preparer Problems](#), which details problems found with 27 of 29, or 93 percent, of “mystery shopper” tests.

The report, released by National Consumer Law Center (NCLC), Florida Alliance for Consumer Protection (FLACP), and Reinvestment Partners, analyzes 29 “mystery shopper” tests conducted by FLACP and Reinvestment Partners in Florida and North Carolina respectively.

In one testing scenario, which included a hypothetical single parent, 8 of the 15 preparers, or 53 percent, had the tester claim a minor child incorrectly, and 12 of the 15 preparers, or 80 percent,

did not report the \$800 in side income the scenario presented. In another scenario, where the tester was a hypothetical graduate student, 10 out of 14, or 71 percent, of preparers did not correctly use the schedule to report income from a paid internship. Of the four preparers in the graduate-student scenario that did use the correct schedule, three of those preparers took “questionable” deductions.

“This report shows that in absence of any regulation or enforceable uniform standard for paid preparers to follow, a consumer will never truly be able to know what they are getting when they go to have their taxes prepared,” said Ross Yednock, program director of the Michigan Economic Impact Coalition. “As a result, disreputable tax preparers tarnish the industry as a whole, consumers are vulnerable to fraud and abuse and taxpayers are ultimately left to pick up the tab when fraud and mistakes cost federal and state treasuries revenue.”

“Our testing uncovered a very high level of errors, which was extremely disturbing,” stated Chi Chi Wu, staff attorney at the National Consumer Law Center. “A tax return may be the most important financial document for an American consumer during the year, and consumers who use paid preparers are placing their financial well-being in the preparers’ hands.”

“Taxpayers with incorrectly prepared returns can face harsh penalties,” according to Alice Vickers, executive director of the Florida Alliance for Consumer Protection. “This report shows the urgent need for states to take the lead in establishing minimum standards for preparers.”

Elise Blasingame, director of community education for the consumer advocacy organization Georgia Watch, noted that “though the report highlights error and abuse in Florida and North Carolina, we hear of the same issues in Georgia from our consumers and community partners every day. Consumers should feel confident that tax preparers in their state have a standard level of competency and professionalism that is painfully absent in states without preparer regulation. We are infinitely grateful to the advocacy groups who are highlighting this important issue.”

George Awuor, policy analyst at the Bell Policy Center in Colorado, also underlined that the problem with paid preparers is not limited to the states where mystery shopper tests were most recently conducted. “The 2015 tax season is coming to an end, and Colorado taxpayers have once again had to depend on unregulated tax preparers. The lack of minimum standards for tax preparers’ education, training or competency results in fraud and abuse, as confirmed by the recent NCLC report. This is unacceptable — for consumers and for the U.S. Treasury. We at the Bell believe that regulation of tax preparers is an urgent need.”

“Minimum standards for tax preparers are needed to build trust that tax filings are honest and accurate,” said Peter Skillern, executive director at Reinvestment Partners.

Michael Best, policy advocate at Consumer Federation of America, echoes the concerns of coalition members. “This is the latest in a long line of research which shows the need for reform at the state and federal level.”

Beyond problems with the prepared returns themselves, the report also noted that the cost of preparation varied widely from \$37 to \$427 for the single-mother scenario and from \$50 to \$341 for the graduate-student scenario.

According to David Rothstein, director of resource development and public affairs at Neighborhood Housing Services of Greater Cleveland, and coauthor of a recent white paper, [*Improving the Tax preparation Experience*](#), which recommends that preparers be required to disclose their fees in a “Schumer Box,” “this report shows the growing lack of transparency and disclosure in paid tax preparation. A disclosure box is critical for families to understand what they are paying for. Otherwise, families will continue to pay high fees for preparation and finance those through additionally costly products – which squashes the impact of important tax credits like the Earned Income Tax Credit.”

Also, for some taxpayers (those making \$53,000 or less, with disabilities, the elderly, taxpayers with limited English and taxpayers 60 years or older) another option besides unregulated tax preparers are free tax preparation services offered by IRS-certified volunteers.

“The problems raised in this report are exactly why the 96,000 IRS trained volunteer tax preparers in the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs are essential. Increasing funding to these volunteer programs is a great way to provide American taxpayers with much-needed high quality assistance” noted J.C. Craig, director of the Taxpayer Opportunity Network.

*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*

*As a leading source for research and ideas about household financial security and policy solutions, **CFED** understands what families need to succeed. We provide policymakers with research and ideas; we offer data, training and technical assistance to hundreds of nonprofits across the country; and we invest in social enterprises that create pathways to financial security and opportunity for millions of people. Established in 1979 as the Corporation for Enterprise Development, CFED works nationally and internationally through its offices in Washington, DC; Durham, North Carolina; and San Francisco, California. www.cfed.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 **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

NHS of Greater Cleveland is a 40 year old housing and financial counseling group - providing programs and services to help families achieve, preserve, and sustain the American dream of homeownership.

www.nhscleveland.org

Reinvestment Partners' mission is to advocate for economic justice and opportunity. The agency is active in housing counseling and community development, and is a Volunteer Income Tax Assistance site that provides job development training and employment to workers providing free tax preparation service.

www.reinvestmentpartners.org