



Consumer Federation of America

Public Views on Paid Tax Preparation 2017:

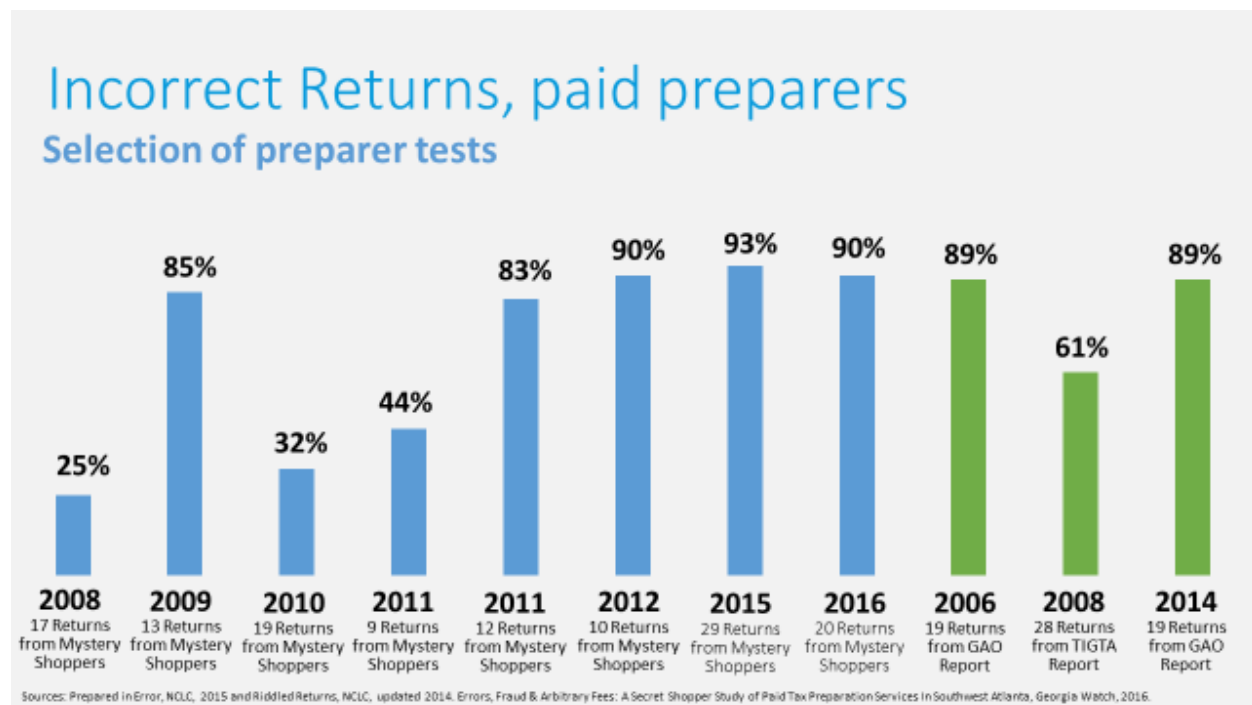
**Strong Public Support Continues for New Consumer
Protections to Prevent Errors and Fraud**

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Introduction and key findings

Multiple rounds of 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 Incorrect refunds harm consumers by returning less money than they are owed or exposing them to possible fines if they receive more than they are entitled to. Several advocacy groups have conducted multiple rounds of mystery shopper tests of tax preparers and reached similar conclusions.ⁱⁱ



Green bars in graph indicate government reports

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 polls in 2015 and 2017. The 2017 poll was of 1,012 adults living in the continental United States. Of the 1,012 interviews, 511 were from the landline sample and 501 from the cell phone sample. The margin of error for the survey is plus or minus three percentage points.

The findings of the 2017 poll are consistent with our [2015 poll results](#) and clearly show strong public support for the licensure of paid tax preparers and consumer protections to prevent errors and fraud.

