

PREPARED IN ERROR

MYSTERY SHOPPERS IN FLORIDA AND NORTH CAROLINA
UNCOVER SERIOUS TAX PREPARER PROBLEMS



April 2015

REINVESTMENT PARTNERS

"ADVOCATING FOR ECONOMIC JUSTICE AND OPPORTUNITY"




FLORIDA ALLIANCE
FOR CONSUMER PROTECTION

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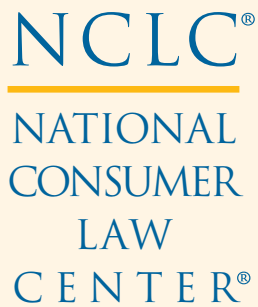
The views and conclusions presented in this report are those of the authors alone.

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Florida Alliance for Consumer Protection is a nonprofit, nonpartisan organization whose mission is to advance consumer protection and tenants' rights through research, education and advocacy.

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.



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EXECUTIVE SUMMARY

Advocacy groups in Florida and North Carolina conducted 29 “mystery shopper” tests of paid tax preparers. As with many previous studies of paid preparers, the results of the mystery shopper tests conducted this year uncovered serious problems in the tax preparation industry. It shows the dire need for regulation of paid tax preparers, and the costs to both taxpayers and the U.S. Treasury due to the lack of minimum standards.

Testers used one of two scenarios—the Single Parent and the Graduate Student.

Single Parent scenario

The tester in this scenario was not entitled to claim the minor child because the child lived with the other parent for more than 50% of the time.

- 8 of the 15 preparers had the tester claim the child on the tester’s tax return, improperly inflating the tester’s refund and claiming an Earned Income Tax Credit (EITC) of \$2,523.
- 7 of these 8 preparers also appear to have knowingly provided incorrect information on an EITC-related form.

Preparers also gave the Single Parent testers questionable advice, such as telling the tester she should work out an arrangement with the father to take turns claiming the child in alternate years.

The Single Parent scenario also involved \$800 in side income not reported on a W-2.

- 12 of the 15 preparers did not report the \$800 in side income.

Graduate Student scenario

The Graduate Student scenario involved a paid internship at a local nonprofit. All of the preparers properly reported the tester’s income. However, preparers did make errors with this scenario.

- 10 of the 14 preparers did not properly use a Schedule C to report the income. This resulted in omitting nearly \$1,300 in self-employment tax.
- Of the 4 preparers who did use a Schedule C, 3 preparers took questionable deductions, including 1 preparer who made up \$9,562 in fictitious businesses expenses.

Overall Observations

In total, there were documented inaccuracies in the vast majority of the tests.

- 27 out of 29 returns prepared for the mystery shopper tests contained an error. Thus, over 90% of the returns were inaccurate.

Other problematic issues observed include:

- Preparers who forged the signatures of other people or otherwise failed to properly note on the tax form that they were the paid preparer who had completed the form.
- The testers were unable to obtain estimates of tax preparation fees in some cases. In one case, the preparer appeared to vary the amount of the fee on the refund amount, which is contrary to IRS rules.
- Preparers who were unfamiliar with the tax preparation software or common tax forms, or behaved unprofessionally.

INTRODUCTION

For many Americans, filing a tax return can be the most critical financial transaction of the year. Their tax refunds may be the single largest chunk of money that they will receive during the entire year, especially if they are recipients of the Earned Income Tax Credit (EITC). A properly prepared tax return and large refund can represent an opportunity to pay off debts, save money, or pay for an important purchase such as a car or school tuition. Conversely, an incorrectly prepared return can lead to dire economic consequences or even criminal sanctions.

Over 70 million Americans rely on a paid tax preparer to guide and advise them with this important financial transaction.¹ Yet over half of these preparers lack any sort of formal credentials. Only four states—Maryland, Oregon, California, and New York—mandate minimum educational, training, or competency standards for tax preparers. **Thus, the single most important consumer protection issue for taxpayers is the urgent need for regulation of paid tax preparers.**

The IRS attempted to address the problem by developing a system to regulate tax return preparers, which would have required them to register with the IRS, take a competency examination, and stay current with tax law developments through continuing education. However, the D.C. Court of Appeals issued a ruling invalidating the IRS regulations as having exceeded the agency's statutory authority.²

The lack of regulation has allowed incompetence and abuses by tax preparers to flourish. Study after study has found inordinately high levels of errors, and sometimes even fraud, by paid tax preparers. A recent example is the April 2014 study from the U.S. Government Accountability Office (GAO), which sent undercover investigators to 19 paid preparer offices.³ Only 2 of the 19 preparers (11%) produced returns with the correct refund amount. The mistakes in the returns ranged from giving taxpayers \$52 less to \$3,718 more than the refund that they were entitled to receive.

