

New National Poll Indicates Strong Support for Reform of Paid Tax Preparer Industry

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Four out of Five Respondents Believe Paid Tax Preparers Should Have to Pass a Competency Test, be Licensed and Provide a List of Fees Before Completing a tax Return

WASHINGTON D.C. (January 20, 2016) — As millions of taxpayers turn to paid tax preparers to help complete what, for many, is their largest financial transaction of the year, a coalition of consumer and community organizations and advocates is drawing attention to the findings of a national poll that demonstrates broad public support for new consumer protections designed to prevent errors and fraud during the tax preparation process.

The poll found that more than 4 out of 5 respondents believe that paid tax preparers should be required to pass a competency test, be licensed by the state and provide a clear, upfront list of fees before completing a taxpayer's return.

"Errors on tax forms put consumers at risk of fines and lost tax refunds yet few states have taken action to ensure that paid tax preparers are licensed and, trained and disclose what are often high and unpredictable fees" said Tom Feltner, Director of Financial Services at the Consumer Federation of America.

The complete results of the poll are available at: <http://bit.ly/1PpGALd>

The poll was commissioned by Consumer Federation of America in response to concerns about frequent errors and fraud by paid tax preparers that are used by millions of Americans.

Multiple rounds of mystery shopper tests of tax preparers found instances of incompetence and even fraud, with 24 percent of the tax returns prepared as part of a 2008 test, 44 percent of returns in a 2011 test, and 93 percent of returns in a 2015 test presenting problems. In 2014, the 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.

Forty-nine percent of poll respondents used a tax preparation company in the past five years. The GAO estimates that approximately 56 percent of 145 million individual tax returns (81 million) and 59 percent of returns claiming the Earned Income Tax Credit (EITC) were completed by a paid preparer in 2011. A training requirement, discussed in the poll results below, makes particular sense for those who prepare tax returns for lower income consumers who rely on the EITC, as they can be severely impacted by an incompetent paid preparer. A consumer can lose the credit for ten years if it was claimed but the consumer is later found to be ineligible.

The poll found that:

- **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.

- **56 percent believe paid preparers should have special training**, although not necessarily a degree.
- **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.
- **83 percent of the public supports licensing requirements for paid preparers** by a state agency that would also accept and resolve complaints, and enforce consumer protections.

Despite the high instance of taxpayer use and problems with paid preparers only four states (California, Maryland, New York and Oregon) have mandatory standards for paid tax preparers who are not already credentialed as enrolled agents, attorneys, or Certified Public Accountants.

While a 2014 court decision stripped the IRS of its ability to protect consumers without action from Congress, state legislatures have the ability to take action to protect consumers from errors that put their tax returns at risk.

“State legislatures have the authority to implement common sense protections for taxpayers. This new national poll shows that taxpayers want the protection and peace of mind that their preparer is held accountable and is upfront about the fees that they charge,” said Michael Best, Senior Policy Advocate at the Consumer Federation of America.

Consumer and Community Groups React to Results

CFA works with a coalition of national and state groups to promote consumer protections designed to prevent errors and fraud during the tax preparation process. Below are reactions to CFA’s national poll results from some of our coalition members.

“Consumer groups have seen extremely disturbing levels of errors and fraud in the mystery shopper testing we’ve conducted,” stated Chi Chi Wu, staff attorney at the National Consumer Law Center, who co-authored four reports on this testing. “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 preparer’s hands. It’s no wonder consumers want preparers to have a minimum level of competence.”

With budget cuts at the Internal Revenue Service that limit customer service, more and more people will need to consult a paid tax preparer to get help with their taxes,” said Linda Sherry, National Priorities Director for Consumer Action. “The thought that consumers pay good money for bad advice is appalling. New consumer protections must be adopted to prevent errors and fraud and ensure that taxpayers can rely on the advice they are paying for.”

“The erosion of trust in our tax system is a symptom of how confused taxpayers are about the tax code and how it impacts them” said David Marzahl, CEO of the Center for Economic Progress in Chicago. “The survey results make clear that taxpayers need to have greater trust in those who prepare their returns and their desire for stronger consumer protections.”

“Mystery shopper testing in Florida in 2015 showed a high rate of incompetence, at best, possible fraud, in the preparation of taxes by unregulated paid tax preparers. The poll results reveal that consumers are eager for this incompetence and abuse by paid tax preparers to end through some

form of state guidelines for paid tax preparers. The Florida legislature should act.”

“Of course the public supports tax preparer regulation: participation in taxes is almost universally required and errors can cost tax-payers thousands of dollars,” said Amelia O’Rourke-Owens, Staff Attorney at North Carolina-based Reinvestment Partners, “It’s high time for state legislators to recognize what the public already knows and regulate paid preparers.”

“You wouldn’t give your Social Security number to your stylist or your bank account information to a hot dog vendor,” said Ali Mickelson, director of tax and legislative policy for the Colorado Fiscal Institute. “Yet these people are more regulated than tax preparers entrusted with your most sensitive financial information.”

“The polling findings ring true based on what people tell us. Coloradans want to be sure that their taxes are prepared accurately and professionally, by people that know what they’re doing. Plus they want to know how much it will cost them up front, not after the fact.” Said Rich Jones, Director of policy and research at the Bell Policy Center.

“These results emphasize the inability of consumers to shop around yet a strong desire by tax filers to have upfront pricing,” said David Rothstein. “Given that this is the most important financial transaction of the year, it is imperative that consumers have an understanding and knowledge of the costs. It’s time to mandate a price disclosure box for paid tax preparation.”

*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 committed to making Colorado a state of opportunity for all. We seek to reinvigorate the debate on issues affecting the well-being of Coloradans and to promote policies that open gateways to opportunity. www.bellpolicy.org*

*Founded in 1990, the **Center for Economic Progress (CEP)** helps low-income, working families as a trusted provider of tax and financial services. Everything we do, from direct service to informing public policy, improves the financial stability of those we serve. Operating one of the largest and oldest tax preparation programs in the country, CEP has been on the forefront of turning tax time into an opportunity for 300,000+ families to get ahead—returning more than \$500 million in refunds to Illinois communities. For more information, visit www.economicprogress.org*

***Colorado Fiscal Institute** is a nonprofit, nonpartisan organization that provides credible, independent and accessible analyses of fiscal and economic issues facing Colorado in order to inform policy debates and foster greater economic prosperity for all. www.coloradofiscal.org*

*Through multilingual consumer education materials, community outreach and issue-focused advocacy, **Consumer Action** empowers underrepresented consumers nationwide to assert their rights in the marketplace and financially prosper. <http://www.consumer-action.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*

*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

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