

# The Price of Paying Taxes II: How paid tax preparer fees are diminishing the Earned Income Tax Credit (EITC)

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## INTRODUCTION

In 2002, researchers from the Brookings Institution and the Progressive Policy Institute (PPI) wrote a groundbreaking study entitled “The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC.” This report was one of the first to highlight the costly dependence of low-wage workers on national tax preparation chains. The study found that tax preparation and other services cost eligible workers an estimated \$1.75 billion in Earned Income Tax Credit (EITC) refunds; that paid preparer services tended to cluster in low-income neighborhoods where large numbers of families claim the tax credit; and, that EITC recipients in Washington, D.C. paid, on average, 10 percent of their tax credit refund to paid preparers.

Subsequent studies by the federal government as well as private researchers have reaffirmed several of the findings from the Brookings and PPI research, while also highlighting other problematic aspects of

storefront tax preparers. These include significant error rates on filings and a heavy reliance on EITC filings to generate revenue. Since the “Price of Paying Taxes” study appeared, the practice of charging exorbitant extra fees for filing EITC forms with returns has persisted and grown.

As a longtime advocate for making work pay—PPI called for dramatically expanding the EITC in its very first policy report in 1989—the Institute decided to revisit the 2002 study and take a fresh look at what it costs low-income workers to file tax returns. Our 2016 update yields three major conclusions:

- **Workers eligible for the EITC continue to spend large sums—averaging around \$400—at national tax preparation chains.** In a recent survey of storefront operations in Baltimore and Washington, D.C. we found that low-income taxpayers can expect to spend between 13 and 22 percent of the average EITC refund to file their taxes.

## About the authors

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- **National tax preparer chains continue to target EITC filers by locating in areas where the largest numbers of EITC claims are made.** Zip codes with the highest level of EITC filers have approximately 75 percent more tax preparers, formally referred to as Electronic Return Originators or EROs, per filer than moderate-EITC zip codes.<sup>1</sup> Large tax preparer chains tend to cluster in high-EITC zip codes.
- **Government studies as well as those by nonprofit organizations consistently show a high error rate for returns filed on behalf of EITC beneficiaries by paid tax preparers.** Two studies by the Government Accountability Office (GAO) found an error rate of 89 and 94 percent respectively.<sup>2</sup> And last year the head of the GAO stated that in an analysis of IRS data, an estimated “60 percent of returns prepared by preparers contained errors.”<sup>3</sup>

In short, the pattern of exploitation documented by Brookings and PPI in 2002 persists 14 years later. Low-wage workers must file tax returns to get EITC refunds, which are intended to supplement their earnings. No less than middle class taxpayers, many need help filing complicated returns, which makes them susceptible to costly tax preparation services that flock to poor communities. And high error rates continue to plague the EITC, making it a punching bag for conservatives keeping a watchful eye on “waste, fraud and abuse” in government, especially in anti-poverty programs.

These realities demand a public response. But proposals to further complicate the tax code in the name of reducing fraud would only make the problem worse. Instead, U.S. policymakers should establish a national goal of reducing the dependence of low-wage workers on paid tax preparers. Specifically, this would mean taking steps to simplify EITC rules and requirements by requiring all paid preparers to take competency exams, increasing access to free filing programs, and/or streamlining the federal income tax code in its entirety. A combination of these reforms would allow low-income workers to keep more of their tax credit while also raising standards within the paid tax preparation sector.

## BACKGROUND

The EITC was enacted by a predominantly Democratic Congress and signed into law by President Gerald Ford in 1975. It was expanded by President Ronald Reagan, who referred to it as “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.”<sup>4</sup>

President Clinton made a major expansion of the EITC in 1993 the first pillar of his “work first” reform of welfare and other social policies. The progressive goal behind this move, expressed in PPI’s 1989 report, was to reward work and ensure that no family with a full-time worker, even one making the minimum wage, would live in poverty. After the 1993 expansion along with other policy changes, the work rate jumped for single mothers.

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Since then, the EITC has become the federal government’s largest anti-poverty program, providing \$66.7 billion in credits to 27.5 million Americans in 2015. Nationwide, the credit averaged more than \$2,400 per worker. A typical EITC recipient is a single parent who works and has children, though a small EITC is available to working adults without dependent children.<sup>5</sup> The tax credit lifts about 6.2 million people out of poverty, including about 3.2 million children. The credit reduces the severity of poverty for another 6 million people, including 7.8 million children.<sup>6</sup>

Nonetheless, the EITC has come under increasingly withering fire from conservatives in recent years. Critics pursue two lines of attack. First, they say it’s unfair to confer public benefits on workers who make too little to pay income taxes and therefore have “no skin in the game.” Second, they claim that growing error rates show the program is rife with fraud and abuse.