CFA added a new question to this year's poll. The answer to this question indicates that most people believe that their state government or the federal government already requires that paid tax preparers be licensed despite that fact that only 4 states have mandatory standards for paid tax preparers.

The findings from the 2017 poll are summarized below:

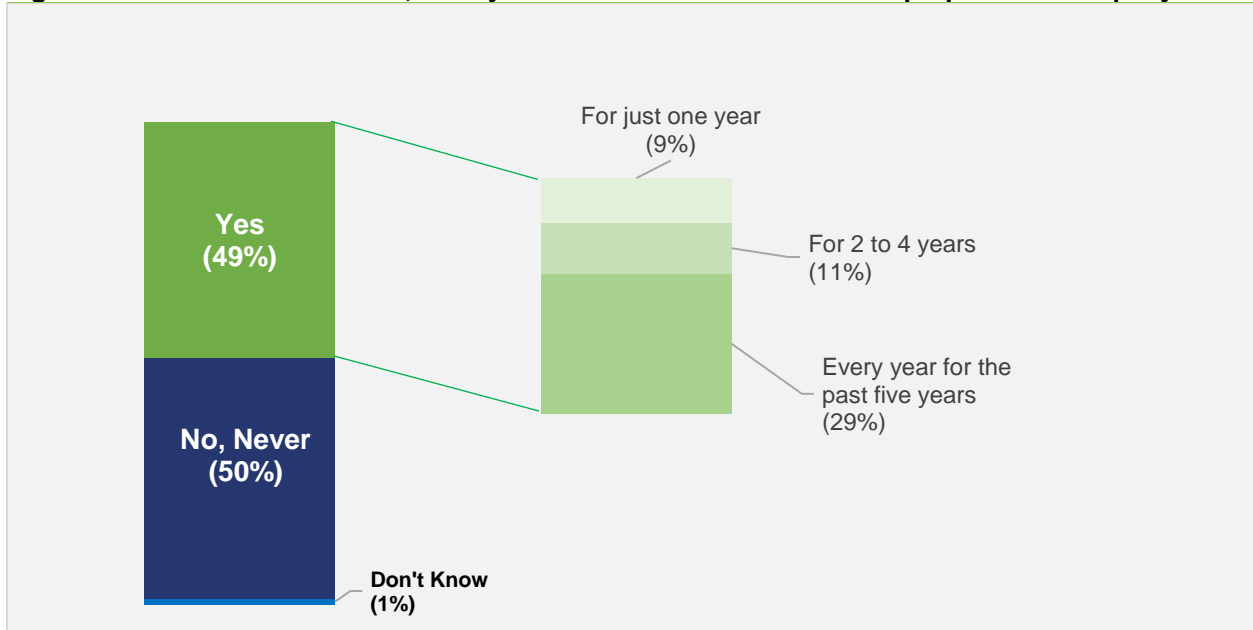
- 1. *Half of the public uses paid tax preparers from time to time and nearly a third uses them frequently.*** Forty-nine percent of those surveyed used a tax preparation company in the past five years, which is consistent with the GAO estimate that approximately 56 percent of individual tax returns were completed by a paid preparer in 2011.ⁱⁱⁱ
- 2. *68 percent of respondents believe that either state and/or federal government requires licensing for paid preparers*** while only 20% believed that neither require licensing. In fact only four states have mandatory standards for unenrolled paid preparers.
- 3. *86 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.
- 4. *88 percent of the public supports licensing*** requirements for paid tax preparers by a state agency that would also accept and resolve complaints, and enforce consumer protections.
- 5. *88 percent of respondents support requiring paid preparers to supply an upfront list of fees.*** Tax preparation is a rare industry where prices are often not given up front before the work is completed.^{iv}
- 6. *59 percent believe paid preparers should have special training but don't need a degree*** and 31 percent of the public believe 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}

Figure 1: In the PAST 5 YEARS, have you utilized the services of a tax preparation company?