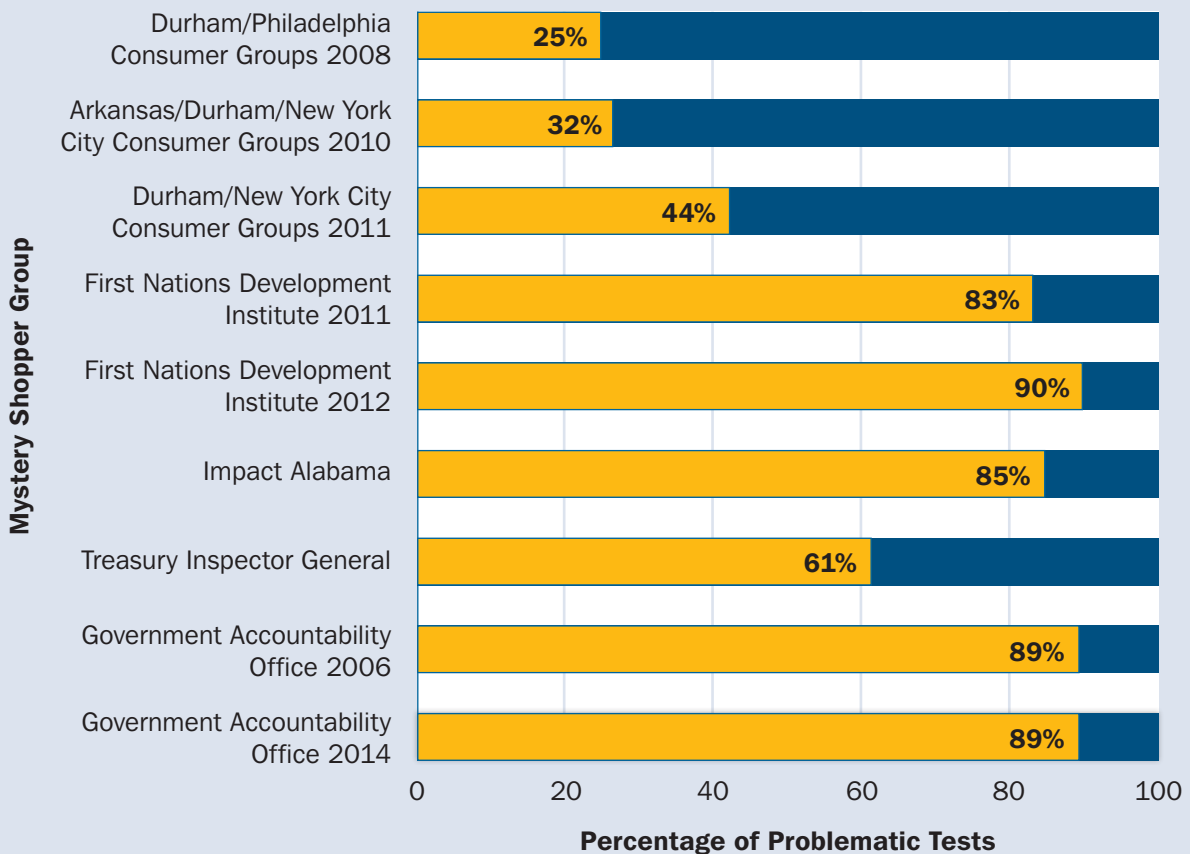
A number of earlier studies are summarized in the National Consumer Law Center (NCLC) report *Riddled Returns: How Errors and Fraud by Paid Tax Preparers Put Consumers at Risk and What States Can Do*.⁴ The percentages of problematic tests in those studies ranged from 25% to 90%.

Some of the errors and abuses documented in prior testing studies include:

- Intentional omission of income;
- Falsifying information to make the taxpayer eligible for various credits and deductions, such as charitable deductions, job-related or business expenses, and the EITC; and
- Inability to accurately handle education-related items, such as grants and tuition credits.

Another problem faced by taxpayers is the lack of transparency around tax preparation fees. Tax preparation is one of the few consumer services in the United States for which

Problematic Tax Returns from Prior Mystery Shopper Testing



Source: National Consumer Law Center, *Riddled Returns*, March 2014.

consumers often cannot obtain a price for the services before they incur them. Many 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. As a result, consumers are sometimes charged tax preparation fees that are very high, and, in some instances, inflated.

The prior mystery shopper tests have documented preparation fees up to \$400 or \$500. The GAO's April 2014 study found that the fees charged for tax preparation varied widely, even between offices affiliated with the same chain, ranging from \$160 to \$408 in one testing scenario and from \$300 to \$587 in the other testing scenario.