The first complaint misses the point. The expanded EITC's main purpose is not to eliminate taxes on the working poor, but to support work rather than dependence. It is best understood as a “work bonus” that compensates workers whose private market earnings cannot support a family. Moreover, while low-wage workers may have little to no income tax liability, they do pay plenty in Social Security and Medicare taxes as well as federal and state sales taxes and user fees.

The critics' second complaint also is misleading. There is no doubt that EITC error rates have risen as the program has expanded. But this development seems less driven by fraud than by the general complexity of the federal tax code and the specific rules on how to file for the credit. Furthermore, the non-compliance rate for other tax incentives is significantly higher than for the EITC, in some cases on the order of 10 times.<sup>7</sup>

On the evidence, paid tax preparers, including national chains, are poor performers when it comes to filing accurate tax returns. So it's surprising that some in the industry have called on the IRS and Congress to add new questions to the EITC tax forms.<sup>8</sup> In a letter to the Internal Revenue Service (IRS), H&R Block CEO William Cobb urged the agency to “require all EITC taxpayers, including the more than 40% of taxpayers who self-prepare their returns, to submit additional eligibility information to the IRS.”<sup>9</sup> It's difficult to see how making the process of filing for EITC refunds more complicated and cumbersome will help.

### BALTIMORE AND D.C. PREPARER FEE STUDY

Nearly eight in 10 U.S. tax filers get a federal tax refund. In fact, for many Americans tax season brings an important financial windfall—with the average refund hitting close to \$3,000.<sup>10</sup> Millions of these taxpayers, overwhelmingly low-income workers with children, are eligible to receive the EITC.

For a variety of reasons, many EITC filers use paid tax preparers, which can significantly reduce the value of their refund. These include easy access to paid tax preparers' storefronts (zip codes with the highest level of EITC filers have approximately 75 percent more tax preparers), marketing campaigns emphasizing the connection between paid tax preparation services and tax refunds (e.g. H&R Block's “Get Your Billion Back America” campaign), and the complexity associated with the EITC filing process.<sup>11</sup>

FIGURE 1: SURVEY OF BALTIMORE AND WASHINGTON TAX PREPARER PRICES FOR RETURN (WITH EITC)

	Baltimore, MD	Washington, DC
H&R Block Filing Fee	\$309	\$315
Jackson Hewitt Filing Fee	\$375	\$491
Liberty Tax Service Filing Fee	\$509	\$485
Average EITC Refund Per Filer By State	\$2,335	\$2,351

*Data: PPI Field Survey, January 29 to February 5, 2016.*

Between January 29 and February 5, 2016, PPI conducted an informal survey of major tax preparer chains in Baltimore and Washington, D.C. to learn more about what it costs low-income people to get their EITC refunds. We found that low-income taxpayers can expect to spend large sums to file their taxes, ranging from 13 to 22 percent of the average EITC refund.

According to these firms' annual reports, the average fee at the national tax service firms H&R Block and Liberty Tax Service is \$147 per return and \$191 per return, respectively.<sup>12</sup> However, industry fees and services among tax preparation services (even among those franchises affiliated with a national chain) vary widely. In our survey, extra fees associated with EITC paperwork requirements can add significantly to the price. For example, in Baltimore, tax preparers charged from \$309 (H&R Block) to as high as \$509 (Liberty Tax Service).<sup>13</sup> In Washington, D.C., prices for a completed return for an EITC filer ranged from \$315 (H&R Block) to \$491 (Jackson Hewitt).<sup>14</sup>

### HOW TAX PREPARERS TARGET LOW-WAGE WORKERS

Electronic tax filing has exploded over the past two decades. In 2013, the vast majority of taxpayers filed their taxes online, either on their own or with the help of a paid preparer.<sup>15</sup> While the overall share of taxpayers who use paid preparers has fallen slightly over the same period, the number of private electronic tax preparation services has mushroomed

in poor neighborhoods where they can continue to generate large profits.

Specifically, these storefront tax preparers have enlarged their market share in two niche markets: neighborhoods with especially large or especially small populations of EITC filers. This industry-wide business strategy has created a nearly parabolic market share distribution based on the prevalence of EITC and, to a certain extent, household income.<sup>16</sup>

Private electronic tax preparers are meeting a real demand. Low-EITC zip codes are often home to residents with more complex tax needs, while residents in high-EITC zip codes may be searching for a quick refund turnaround, assurance that their taxes have been filed properly, or the audit protection that comes with professional tax preparation. In this sense, storefront tax preparers are locating where their customers are. But the stiff fees charged by large chain EROs can quickly erode an EITC refund, weakening a safety net provided by U.S. taxpayers for our most vulnerable workers. Congress did not intend that tax credits be used to pad the bottom line of private tax service vendors.