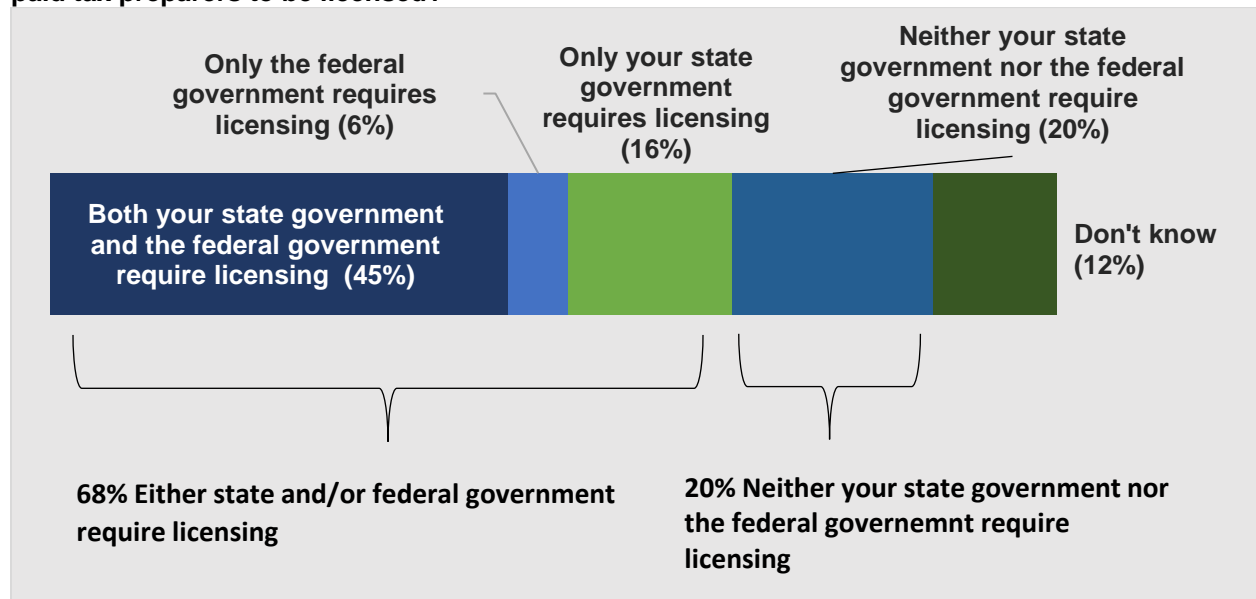
Most consumers believe that the government already requires paid tax preparers to be licensed

68 percent of respondents believe that either state and/or federal government requires licensing

Most respondents, 68 percent, believe that either their state government and/or the federal government already requires paid tax preparers to be licensed. Twenty percent believe that neither require licensure, and 12 percent didn't know. Forty-five percent of respondents believe that both the federal government and their state government require licensing (Figure 2). In reality, only 4 states, California, Maryland, New York, and Oregon have enacted mandatory standards for paid tax preparers who are not already credentialed as enrolled agents, attorneys, or Certified Public Accountants.

The IRS previously required all paid tax preparers to pass a competency exam and complete annual continuing education requirements but in a February 2014 decision, the DC Court of Appeals upheld the DC District Court's decision that the IRS lacks the authority to regulate tax return preparers.^{vii}

Figure 2: Do you believe that either your state government and/or the federal government require paid tax preparers to be licensed?