Because of the D.C. Court of Appeals ruling against the IRS, the only options that remain for regulation of tax return preparers are either: (1) Congress could pass a law explicitly granting the IRS authority to regulate tax preparers; or (2) states could pass laws to regulate tax preparers.

To help states regulate tax preparers, NCLC has issued a Model Individual Tax Preparer Regulation Act.⁵

TESTING PROTOCOL

This tax season, advocacy groups in Florida and North Carolina conducted “mystery shopper” tests to examine the competency of paid tax preparers in those states. Testing was conducted in Tallahassee, Florida by the Florida Alliance for Consumer Protection and in Durham and Raleigh, North Carolina by Reinvestment Partners.

Each testing site used the same two testing scenarios for each of the tests with slight variations. Testers posed as taxpayers who asked preparers to fill out, but not file, federal tax returns based on one of the scenarios. Each scenario provided a reason as to why the taxpayer did not want to file their tax return electronically with the preparer.

Each group took measures to ensure that none of the tax returns used in the testing was actually accepted by the IRS even if the preparers chose to disregard the testers’ instructions and file the returns. Each tester made sure to file their tax returns for Tax Year 2014 *before* conducting any mystery shopper tests. Because a tax return had already been filed for their names and Social Security Numbers (SSNs), even in the unlikely event that a preparer did e-file contrary to the testers’ instruction, the IRS would have automatically rejected the return.

Scenario 1: Single Parent

Wages: \$22,000/year from an administrative assistant job, reported on a W-2

Side Business: Selling craft jewelry/music CDs; approximately \$800 income in non W-2 income for 2014

Child: 3-year-old daughter

This scenario involved a single parent with a child. In 11 of the 15 tests, the tester was a female, so the references in the following text will assume a single mother scenario for simplicity of description.

The scenario was constructed so that the tester was not entitled to claim the daughter as a dependent for the EITC. Testers were instructed to state that the daughter spends weekdays with the father and weekends with the tester. Furthermore, the tester was to inform the preparer that the father’s mother (grandmother) provides childcare for the daughter during the week.

Scenario 2: Graduate Student

Wages: \$9,180 from a paid internship at a local nonprofit reported on a 1099-MISC

Investment income: \$1,520 from a 1099-DIV

This scenario involved a graduate student at a local university. The student earned \$9,180 by working over the summer, holidays, and a few hours each week at a local nonprofit. This income was reported on a 1099-MISC. The student also had \$1,520 in income from mutual fund distributions (the mutual funds were a gift from his/her grandfather). The student had student loans and a small grant-funded stipend to cover the cost of tuition.

ANALYSIS

Scenario 1

Claiming the daughter for the EITC

Under IRS rules for the Earned Income Tax Credit (EITC), the parent or caretaker who provides more than 50% of the support is the person entitled to claim the child. With the facts of this scenario, only the father was entitled to claim the child. Yet 8 of the 15 preparers had the tester claim the daughter on the tester's tax return, improperly inflating the tester's refund and claiming an EITC of \$2,523.

- **Florida:** 4 out of 8 preparers improperly claimed the daughter
- **North Carolina:** 4 out of 7 preparers improperly claimed the daughter

Note that in 11 out of 15 cases, the tester was a female in the role of a single mother. In 4 of the cases in North Carolina, however, the tester was male. We speculated that preparers would be less likely to claim the daughter if a single father was involved. Our speculation proved incorrect as 2 out of the 4 test locations prepared returns claiming the daughter for the single father.

Several preparers had the tester claim the daughter explicitly because the other parent was ineligible for the EITC. For example:

The Florida tester recounted how a preparer at a major chain “explained that it would probably be better for me to claim the child since I make considerably less money than the father and as a result, my tax credits for claiming her as a dependent would be greater. She then offered to show me the difference between my return and the father’s return if we each claim her as a dependent. Using my annual gross income of \$22,700, she prepared the 1040 and the return was over \$4,000. Then, using the \$40,000 annual gross income estimate for the father, she entered information into the software and determined that his return would be around \$900. She said that if [I] explained to the father in this way—that if I claimed her I would get more money back than if he claimed her—he would probably agree and allow me to claim her.”

An independent preparer in Florida similarly advised the tester to claim the child because of the father's higher income. The tester recounted that "I told the preparer that [the] father makes considerably more money than me (around \$45,000/year). The preparer responded by stating that the father would not get the Earned Income Credit due to his higher income level....he said that it would be more advantageous for me to claim the child."

A third preparer in Florida also "asked what the father's income was and I said that it was about twice the amount that I made in 2014. He said that I would get a bigger return and proceeded to complete the forms with my daughter as a dependent."