**Zip codes with the highest concentrations of EITC filers have approximately 75 percent more tax preparation storefronts per filer than moderate-EITC zip codes, and large chain preparers tend to cluster in high-EITC zip codes.**

To investigate the relationship between tax preparer market saturation and prevalence of EITC eligible workers, we first determine the number of preparers per 10,000 filers by dividing a zip code's number of preparers by its number of filers.<sup>17</sup> We find a clear relationship between the share of EITC filers in a zip code and the area's preparer saturation.

Since the early 2000s there have been several shifts in the landscape of EITC filers and tax preparers. First, the number of preparers per 10,000 filers is greater now across the board than it was over a decade ago. This is likely due to the fact that while e-filing has become more accessible, the filing process itself remains prohibitively complex for many filers. Second, the distribution of EITC filers has shifted since the early 2000s, with a greater portion of filers living in neighborhoods with higher EITC saturation. This concentration is likely an extended

symptom of the Great Recession, as more Americans remain underemployed or reenter the labor force to lower earnings than they had experienced previously. Third, more tax preparers have clustered in high-EITC zip codes while also expanding into low-EITC zip codes.

In zip codes where less than five percent of filers receive the EITC, there are nearly 30 preparers for every 10,000 filers. The distribution is nearly identical at the opposite end of the spectrum, where there are between 30-35 preparers for every 10,000 filers in zip codes with a majority of filers claiming the EITC. However, for those presumably middle-income zip codes with a moderate share of EITC filers (between 10 percent and 40 percent, and where a majority of Americans live), there are only 20-25 preparers per 10,000 filers.<sup>18</sup>

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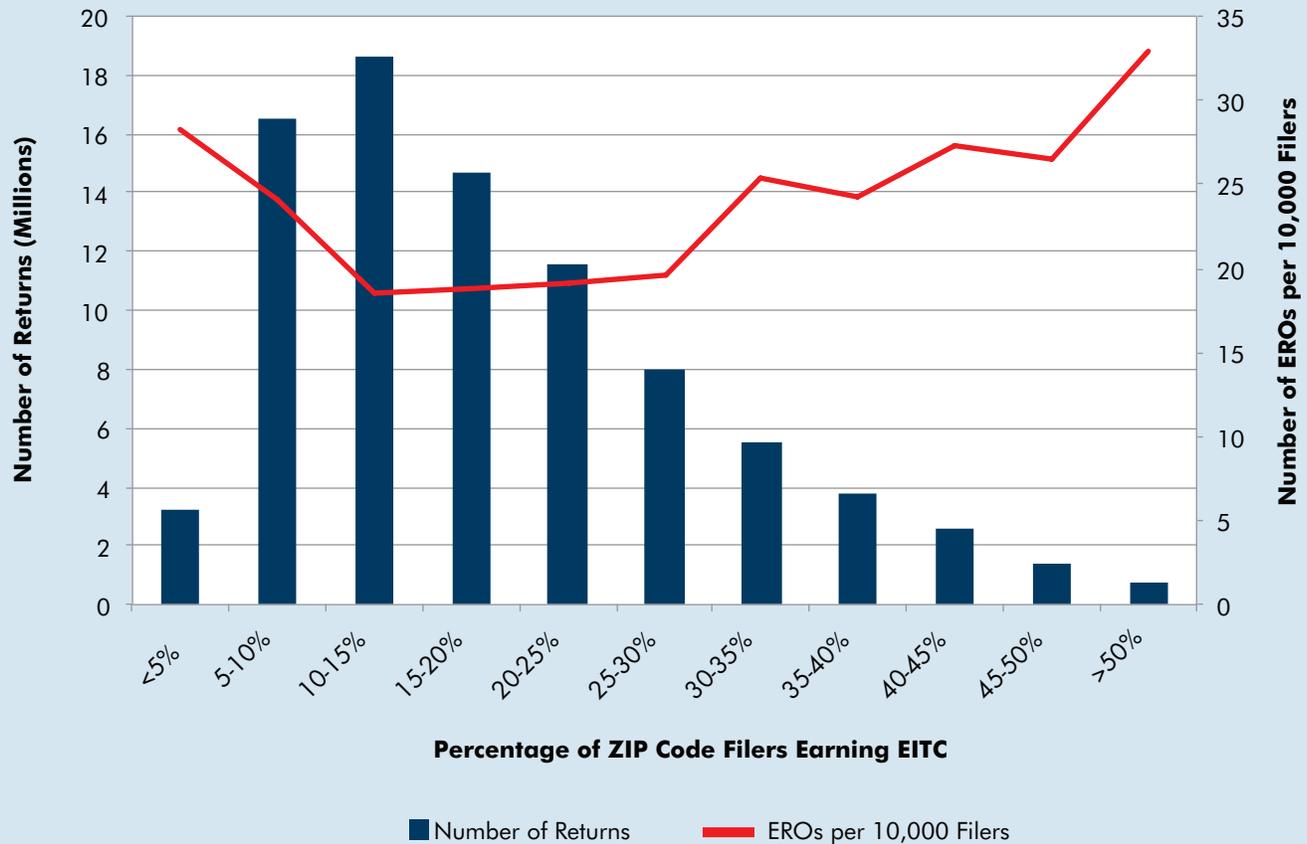
**Congress did not intend that tax credits be used to pad the bottom line of private tax service vendors.**

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At the high-income, low-EITC end of the spectrum, the filing process can be particularly complex. In recent decades it was not possible to file many higher-income taxes electronically due to the likely necessity of additional schedules or other paperwork. However, with increased broadband capacity comes expanded options for e-filing, either through tax preparers or independently. For this reason there has been a marked uptick in preparer clustering in low-EITC neighborhoods.

