



Consumer Federation of America

Public Views on Paid Tax Preparation:

**Strong Public Support for New Consumer Protections
to Prevent Errors and Fraud**

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Introduction and key findings

Recent mystery shopper tests have established that tax return errors are a serious problem. In 2014, the U.S. Government Accountability Office (GAO) 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.ⁱ Whether consumers receive more or less than they are entitled to, incorrect refunds harm consumers by returning less money than they are owed or exposing them to possible fines. Several advocacy groups have conducted multiple rounds of mystery shopper tests of tax preparers and reached similar conclusions.ⁱⁱ

To improve the oversight and competency of paid tax preparers, California, Maryland, New York, and Oregon have enacted state level consumer protections. In addition to the four states that have enacted state paid tax preparer reforms, the licensing of paid tax preparers, regular testing of tax preparer professionals and up-front fee disclosure have been proposed and considered at the state and federal level. To better understand the public's support for these policies, the Consumer Federation of America (CFA) contracted with ORC International to conduct a poll of 1,011 adults living in the continental United States. Of the 1,011 interviews, 511 were from the landline sample and 500 from the cell phone sample. The margin of error for the sample of 1,011 is +/- 3.08 percent at the 95 percent confidence level.

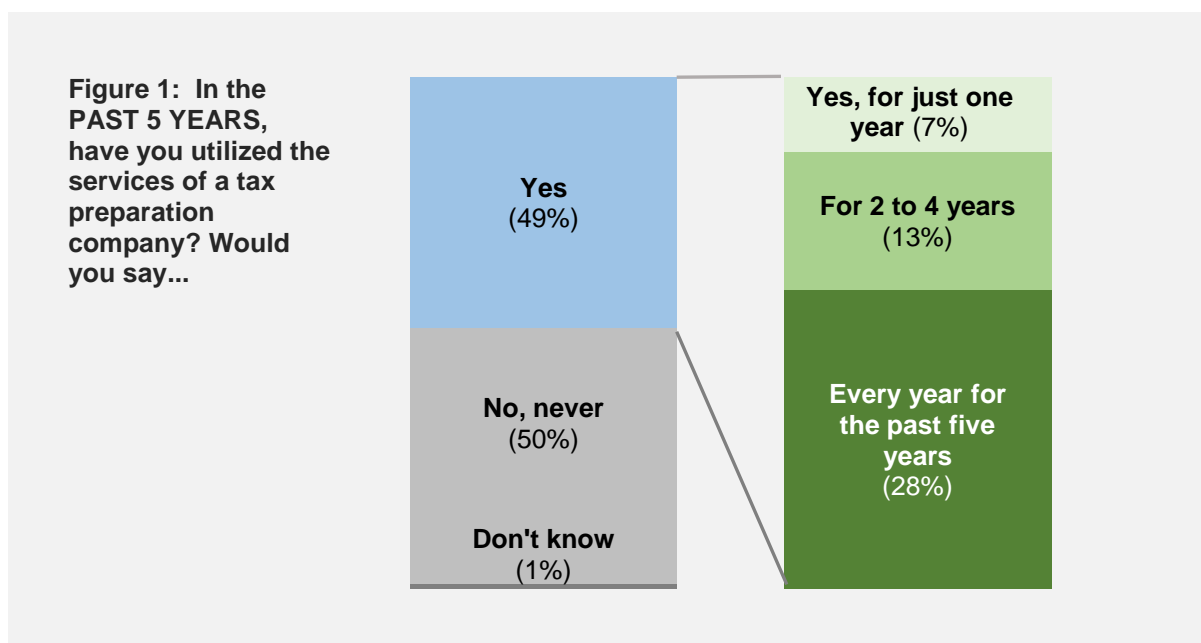
The findings from this poll are summarized below:

- 1. *Half of the public uses paid tax preparers from time to time and nearly a third uses them frequently.*** Forty-nine percent of those surveyed used a tax preparation company in the past five years and the GAO estimates that approximately 56 percent of 145 million individual tax returns (81 million) were completed by a paid preparer in 2011.ⁱⁱⁱ
- 2. *80 percent of the public supports requiring paid tax preparers to pass a test*** administered by government that would ensure that paid preparers have the knowledge and training to complete taxpayer returns correctly.
- 3. *83 percent of the public supports paid tax preparer licensing*** requirements for paid preparers by a state agency that would also accept and resolve complaints, and enforce consumer protections.
- 4. *89 percent of respondents support requiring paid preparers to supply an upfront list of fees*** as tax preparation is a rare industry where prices are often not given up front before the work is done.^{iv}
- 5. *56 percent believe paid preparers should have special training but don't need a degree*** and 31 percent of the public believes that paid tax preparers should have a college degree in accounting.