Several preparers encouraged the tester to provide incorrect information during the tax preparation process with regards to questions involving the EITC. For example:

When reaching a question about the residence of the other parent, a preparer at a major chain in North Carolina informed the tester: "I'm gonna say you don't know where she lives." When the tester asked "is that OK?" the preparer replied "uh huh."

When an independent preparer reached the question about whether the tester provided more than half of the support for the daughter, the preparer instructed the tester: "you have to say yes."

In addition, there is a "Paid Preparer's Earned Income Credit Checklist" for returns that claim the EITC. Question 13a asks "Do you or the taxpayer know of another person who could check "Yes" on lines 9, 10, 11, and 12 for the child? Line 9 asks if the child is the taxpayer's son, daughter or certain other type of family member. Line 11 asks whether the child lived with the taxpayer for over half of 2014.⁶ Seven out of the 8 preparers who claimed the daughter responded "No" to Question 13a, thus representing that the child did not live with any other parent or relative for over half of 2014. Yet these preparers had been informed that the tester's daughter lived with the other parent during weekdays.

- **Florida:** 4 out of 4 preparers who improperly claimed the daughter answered "No" to Line 13a.
- **North Carolina:** 3 out of 4 preparers who improperly claimed the daughter answered "No" to Line 13a.

Several preparers advised the testers, sometimes strongly, that the tester and the father reach an agreement to take turns claiming the daughter every other year. For example:

A preparer at a major chain in Florida correctly did not claim the daughter, but suggested that "her father and [the tester] should discuss options, perhaps trading off and claiming her every other year."

Another preparer in North Carolina similarly suggested that the tester "come up with arrangement [sic] with her father to claim alternate years." This preparer actually did claim the EITC for the child, even after being told about the child's living arrangements. The preparer's rationale for claiming the child was "she's little so she depends on you too. We'll see if it goes through or not."

Such advice is questionable in that legally it is the parent or other caretaker who provides over 50% of the support who can claim the child.

Reporting income from side business

The \$800 side income from selling jewelry/music CDs should have been reported on a Schedule C or C-EZ as business income. This would subject the amount to both income tax and self-employment tax. Yet the vast majority of preparers failed to include this income.

In total, 12 of the 15 preparers did not report the income from the jewelry/CD making business. This improperly inflated the tester's refund or improperly reduced the taxes owed.

- **Florida:** 7 out of 8 preparers did not report the side income.
- **North Carolina:** 5 out of 7 preparers did not report the side income.

Some of these paid preparers gave incorrect advice about the need to claim the \$800. For example:

An independent preparer in Florida stated that "if the IRS doesn't know, there's no sense in claiming."

The Florida tester told another independent preparer that she sold \$800 worth of jewelry to friends and family. The preparer stated "she would 'consider it as just friends and family helping me out" and did not report the income.

A preparer with a national chain advised the Florida tester to make the jewelry business a "hobby" and that if the tester planned to expand the business, she would need to complete a Schedule C. Thus, the preparer knew that the correct form was a Schedule C, but chose not to file this form or report the \$800.

The female North Carolina tester reported that an independent preparer "was going to do Schedule C but [the preparer] decided not to without bank statements."

Another independent preparer told the female North Carolina tester regarding the side income "it's not a lot, don't worry about it."

In a few cases, testers did not even get the opportunity to inform the preparer that they had income for a side business. For example:

The Florida tester reported that she listed the income from jewelry sales on a questionnaire but "the preparer never asked me about my response to that question so no discussion was had."

The male North Carolina tester reported that "I never even got an opportunity to disclose \$800 from music. Preparer was kind of rushed."

One preparer did list the income in the tester's return, but as "Misc. Income" on line 21 of Form 1040. This resulted in including the income as part of the tester's Adjusted Gross Income but failed to properly generate self-employment tax.

Scenario 2

Reporting internship income

All of the preparers properly reported the tester's income from the paid internship. However, preparers varied as to whether the income was correctly reported on Schedule C/C-EZ versus line 21 of form 1040.

According to the IRS, income such as the tester's wages from his/her internship should be reported on Schedule C as self-employment income.⁷ Yet 10 of the 14 preparers did not properly use a Schedule C to report the income. This resulted in a significant lowering of the tester's tax liability, in the form of omitting nearly \$1,300 in self-employment tax.

- **Florida:** 5 out of 9 preparers did not use a Schedule C.
- **North Carolina:** All 5 of the 5 preparers did not use a Schedule C.

The reporting of internship income can be a tricky issue as to whether a Schedule C is necessary. However, several preparers gave indications that they knew that the income should have been reported on a Schedule C, but chose to report it on line 21.

The Florida tester reported that an independent preparer "explained right away that he would apply my internship at [name of nonprofit] as other income so that it would not be taxable."