At the low-income, high-EITC end of the spectrum, filers often have less education and may require additional support when completing tax returns. Further, EITC filers often use paid preparers to ensure a quick refund turnaround or to take advantage of professional preparers' audit protection. Because of rising error rates, EITC filers are significantly more likely to be audited than high-income filers.<sup>19</sup> This confirms and solidifies previous findings; however, in recent decades this clustering of paid tax preparers (and, in particular, chain stores) in high-EITC neighborhoods has only intensified.

FIGURE 2: TAX PREPARER PENETRATION AND NUMBER OF RETURNS IN 100 LARGEST METROPOLITAN AREAS BY SHARE OF ZIP CODE FILERS EARNING THE EITC



Data: 2013 IRS Zip Code Files, IRS e-file Provider Database.

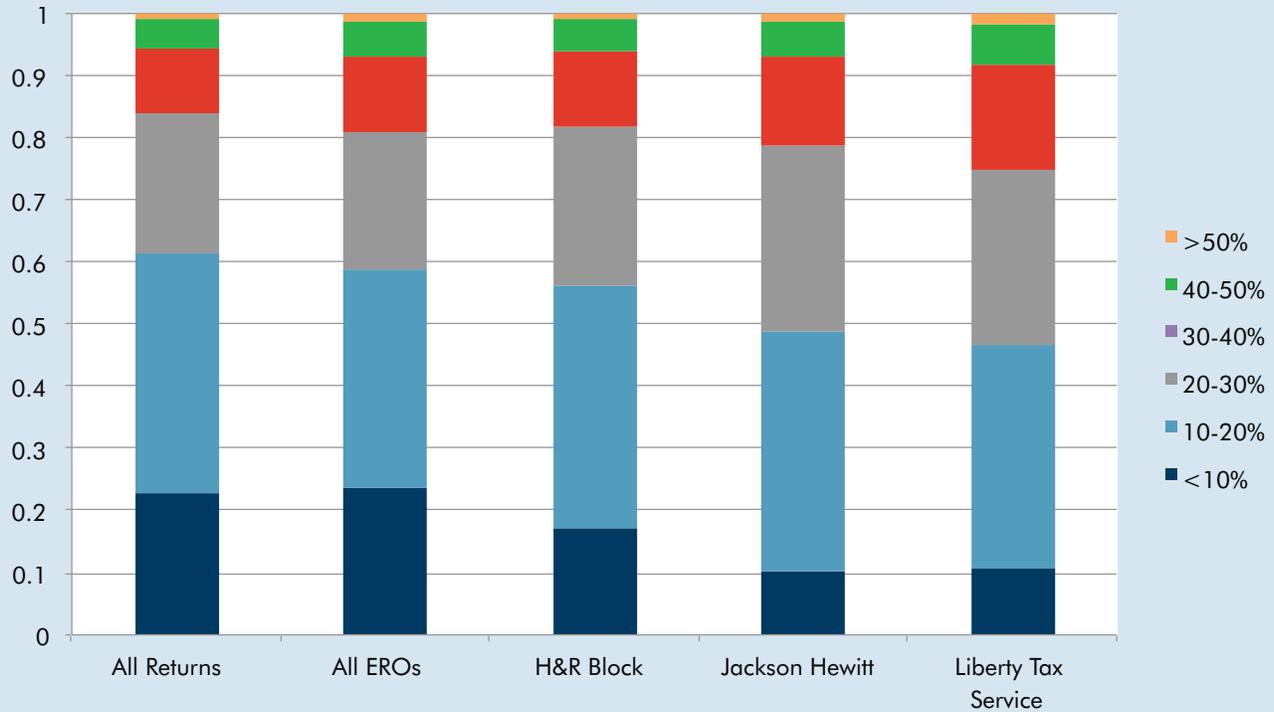
The big chains distinguish between filers living in low- and high-EITC zip codes and cater to their population of choice. Figure 3 shows that large chain tax preparers Liberty Tax Service and Jackson Hewitt are disproportionately represented in all but the lowest-EITC zip codes, where they are significantly less common. H&R Block, on the other hand, seems to have found its niche in the moderate-EITC zip codes. Unable to offer pricey refund anticipation loans any longer, there are now different incentives determining whether a tax preparer chain will open in a high-EITC zip code.