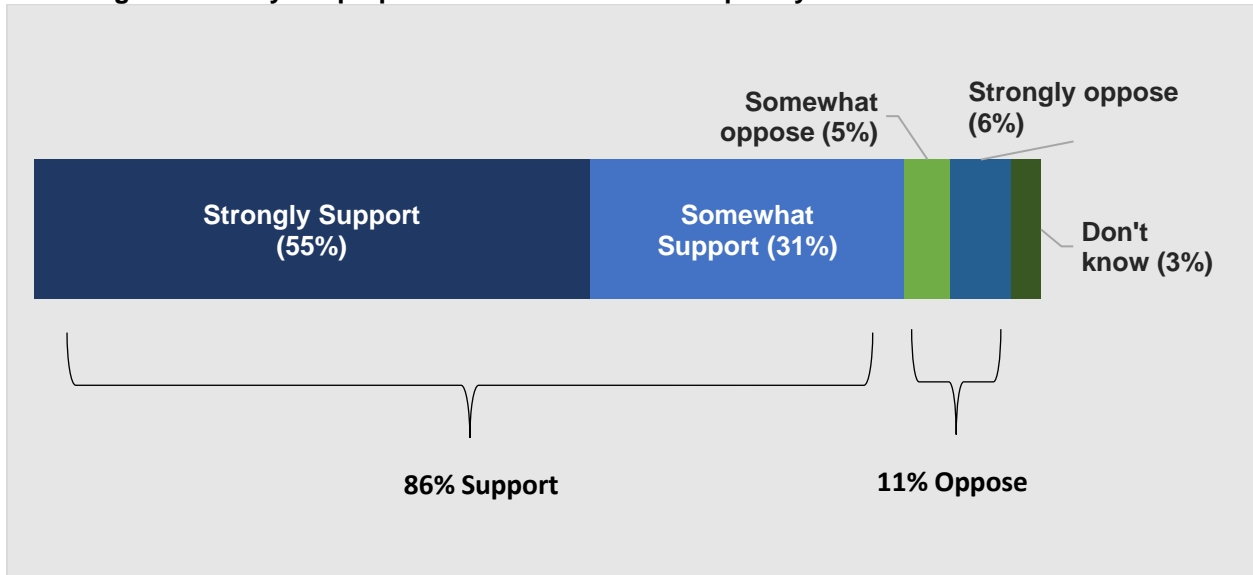


Minimum competency standards

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

A large majority, 86 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 3).

Figure 3: Would you support or oppose a proposal that would require tax preparers in these businesses to have passed a test, administered by government, that contains essential knowledge needed by tax preparers to serve clients adequately?