Frequency of use

Half of the public uses paid tax preparers from time to time and nearly a third uses them frequently

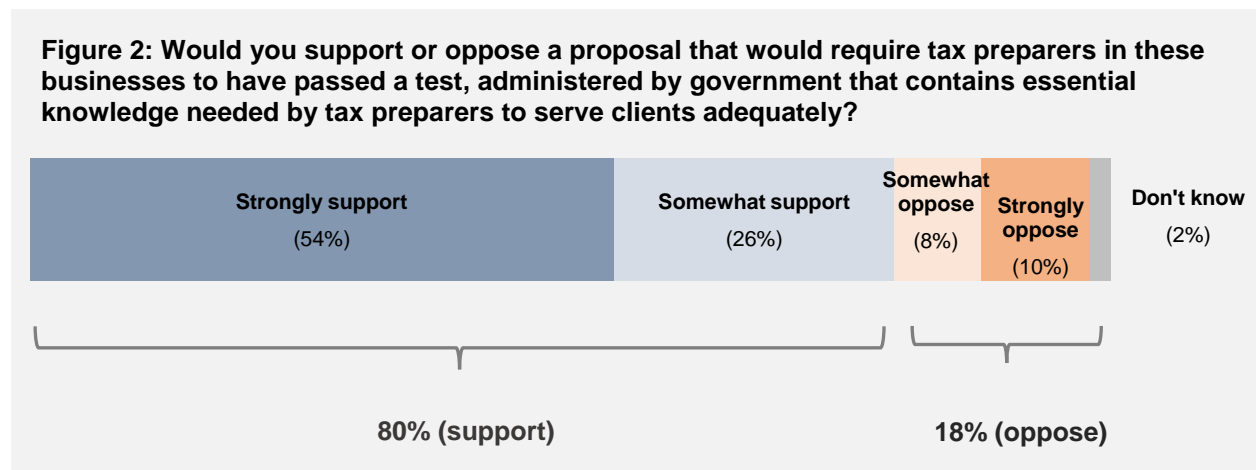
Forty-nine percent of those surveyed used a tax preparation company in the past five years (Figure 1) and the GAO estimates that approximately 56 percent of 145 million individual tax returns (81 million) in 2011 were completed by paid preparers.^v The GAO also found that paid preparers were used more often for more complex tax returns and, in 2011, prepared 59 percent of returns claiming the Earned Income Tax Credit.^{vi}



Minimum competency standards

80 percent of the public supports requiring paid tax preparers to pass a competency test

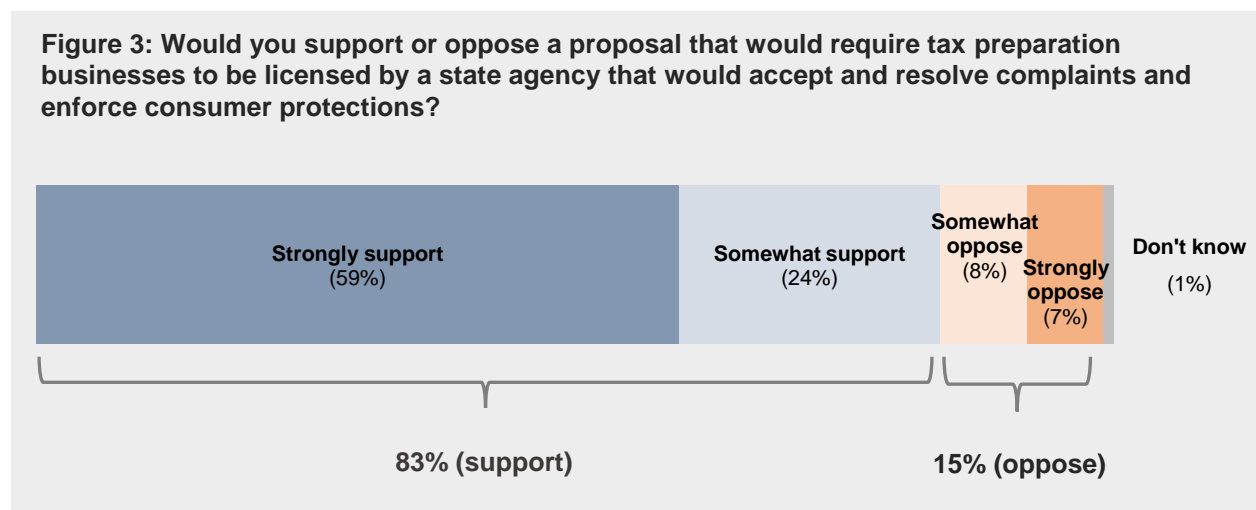
A large majority, 80 percent, of respondents support a requirement that paid preparers pass a test administered by government that would ensure that paid preparers have the knowledge and training to complete taxpayer returns correctly (Figure 2).