**Cities and suburbs in the U.S. South were home to low-income neighborhoods with the highest concentrations of tax preparers.**

Across the top 100 U.S. metropolitan areas and the entire nation there is a strong relationship between high- and low-EITC zip codes and ERO saturation; nearly all regions exhibit the same parabolic distribution of EROs by share of EITC receipt. However, the level of this saturation differs by region of the country.

Distribution of EROs across Northeastern and Midwestern zip codes follows the national parabolic pattern, although clustering among high-

FIGURE 3: PERCENTAGE OF TOTAL RETURNS, TAX PREPARERS, AND NATIONAL CHAIN TAX PREPARERS (EROS) IN THE TOP 100 METROPOLITAN AREAS, BY SHARE OF ZIP CODE FILERS EARNING EITC



Data: 2013 IRS Zip Code Files, IRS e-file Provider Database.

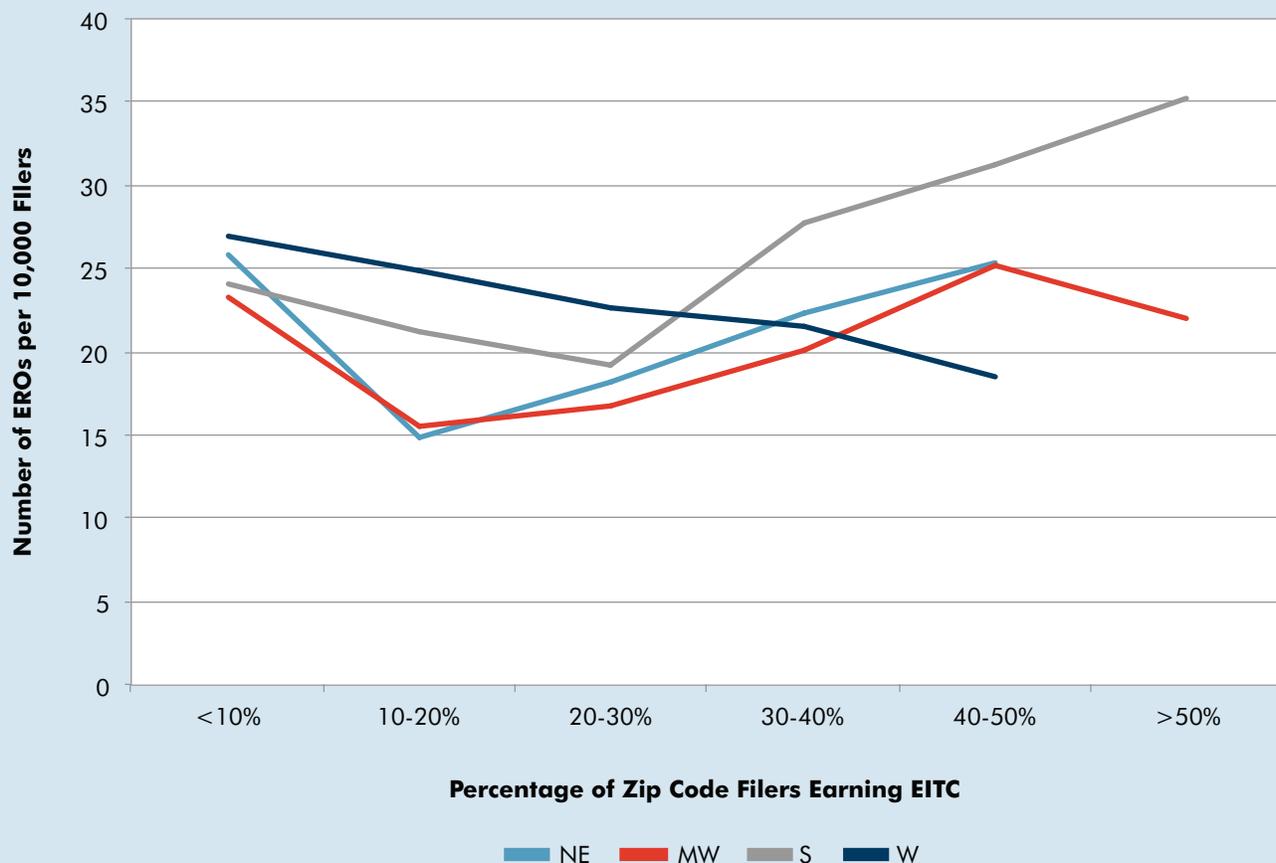
EITC zip codes appears to be less stark in both regions.<sup>20</sup> In the West, however, EROs appear to cluster in lower-EITC zip codes and not in high-EITC zip codes. Indeed, across high-population metropolitan areas in the West, there are very few zip codes in which a majority of filers claim EITC. Still, the relatively low prevalence of EROs in relatively high EITC zip codes (i.e. 40 to 50 percent) is notable. Nationally, it appears that the South experiences the bulk of ERO clustering in high-EITC regions (which are also significantly more prevalent compared to other regions). This may be due to greater underemployment and a larger population of working poor Americans, low educational attainment in the region, lower internet connectivity, or a host of other possible explanations.