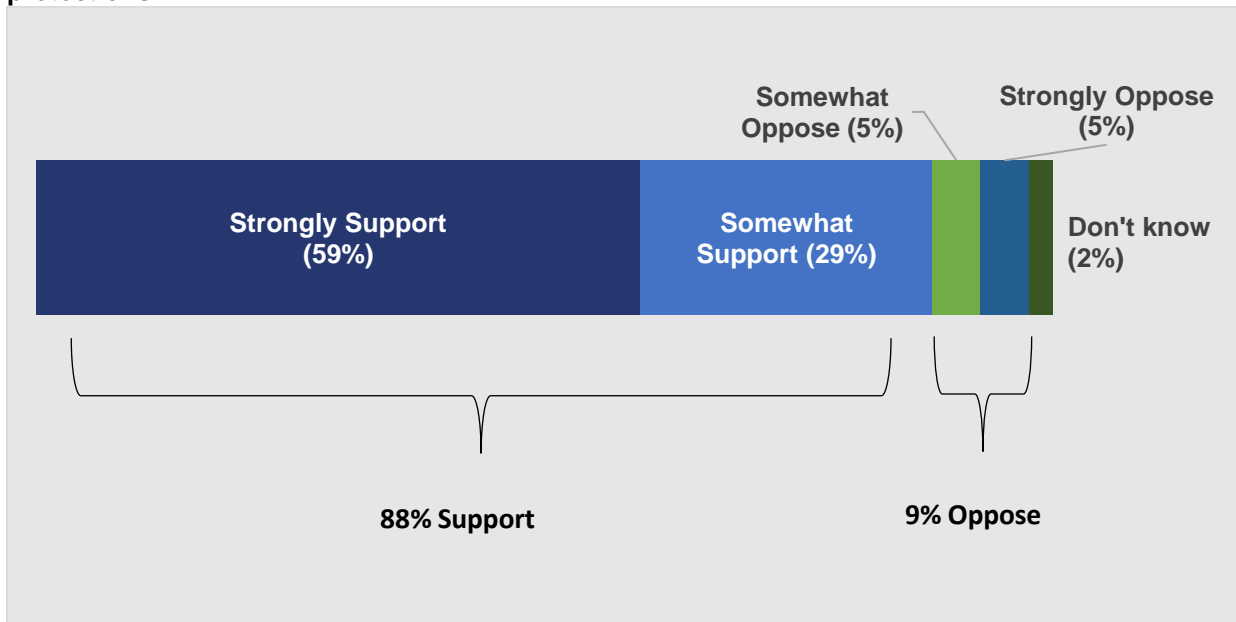


Licensing and oversight of paid tax preparers

88 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-eight percent of respondents supported licensing requirements, with 59 percent strongly supporting licensing requirements (Figure 4).

Figure 4: Would you support or oppose a proposal that would require tax preparation businesses to be licensed by a state agency that would accept and resolve complaints and enforce consumer protections?



Transparency in tax preparation pricing

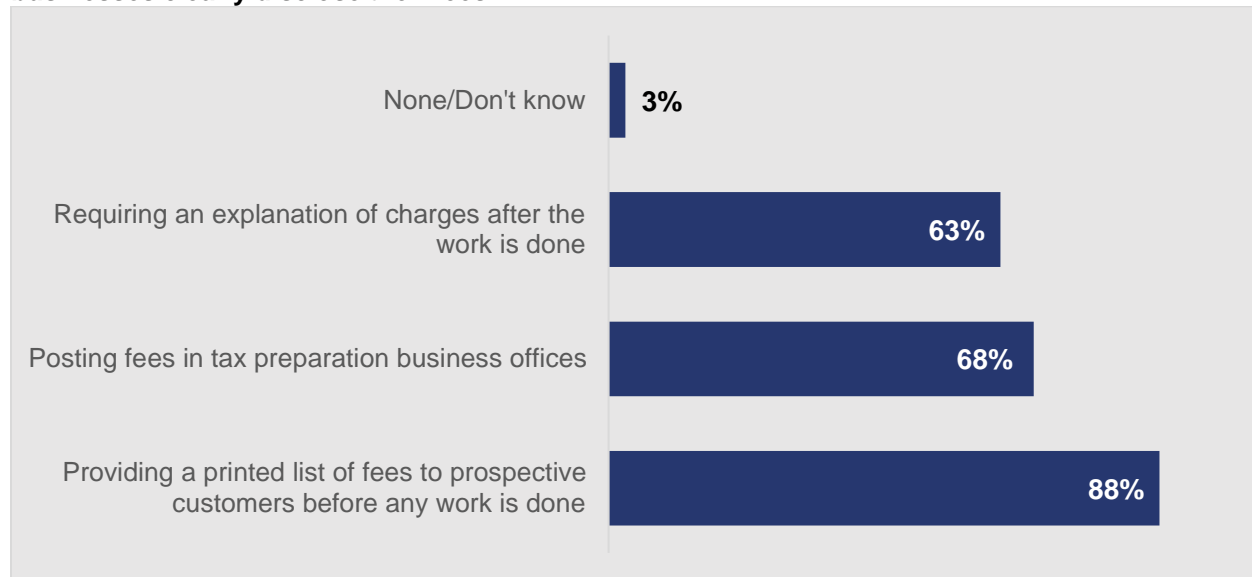
The public strongly supports clear disclosure of fees, with nearly 9 out of 10 respondents supporting an upfront list of fees before work is completed

The public strongly supports improved disclosure, with 88 percent supporting a requirement that paid preparers provide a printed list of fees before any work is completed (Figure 5).