The North Carolina tester reported that a preparer with a major chain asked "a lot of questions about the 1099. I was asked what kind of work I did for the company." This preparer actively and deliberately provided answers to the tax software so that it did not generate self-employment tax, by categorizing the income as retirement pay.

Of the preparers who properly reported the income on Schedule C, 3 of those 4 preparers then proceeded to take improper deductions. For example:

An independent preparer in Florida properly filed Schedule C but deducted \$9,562 in business expenses to generate a business loss and a refund of \$34.

A preparer in Florida included deductions for mileage even though the tester said she did not own a car and her boyfriend drove her to work.

Another preparer in Florida deducted \$600 in expenses for books.

Of the preparers who used a Schedule C, only one tax return resulted in the correct refund.

Reporting 1099-DIV

All 14 of the preparers properly reported the tester's income from the 1099-DIV. However, a number of preparers indicated confusion or lack of familiarity with Form 1099-DIV. This could be a problem given that a significant number of taxpayers—basically

anyone with taxable income (generally non-retirement) from a mutual fund would receive this form. For example:

The Florida tester reported that an independent preparer “seem tripped up by my mutual fund, asked if it was an overseas account because the computer prompted him to do so mentioning that he had never been asked that by the computer before.”

The North Carolina tester reported there was confusion over the dividend income and that the preparer, who worked for a major chain, had to ask a fellow tax preparer what Form 1099-DIV was and what to do with it. An independent preparer was similarly confused, and the tester suspected that the preparer had never seen a Form 1099-DIV before.

Affordable Care Act penalty

Some testers were required to pay a penalty for not having health insurance during 2014. Given the new nature of the penalty we did not focus on this issue and thus had not instructed all of the testers to provide information in a consistent manner. Even so, we can observe one preparer with a questionable result.

A Florida preparer at a major chain reported that the tester had insurance stating “since child has insurance you must have it.”

Several preparers were very diligent about advising testers to obtain health insurance, warning that the penalty for not having insurance would be much greater next year.

OBSERVATIONS REGARDING PROFESSIONALISM AND KNOWLEDGABILITY

The following are some observations from the testers that did not directly pertain to the issues previously analyzed above. The observation generally concerned the lack of familiarity with tax issues or tax software, and unprofessional behavior. In addition, two preparers listed the names of persons other than themselves in the space where they were supposed to disclose that they were the individual who prepared the return, and one preparer did not list anything at all in that space.

Florida Single Mother Tester

This tester noted that a preparer from Major Chain 2 “did not seem very familiar with the tax preparation software. I had to wait an extra 15-20 minutes because she did not know how to print a paper return and had to get help from a co-worker.”

Another preparer forged the signature of someone else on the tax return and also behaved very unprofessionally. The preparer “was at a partially obscured reception desk and I was sitting across the room at a bank of chairs. A television was on with the volume at a loud setting. He proceeded to complete my taxes while sitting at the desk, occasionally yelling questions

across the room. ... The forms that he gave me state that the return was prepared by 'A---- S----' however they were actually prepared by J---- N----. He forged the signature of 'A---- S----' on the return."

A similar situation occurred at a payday loan store that prepared the tester's tax return. The tester reported that "after [the preparer] finished entering my info into their proprietary tax prep software, she had to fax a print-out to an off-site office where someone else prepared the 1040 form. The customer service rep, A--- M---, actually prepared the return but someone else at the off-site office whom I never met or spoke with, J---- J----, typed their name on the bottom of the 1040 where the tax preparer information is entered."

Florida Graduate Student Tester

This tester described one independent preparer: "The preparer seemed to want to help me with owing less but was unsure how to go about it, selecting and unselecting fields with little to no explanation quickly stating that sometimes when she added this/that it sometimes made costumers [sic] owe less."

North Carolina Graduate Student Tester

In a debriefing, this tester reported that "no Preparer explained how much Tester owed or why she owed it. Tester reports that she 'does not understand taxes' and that is a barrier to her understanding of the services that Tax Preparers provide. Tester also felt that many Preparers didn't necessarily understand what they were doing either, that they seemed to her mostly like 'paper pushers who were just putting information in the right boxes.'"

This tester also shared that "she would definitely not use [Independent Preparer Q] for her personal tax preparation purposes, that they seemed like an extremely 'shady' organization, especially because of their requirement to pay in cash Tester also reported that for her personal taxes she would never use [Major Chain 2] because they did not give the impression they knew what they were doing. Tester would not use [Major Chain 1] either: 'my rep was more concerned with her son running back and forth than explaining the forms and process'" This tester also noted regarding Major Chain 1 that the "preparer did not explain anything, talked so little, was essentially just "clicking around".