**FAULTY TAX RETURNS**

The federal government’s chronic inability to raise enough money to fund its programs has put a spotlight on issues of tax fraud, errors, and avoidance. The most recent estimate of the tax gap—the difference between the true tax liability for a given tax year and the amount that is actually paid—has grown to about \$385 billion.<sup>21</sup> Closing the tax gap would provide enough money to reduce the FY 2015 deficit by 88 percent.

The tax gap can be divided into three components: the failure to file a tax return, underreporting, and underpayment. Underreporting of income remained the biggest contributing factor to the tax gap in 2006, followed by underpayment of taxes then non-filing. Fraud, error, and complexity all contribute to the tax gap.

FIGURE 4: TAX PREPARER PENETRATION IN 100 LARGEST METROPOLITAN AREAS, BY SHARE OF FILERS EARNING EITC AND REGION



*This region methodology was originally utilized in the 2001 Brookings paper “A Local Ladder for the Working Poor.”*

Under reported business income filed by individuals is the single largest source of the tax gap, amounting to fully \$122 billion in the most recent survey.<sup>22</sup>

This is not surprising given the lack of third party (i.e. employers, financial institutions, payroll firms) verification or withholding in this sector. It is well understood that underreporting rates are lowest for income where third party verification or withholding provisions are in place.

Given the size of the tax gap, it’s not surprising that elected officials have focused increasing attention on how to reduce it, including presidents from both parties as well as Members of Congress. Some have suggested giving the IRS more resources to enforce

compliance. According to IRS data, every additional dollar spent has generated four dollars in increased revenue.<sup>23</sup> Others, such as the Simpson-Bowles Commission, have called for simplifying the tax code, which could arguably help reduce the amount of tax gap due to errors.

Some tax reformers in Congress have focused on making fewer people, or less income, eligible for federal tax incentives. Often such deductions favor wealthier taxpayers or corporations. However, as mentioned above, some Republicans seem more concerned about what’s happening on the low end of the economy, specifically the high error rates and alleged tax fraud in filings for the EITC.

FIGURE 5. COMPILATION OF SURVEYS OF PAID TAX PREPARERS

Organization	Date	Number of Sites Visited	Error Rate	Error Range (in Dollars)
National Consumer Law Center	2015	29	90%	Up to \$9,562
Government Accountability Office	2014	19	89%	-\$52 to \$3,718
Neighborhood Economic Development Advocacy Project Reinvestment Partners	2011	9	44%	N/A
Arkansans Against Abusive Payday Lending & Neighborhood Economic Development Advocacy Project	2010	19	36%	N/A
Community Legal Services in Philadelphia (CLS) & Reinvestment Partners	2008	17	24%	N/A
Inspector General for Tax Administration, Department of the Treasury	2008	28	61%	<\$200 to \$6000
Government Accountability Office	2006	19	94%	-\$1700 to \$2000

The tax code's EITC provisions are overly complex and cumbersome. IRS instructions for the credit are nearly twice as long as the 13 pages of instructions for the Alternative Minimum Tax, which even highly sophisticated taxpayers find impenetrable.<sup>24</sup> Seventy percent of improper EITC refunds stem from issues related to the EITC's residency and relationship requirements, according to Department of the Treasury reports. These include filing status issues and others related to who can claim a child in non-traditional family arrangements.<sup>25</sup>

Given the complexity of the EITC, it is not surprising that a majority of those who claim the credit use paid preparers despite the cost. As recently as 2011, paid preparers filed 59 percent of returns claiming the EITC.<sup>26</sup> Who do EITC filers pay to do their taxes? Most choose from thousands of independent preparers, some small regional tax preparer chains, and the three large commercial chains (H&R Block, Jackson Hewitt, and Liberty Tax Service).<sup>27</sup>

The income levels for those who can claim the EITC are capped at \$47,955 for a single filer with three

children and \$53,505 for a married/joint filer with three children. It seems unlikely that Congress intended for EITC-eligible workers to pay a private entity to claim the credit; nonetheless, a majority of them do. Adding insult to injury, the filings tax preparation companies make on behalf of EITC recipients are often erroneous.

In recent years, several organizations and government agencies—GAO and the Inspector General for Tax Administration at the Department of the Treasury—have conducted informal, random surveys of tax preparer offices in an attempt to test the accuracy of EITC filings conducted by a paid preparer.