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, unrealistically low estimates for the total cost of preparation, or preparers refusing to give an estimate at all.^{viii}

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

Figure 5: In which of the following ways would you support a requirement that tax preparation businesses clearly disclose their fees?

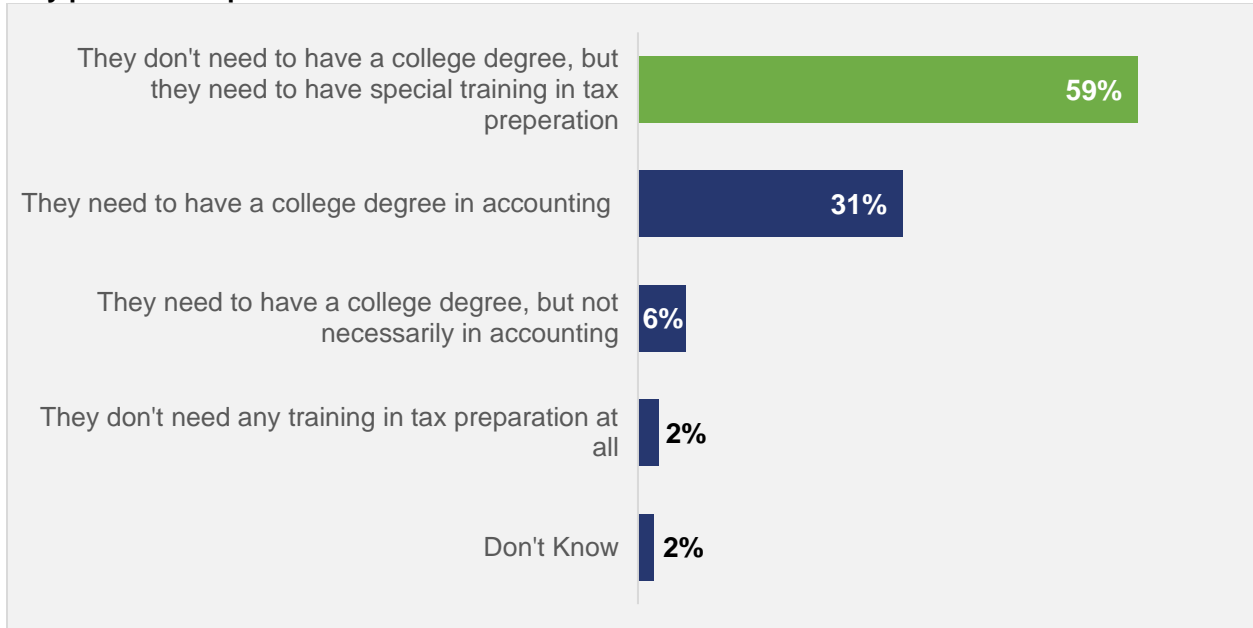


Tax preparer training

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

Fifty-nine 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, 37 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 6).

Figure 6: In your opinion, what level of qualifications should tax preparers have to help ensure they provide competent service?



Endnotes

ⁱ Paid Tax Return Preparers, Statement of James R. McTigue, 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)

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> and Fraud & Arbitrary Fees: A Secret Shopper Study of Paid Tax Preparation Services In Southwest Atlanta, Georgia Watch, 2016. <http://www.georgiawatch.org/wp-content/uploads/2016/06/Errors-Fraud-Arbitrary-Fees-Final-Formatted-Report.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} *Loving v. IRS*, U.S. Court of Appeals for the District of Columbia Circuit, No. 13-5061, Feb. 2014.

[http://www.cadc.uscourts.gov/internet/opinions.nsf/B63C3129A4FE761985257C7C00539949/\\$file/13-5061-1479431.pdf](http://www.cadc.uscourts.gov/internet/opinions.nsf/B63C3129A4FE761985257C7C00539949/$file/13-5061-1479431.pdf)

^{viii} 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/12pOuvv>. 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>

^{ix} 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

^x 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.