North Carolina Singe Father Tester

The tester felt that the [Major Chain 1] preparer had 'no idea' what she was doing—"she did not know how (or ever had previously) printed tax forms or made a receipt for client before." The tester also believed that the preparer was very unprofessional and noted that she played loud music the whole time.

North Carolina Single Mother Tester

Regarding one independent preparer, the tester wrote "I'm pretty sure the receptionist did my taxes. She called her manager once or twice." (The tax return was signed by a male, presumably the manager.)

TAX PREPARATION FEES

Tax preparation fee ranged from \$37 to \$427 for the single mother scenario. They ranged from \$50 to \$341 for the graduate student scenario

In general, fees were higher for the single parent tester when the preparer did claim the daughter.

The highest fees were observed in the single mother scenario where the preparer claimed the daughter. The exception to this was a \$341 preparation fee charged to the graduate student in Florida; this preparer had made up over \$9,500 in deductions resulting in a \$34 refund instead of \$222 owed.

Some of these fees were lower than in previous rounds of testing. We suspect this is due to the lack of refund financial products, such as Refund Anticipation Checks (RACs). The court decision in the U.S. Department of Justice's lawsuit against Instant Tax Service, a small tax chain, confirmed that there are some tax preparers who charge more to customers who receive a RAC.⁸

In addition, there were problematic practices with regard to tax preparation fees. Under IRS rules, the amount of the tax preparation fee cannot be dependent on the amount of the refund.⁹ Yet a preparer for Major Chain 3 conveyed the impression to the Florida single mother tester that fees depended on the amount of the return. This preparer presented the following options:

- Option #1—filing for just myself with no dependents
- Option #2—not claiming child as dependent, but still claiming Head of Household
- Option #3—fully claiming the child as a dependent including Head of Household, Earned Income Credit, and Child Tax Credit

The preparer then informed the tester that:

- Option #1—She said that I would owe \$130.00 in taxes
- Option #2—She said that I would get a return of \$364.00
- Option #3—She said that I would get a return of \$4,282.00

The preparer quoted the following fees for each option:

- Option #1—preparation cost of \$90.00
- Option #2—preparation cost of \$130.00
- Option #3 -- preparation cost of \$190.00

A preparer in North Carolina quoted the graduate student tester a flat \$99 fee “since it was apparent I owed.” This tester overheard one of the other preparers tell potential customers that the fee for preparation services was \$99 but it could vary based on the return.

Also, while not problematic, the remark of one preparer was illuminating, in that she “suggested that I use TurboTax or go to the local IRS office to prepare my taxes so that I wouldn’t have to pay someone since she could tell that I was going to owe money.”

Some of the testers attempted to obtain price quotes. In Florida, the single mother tester was consistently told that she could not get a quote and that the price depended on the forms used and credits taken. However, the North Carolina single parent testers (both male and female) were able to get quotes of flat rates from some preparers that were correct.

CONCLUSION

In total, this round of mystery shopper testing uncovered errors in 27 out of 29 returns prepared by paid preparers. Thus, over 90% of these returns were inaccurate.

Like the many studies before it, this round of mystery shopper testing has uncovered serious problems in the tax preparation industry. It shows the dire need for competency and ethical standards in the two states that were tested, as well as the 44 other states that do not prescribe minimum credentials for tax preparers.

END NOTES

1. Data from IRS Stakeholder Partnerships, Education & Communication (SPEC) Returns Database for Tax Year 2013—Returns Filed through June 30, 2014 (Jan. 2015).
2. *Loving v. I.R.S.*, 742 F.3d 1013 (D.C. Cir. Feb. 2014).
3. Government Accountability Office: Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors, GAO-14-467T, Apr. 8, 2014, available at <http://www.gao.gov/assets/670/662356.pdf>.
4. National Consumer Law Center, *Riddled Returns: How Errors and Fraud by Paid Tax Preparers Put Consumers at Risk and What States Can Do*, March 2014, available at: <http://www.nclc.org/issues/riddled-returns.html>.
5. National Consumer Law Center, Model Individual Tax Preparer Regulation Act, November 2013, available at: http://www.nclc.org/images/pdf/high_cost_small_loans/model-individual-tax-preparer-reg-act.pdf.
6. Lines 10 and 12 ask whether the child is unmarried and a minor, and are not an issue in this analysis.
7. See Internal Revenue Service, 1099-Misc Income Treatment Scenarios, Sept. 26, 2013, at www.eitc.irs.gov/Tax-Preparer-Toolkit/sctraining/1099scenarios.
8. *United States v. ITS Fin., LLC*, 2013 WL 5947222 (S.D. Ohio Nov. 6, 2013).
9. Internal Revenue Service, Publication 1345 - Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns (Apr. 2014), at 45, available at www.irs.gov/pub/irs-pdf/p1345.pdf.