In 2006, GAO conducted a survey of 19 tax return preparers at affiliated chains. Only two of the 19 tax filings had the correct refund amount. Even then, those two preparers made errors; they just did not affect the size of the refund. Sometimes the errors are in the government's favor; incorrectly reported refunds ranged from nearly \$2,000 over the right amount to \$1,700 under.<sup>28</sup>

In February and March 2008, several auditors working for the Treasury Inspector General for Tax Administration posed as taxpayers and paid to have 28 tax returns prepared at 12 commercial chains and 16 small, independently owned tax return preparation offices. The survey utilized 5 different scenarios, with income ranging from \$16,000 to \$85,000. The filing statuses were single, married filing jointly, or head of household. The study showed the error rate for paid preparers was 61 percent and some people received an overpayment as high as \$6,000.<sup>29</sup>

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The EITC is arguably Washington’s most effective policy tool for encouraging work and helping working Americans lift themselves out of poverty.

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In 2014, the GAO conducted another undercover investigation of paid preparers. As part of this study, the GAO sent investigators to 19 randomly selected tax preparer offices at various locations. The investigators presented two scenarios: The “Waitress Scenario” was a single mother with cash and non-cash tips, eligible for the EITC, with two children under 15, and with a deduction for student loan interest. The “Mechanic Scenario” included a married couple filing jointly with children aged seven through 20 at home, with itemized deductions. Only 11 percent of the returns were correct, with some taxpayers getting a smaller refund and others getting a higher refund than they were entitled to receive.<sup>30</sup>

In addition to the government investigations, there have been at least four surveys conducted by community and consumer groups. Like the studies conducted by the federal government, these investigations are of relatively small sample size and the results cannot be extended to the industry as a whole. Nevertheless, they confirm that a significant number of EITC filings made by paid providers contained errors.

Furthermore, all the studies in Figure 5 raise serious concerns about the accuracy of paid preparers and put in question any policy solution to the EITC error rate that involves greater reliance on paid preparers.

### POLICY IMPLICATIONS

The EITC is arguably Washington’s most effective policy tool for encouraging work and helping working Americans lift themselves out of poverty. It is better targeted than the minimum wage, and because it does not raise the cost of labor it creates no disincentives to employers to hire low-skill workers. But like all aspects of the federal tax code, filing for the EITC is more complicated and difficult than it should be.

This complexity drives low-income workers to paid tax preparers, who shave off 10 to 20 percent from the typical EITC refund. It also leads to large error rates, which makes the tax credit vulnerable to conservative critics—despite its bipartisan history—and undermines public confidence in federal anti-poverty initiatives.

Progressives should tackle both problems. Ultimately, they should aim at radical tax simplification and relieving low-wage workers of the burden of having to pay to claim benefits they’ve earned. In the interim, here are some specific reforms that can help preserve the value and integrity of the tax credit:

- **First, do no harm.** Government officials should not assent to industry calls to further complicate the EITC. Pushing EITC filers to utilize paid providers would reduce the value of the EITC and would not likely be effective in reducing EITC errors given the high error rate of paid tax preparers.
- **Authorize the IRS to require competency exams for paid tax preparers.** In recent years the IRS has tried to establish competency exams for the 60 percent of paid tax preparers who are not lawyers, Certified Public Accountants (CPAs), or under supervision and/or have received certification. Unfortunately, the courts have blocked the IRS from moving forward with its plan to have preparers pass a competency examination.<sup>31</sup> Congress should provide the IRS

with this authority as well as increase penalties for fraud committed by a paid tax preparers.

- **Enact EITC simplification measures proposed by President George W. Bush's Treasury Department.** A round of EITC simplifications in 2001 led to a 13 percent drop in overpayments. Following this success, the Bush Administration proposed additional changes, including sensible proposals to simplify arcane rules governing how parents who are separated can claim the EITC, and to allow filers who live with a qualifying child but don't claim the child for the EITC to claim the much smaller EITC for workers not raising a child.<sup>32</sup>
- **Increase awareness of free taxpayer assistance programs.** Ironically, the vast majority of tax filers who are EITC eligible could get assistance with their taxes for free. The Volunteer Income Tax Assistance (VITA) program offers free help with tax returns to taxpayers who make \$54,000 a year or less, those who don't speak English well, or individuals with disabilities. The volunteers are certified by the IRS, and they can provide help with basic returns and file returns electronically.

Free File is offered through the IRS.gov website, as well as by more than 20 state revenue department websites. Nationally Free File is comprised of more than a dozen varied tax software offered for free by commercial firms. Free File operates under a set of standards, rules, and requirements for consumer protection imposed by the IRS as conditions for commercial participation in the program. IRS Free File offers free tax-filing software options for individuals and families with income of \$62,000 a year or less Adjusted Gross Income (AGI), which equates to roughly 100 million eligible taxpayers.<sup>33</sup> IRS Free File also offers an online fillable forms

service, which operates under the same rules but without an income cap or any eligibility limits. An alternative service, MyFreeTaxes.com, is promoted by various non-profit organizations, and is sometimes confused with IRS Free File because it is offered in a manner that appears similar to IRS Free File. MyFreeTaxes.com is a proprietary commercial service offered by a single company, H&R Block. MyFreeTaxes.com is not governed by the consumer protection rules which are required for commercial participation in IRS Free File.