Licensing and oversight of paid tax preparers

83 percent of the public supports paid tax preparer licensing

The public strongly supports licensing requirements for paid preparers by a state agency that would also accept and resolve complaints, and enforce consumer protections. Eighty-three percent of respondents supported licensing requirements, with 59 percent strongly supporting licensing requirements (Figure 3).



Transparency in tax preparation pricing

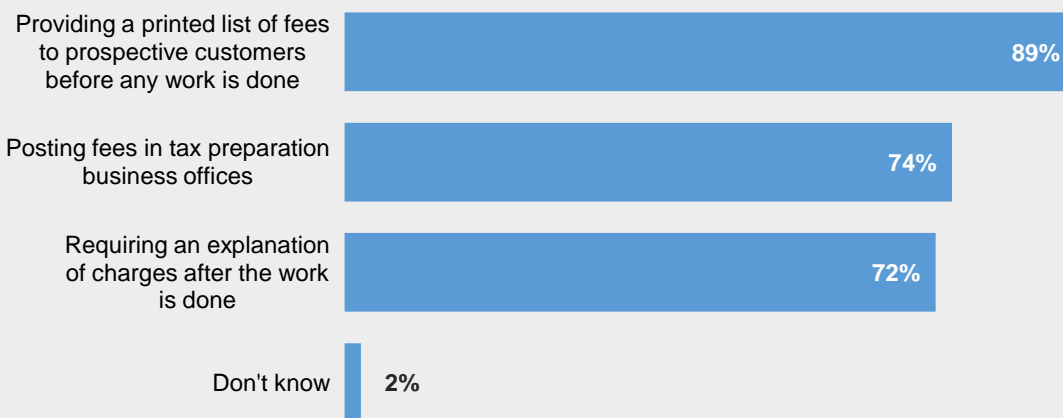
The public strongly supports clear disclosure of fees, with 9 out of 10 respondents supporting an upfront list of fees before work is done

The public strongly supports improved disclosure, with 89 percent supporting a requirement that paid preparers provide a printed list of fees before any work is done (Figure 4).

The price of preparing a tax return is often only disclosed to a consumer after the return is completed. Mystery shopper tests by consumer groups have found fees as high as \$500 as well as unrealistically low estimates for the total cost of preparation or preparers refusing to give an estimate at all.^{vii}

Model fee disclosures have been proposed by both the New America Foundation and the National Consumer Law Center.^{viii} The four states that currently regulate paid preparers do not require fee disclosure and disclosure requirements were not included in the now-invalidated IRS regulation of paid preparers.^{ix}

Figure 4: In which of the following ways would you support a requirement that tax preparation businesses clearly disclose their fees? Would you say...

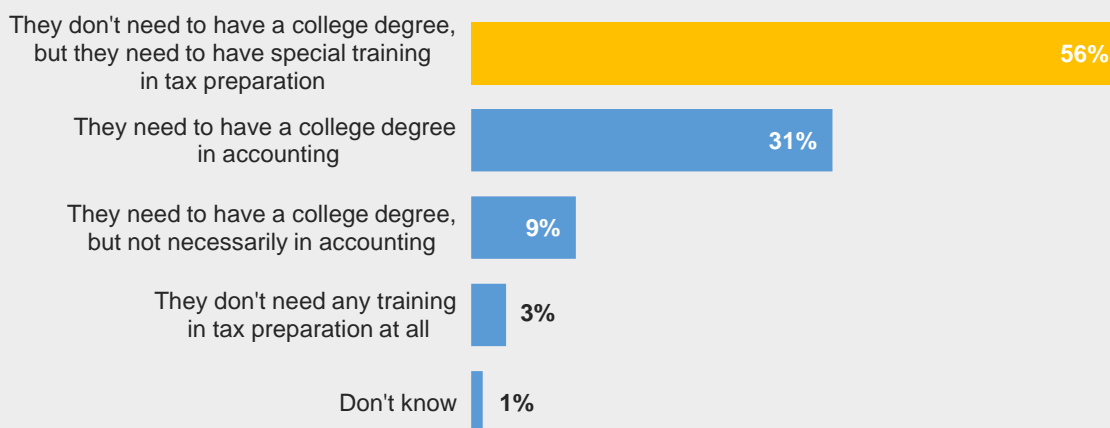


Tax preparer training

The majority of the public believes paid preparers should have special training but don't need a degree

Fifty-six percent of respondents felt that paid preparers should have special training in tax preparation. While the majority of the public feels that paid preparers don't need a degree but do need special training, 40 percent of the public thinks paid preparers should have a degree, with 31 percent believing that paid tax preparers should have a degree in accounting.