APPENDIX A

SINGLE PARENT SCENARIO TAX PREPARATION RESULTS

This table summarizes the results of the fifteen mystery shopper tests in Florida and North Carolina using the Single Parent Scenario.

PREPARER	CLAIMED DAUGHTER	REPORTED \$800 JEWELRY/CD INCOME	REFUND AMOUNT OR AMOUNT OWED	ESTIMATED TAX PREP FEE	ACTUAL TAX PREP FEE	RAC/RAL OR OTHER TAX FINANCIAL PRODUCTS	LINE 13 A ON WORKSHEET*	NOTABLE ITEMS
FLORIDA								
Major Chain 1	Yes	No	\$4,379	Depends on forms and tax credits	\$208 (\$297 minus 30% coupon)	Offered \$200 Cash Advance for \$50 fee	No	Showed tester that refund would be over \$4000 if she claimed child versus only \$900 for father if father did. Stated re ACA penalty "since child has insurance you must have it."
Major Chain 2	No	No	Owed \$130	Would not know price until W-2 entered	\$50	Advertisements for \$200 Cash Advance but tester not eligible		
Major Chain 3	No	No	\$364	Three options depending on amount of refund	\$110 (\$130 minus \$20 coupon)	No loans; offered RAC for \$35		Advised not to claim daughter to avoid "pissing off" the father, since father was saving tester childcare costs. Claimed Head of Household.
Independent Preparer-E	No	No	\$364	Could not provide; depended on forms	\$114.99 (\$119.99 minus \$5 off for "liking" on Facebook)	No		Claimed Head of Household.
Independent Preparer-W	No	No	Owed \$130	Said would be minimal because only one W-2	\$37	No		
Independent Preparer-N	Yes	Yes	\$4,066	Depends on forms and tax credits	\$153 (with \$10 discount)	No	No	
Independent Preparer-C	Yes	No	\$4,379	Would not know price until W-2 entered	\$310	No	No	Forged signature of another preparer on 1040; yelled questions across the room.
Payday lender	Yes	No	\$4,282	Many variables change the price inc. forms, claiming child as dependent	\$150 (\$170 minus \$20 coupon)	"Refund Estimation" product in early tax season	No	Did not ask questions where child lived, who claimed child in the past, who pays for her expenses; ignored questionnaire response re: other sources of income.

PREPARER	CLAIMED DAUGHTER	REPORTED \$800 JEWELRY/CD INCOME	REFUND AMOUNT OR AMOUNT OWED	ESTIMATED TAX PREP FEE	ACTUAL TAX PREP FEE	RAC/RAL OR OTHER TAX/FINANCIAL PRODUCTS	LINE 13 A ON WORKSHEET*	NOTABLE ITEMS
NORTH CAROLINA—MALE TESTER								
Major Chain 1	Yes	Yes-but only after tester reminded her	\$4,171	Did not respond to request for estimate	\$427		No	Claimed child despite information about child staying with other parent during week. Instructed tester to say didn't know where mother lived. Tester felt like preparer had no idea what she was doing; had never printed tax forms or made a receipt for client before.
Independent Preparer-D	No	No	Owed \$130	Flat rate \$95	\$95	N/A		Side job income was not discussed. Told tester that legally mother should claim child because that's where child stays.
Independent Preparer-M	No	Yes	Owed \$222	\$100 Flat fee	\$100	No		Only preparer who got correct amount. Properly used a Schedule C; asked about expenses for income but did not claim improper deductions.
Independent Preparer-L	Yes	No	\$4,282	Not asked	\$150	N/A	No	Preparer assumed that tester and other parent took turns claiming child. Told tester he had to say yes re: question about providing more than 50% support. Tester felt that preparer was not very thorough and was rushed, tester never got the opportunity to disclose \$800 side income.

NORTH CAROLINA—FEMALE TESTER

Independent Preparer-T	Yes	No	\$4,379	Flat fee \$100	\$100	N/A	Yes	Preparer told tester no problem to claim child. Said "She's little so she depends on you too. We'll see if it goes through." Preparer was going to do a Schedule C but she decided not to without bank statements.
Independent Preparer-P	Yes	No	\$4,236	Flat rate of \$150	\$150	N/A	No	Preparer did not sign return. Suggested that tester come up with arrangement with father to claim alternate years. Said person who child spends most time with can claim her, but claimed her anyway. Re: side income, said "it's not a lot, don't worry about it."
Independent Preparer-O	No	No	Owed \$130	Not asked	\$75	N/A		Preparer would not include child in return until tester worked out issues wth father. Would not include the jewelry income "without proper business books."

*See page 5 for explanation.

