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SEEKING TAX HELP, GETTING TAX TROUBLES

Mystery Shopper Testing Documents Serious Problems with Tax Preparation Services

DOWNLOAD the full report: <http://bit.ly/1Gp277r>

(BOSTON, MA) The more than 70 million taxpayers who rely on paid tax preparers are at risk of serious errors and problems, according to a report released today by three advocacy groups. [*Prepared in Error: Mystery Shoppers in Florida and North Carolina Uncover Serious Tax Preparer Problems*](#) analyzes 29 “mystery shopper” tests conducted by the Florida Alliance for Consumer Protection and Reinvestment Partners in North Carolina. These tests uncovered inaccuracies in 27 out of the 29 returns prepared by paid tax preparers.

“To see this level of errors is extremely disturbing,” stated Chi Chi Wu, staff attorney at the National Consumer Law Center, who analyzed the testing data for the report. “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.”

The report 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. Only four states — Maryland, Oregon, California, and New York — mandate educational, training, or competency standards for tax preparers. A D.C. Court of Appeals ruling prevents the IRS from imposing such standards. “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.”

“All 50 states regulate hairdressers but only four regulate tax preparers,” added Amelia O'Rourke-Owens, a community & economic development fellow at Reinvestment Partners. “Given the far-reaching consequences of an improper tax return, it's hard to believe that so few states regulate paid preparers.”

Synopsis of Testing

Testers used one of two scenarios when having tax returns prepared, noting they were either a single parent or a graduate student.

Single Parent Scenario

In this scenario, the tester was not entitled to claim the minor child because the child lived with the other parent for more than 50% of the time. Yet **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. The Single Parent scenario also involved \$800 in side income. In total, **12 of the 15** preparers did not report the 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, **10 of the 14** preparers did not properly use a Schedule C to report the income, resulting in the omission of nearly \$1,300 in self-employment tax. Of the preparers who did use a Schedule C, **3 out of 4** of these preparers took questionable deductions, including one preparer who made up \$9,562 in fictitious businesses expenses.

Model State Law Available

Like the many studies before it, this year's mystery shopper testing has uncovered serious problems in the tax preparation industry. To help states regulate tax preparers, NCLC has issued a Model Individual Tax Preparer Regulation Act, available at: <http://bit.ly/1y4R5Bp>.

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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.

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.

[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.