Figure 5: In your opinion, what level of qualifications should tax preparers have to help ensure they provide competent service? Would you say...



Endnotes

ⁱ Paid Tax Return Preparers, Statement of James R. McTigue, GAO, April 8, 2014.

ⁱ [http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20\(McTigue\).pdf](http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20(McTigue).pdf)

ⁱⁱ See Chi Chi Wu, Prepared in Error Mystery Shoppers in Florida and North Carolina Uncover Serious Tax Preparer Problems, national Consumer Law Center, April 2015. <http://www.nclc.org/images/pdf/pr-reports/report-prepared-in-error.pdf>

ⁱⁱⁱ Statement of James R. McTigue, Paid Tax Return Preparers, GAO, April 8, 2014.

[http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20\(McTigue\).pdf](http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20(McTigue).pdf)

^{iv} Chi Chi Wu, Prepared in Error Mystery Shoppers in Florida and North Carolina Uncover Serious Tax Preparer Problems, national Consumer Law Center, Pg. 2, April 2015. <http://www.nclc.org/images/pdf/pr-reports/report-prepared-in-error.pdf>

^v Statement of James R. McTigue, Paid Tax Return Preparers, GAO, April 8, 2014.

[http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20\(McTigue\).pdf](http://www.finance.senate.gov/imo/media/doc/GAO%20Testimony%20(McTigue).pdf)

^{vi} Id.

^{vii} David Rothstein, Improving Tax Preparations with a Model Fee Disclosure Box, Policy Matters Ohio, June 2013. http://www.policymattersohio.org/wp-content/uploads/2013/06/FeeDisclosure_Jun2013.pdf Citing Benjamin Marks, et al., First Nations Development Institute, More Tax Time Troubles: Mystery Shopper Testing Exposes Refund Anticipation Loans in Reservation Border Towns, 2012: <http://1.usa.gov/17Cwd7b>. Sara Dewees, First Nations Development Institute, Tax Time Troubles: Mystery Shopper Testing Exposes Poor Quality Tax Preparation and Refund Anticipation Check Abuses, Apr. 15, 2011, available at <http://1.usa.gov/19tTUz8>. Chi Chi Wu, et al., NCLC, NEDAP, Community Reinvestment Association of NC, Tax Time 2011: Mystery Shopper Testing In New York And North Carolina Finds Continuing Problems With Tax Preparers (Apr. 2011), available at <http://bit.ly/mfCJpv>. Chi Chi Wu, et al., National Consumer Law Center, Arkansans Against Abusive Payday Lending, NEDAP, Community Reinvestment Association of NC, Tax Preparers Out of Compliance: Mystery Shopper Testing Exposes Violations of Refund Anticipation Loan Laws in Arkansas, New York and North Carolina (Apr. 2010), available at <http://bit.ly/12pOuvC>. Chi Chi Wu, et al., NCLC, Community Reinvestment Association of NC, Community Legal Services of Philadelphia, Tax Preparers Take a Bite Out of Refunds: Mystery Shopper Test Exposes Refund Anticipation Loan Abuses in Durham and Philadelphia (Apr. 2008), available at <http://bit.ly/10lfVtV>

^{viii} See David Rothstein and Rachel Black, Improving the Tax Preparation Experience, New America Foundation, January 2015. <https://www.newamerica.org/downloads/PaidTaxPrep-Report-FINAL.pdf> and Chi Chi Wu, Model Individual Tax Preparer Regulation Act, National Consumer Law Center, Revised November 2013. http://www.nclc.org/images/pdf/high_cost_small_loans/model-individual-tax-preparer-reg-act.pdf

^{ix} See Michael Best, Tom Feltner, Protecting Consumers at Tax Time: Federal and State Efforts to Address Common Problems Associated with Paid Tax Preparation, January 2105.

http://www.consumerfed.org/pdfs/150129_protectingconsumersattaxtime_cfa_Report.pdf?utm_source=Tax%20Report&utm_medium=Website%20Link&utm_campaign=Website%20Link Discussing the now invalidated IRS requirements at Pg. 7 and listing the state requirements in Figure 3, Pg. 10.