APPENDIX B

GRADUATE STUDENT SCENARIO TAX PREPARATION RESULTS

This table summarizes the results of the fourteen completed and one incomplete mystery shopper tests in Florida and North Carolina using the Graduate Student Scenario.

PREPARER	REPORTED MUTUAL FUND DISTRIBUTION	USED SCHEDULE C FOR INTERN INCOME	REFUND AMOUNT OR AMOUNT OWED	ESTIMATED TAX PREP FEE	ACTUAL TAX PREP. FEE	NOTABLE ITEMS
FLORIDA						
Major Chain 1	Yes	No	Owed \$56	Said about \$200 but would be \$100 for tester; no explanation why	\$100 (\$202 with \$102 discount)	Said because tester was not getting money from IRS, e-filing was not an option
Major Chain 2	Yes	N/A	Estimated owed \$940	Unable to provide because "system generates the price"	N/A	Preparer attempted to be proactive to lower \$940 amount owed; did not complete test because preparer attempted to log into tester's supposed university
Major Chain 3	Yes	No	Owed \$151	Unable to provide; computer would provide at the end	\$150 (\$170 minus \$20 coupon)	The preparer seemed to want to help with tester owing less but was unsure how to go about it, selecting and unselecting fields with little to no explanation quickly stating that sometimes when she added this/that it sometimes made costumers [sic] owe less
Independent Preparer-E	Yes	No	Owed \$151	Would start at \$105	\$139.98	
Independent Preparer-N	Yes	No	Owed \$56	\$126 (provided after taxes complete)	\$126	Preparer explained right away that he would apply my internship as other income so that it would not be taxable
Independent Preparer-D	Yes	No	\$1,000	\$150	\$150	Claimed American Opportunity Credit; tripped up by mutual fund, thought it was overseas; gave as reason to IRS for not e-filing "taxpayer afraid of ID Theft"
Independent Preparer-L	Yes	Yes	Owed \$1,180	\$50	\$50	Properly filed Schedule C but deducted car expenses even though tester said she didn't have a car and her boyfriend drove her to work
Independent Preparer-C	Yes	Yes	\$34	Unable to provide; computer generates	\$341	Properly filed Schedule C but deducted \$9,562 for business expenses to generate business loss
Independent Preparer-W	Yes	Yes	Owed \$952	Did not provide	\$118.32	Got proper amount; no questionable deductions on Schedule C
Payday lender	Yes	Yes	Owed \$821	About \$120	\$189 (after \$20 coupon)	Properly filed Schedule C but claimed \$600 in expenses for school textbooks; encouraged tester to use TurboTax or local IRS office since she was going to owe

PREPARER	REPORTED MUTUAL FUND DISTRIBUTION	USED SCHEDULE C FOR INTERN INCOME	REFUND AMOUNT OR AMOUNT OWED	ESTIMATED TAX PREP FEE	ACTUAL TAX PREP. FEE	NOTABLE ITEMS
NORTH CAROLINA						
Major Chain 1	Yes	No	\$0	Said it depends	\$278	Attempted to charge \$59 to file in VA. Left a strong impression on tester that preparer asked no questions at all and there was no conversation at all. Preparer made her sign a lot of different places with no explanation whatsoever. Additionally, preparer talked so little she gave tester the impression she was essentially just "clicking around."
Major Chain 2	Yes	No	\$0	\$295 flat rate	\$245 (\$295 minus \$50 discount)	There were a lot of questions about the 1099. Preparer asked what kind of work tester did for the company. Actively and deliberately provided answers to the tax software so that it did not generate self-employment tax by categorizing the income as retirement pay. Hounded tester about payment.
Major Chain 3	Yes	No	\$0	Didn't ask	\$75 (preparer gave 50% discount to tester)	Preparer had a little confusion over the 1099; verified that no taxes deducted and double checked what kind of work Tester was performing. The preparer also had considerable confusion over 1099-DIV.
Independent preparer-P	Yes	No	Owed \$56	Typical charge \$175	\$126	Asked if tester had kids, a dog, a man. Tried to find other deductions because he knew that I would owe. Felt questionable. Computer program generates charges for different schedules
Independent preparer-Q	Yes	No	\$0	Flat \$99 "since it was apparent I owed"	\$99	Perparer asked no questions about employment in regards to 1099. Tester suspected preparer had never seen a 1099-DIV before. Overheard one of the reps. tell potential customers that the fee for prep services was \$99 but it could vary based on return because "all returns aren't the same." While tester was present at site, there was constant stream of customer calls asking about whether RAC check arrived. Preparer was pushy about trying to get names of friends for referral. Sign on door of site said, "No cash accepted" but then when tester went to pay for services, the preparers demanded a cash payment.

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