It has been estimated that since the IRS Free File program began in 2003, taxpayers have saved more than \$1 billion dollars in tax preparation fees. One way to expand the use of free taxpayer assistance programs—with consumer protections—would be a media campaign during tax season to increase taxpayer awareness of government-sponsored free programs like Free File. The campaign could be sponsored by both industry and the IRS. Increasing public use of such an existing free program would be an immediately available solution to dramatically increase the value and accessibility of refundable tax credits like EITC at no cost to taxpayers, while policymakers act on and deliver the long term solution of tax simplification sites.

- **Embrace overall tax reform and simplification.** Proposals such as the Modified Zero Plan offered by the Simpson-Bowles Commission would have stripped the income tax of most special preferences, reduced rates to the lowest levels since the Reagan era, and created a number of super credits, including a strengthened and simplified EITC. The Modified Zero Plan would enable most Americans to be able to file their taxes on a one-page form and will save billions in accounting and tax preparation fees.

**ENDNOTES**

1. Note: Not all paid tax preparers file electronically, although most of the major chains do so.
2. Michael Brostek, Director of Strategic Issues, United States Government Accountability Office, testimony before the Senate Committee on Finance, April 4, 2006 and Treasury Inspector General for Tax Administration, “Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors,” September 2008.
3. Statement of Gene Dodaro, Comptroller General, GAO, October 1, 2015 before the Senate Finance Committee <http://www.gao.gov/assets/680/672884.pdf>.
4. Brad Snyder, “GOP Is Cutting Tax Credit for Poor Begun by Nixon, Expanded by Reagan.” Baltimore Sun, October 2, 1995. [http://articles.baltimoresun.com/1995-10-27/news/1995300027\\_1\\_earned-income-tax-raise-taxes-credit-for-poor](http://articles.baltimoresun.com/1995-10-27/news/1995300027_1_earned-income-tax-raise-taxes-credit-for-poor).
5. Chuck Marr, Chye-Ching Huang, Arloc Sherman, Brandon Debot, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, updated October 1, 2015.
6. “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities, January 15, 2016.
7. Department of the Treasury, Agency Financial Report (AFR), fiscal year 2014, p. 198;
8. Letter from William Cobb, CEO of H&R Block to IRS Commissioner John Koskinen and Treasury Assistant Secretary for Tax Policy Mark Mazur, December 1, 2014.
9. Ibid.
10. Jeanne Sahadi, “Nearly 8 out of 10 U.S. Taxpayers Get Refunds,” CNN Money, January 14, 2015.
11. Military facilities may also be a target of national tax preparer chains. For example, at the Naval Air Station in Patuxent River, Maryland, Liberty Tax Service has offices inside the Navy Exchange Food Court, while H&R Block and Jackson Hewitt are located directly across from one the main entrances to the base off Three Notch Road.
12. Ray Martin, “How much should you pay for tax prep?” CBS Moneywatch, February 26, 2015.
13. Note: Our investigator was told by representatives at Liberty that the regular price was \$509, but that a one-day sale that would reduce the price to \$409.
14. Our informal survey was conducted from January 29 through February 5, 2016 and our investigator visited each site in person. All locations were provided with the same income and household information (single parent, full custody of one child). In each case our investigator asked for an estimate of the minimum cost of preparing a federal Form 1040, including schedule EIC (required to claim the EITC), as well as an accompanying state return.
15. “More than 22 Million Returns E-Filed in 2013,” Internal Revenue Service, December 4, 2013. <https://www.irs.gov/uac/More-than-122-million>Returns-eFiled-in-2013>.
16. A parabola is a two-dimensional, mirror-symmetrical curve, which is approximately U-shaped but which can be oriented in any direction.
17. In calculating this we controlled for population.
18. While a zip code’s median income can be a relatively good proxy for EITC receipt (and vice versa), it’s not perfect; for instance, some zip codes may see low EITC share due to a high share of households not required to file taxes at all (due to things like unemployment or extreme poverty).
19. David Cay Johnston, “IRS Audits of Working Poor Increase,” The New York Times, March 1, 2002.
20. Due to the very small number of zip codes with EITC prevalence by filer greater than 50% in the Northeast and West, we have elected not to provide average ERO penetration for these subsets of filers.
21. “IRS Releases New Tax Gap Estimates; Compliance Rates Remain Statistically Unchanged From Previous Study,” Internal Revenue Service, Jan. 6, 2012.
22. Chuck Marr, “Congress Should Start Minding the Tax Gap,” Center on Budget and Policy Priorities, January 2012.
23. Eric Toder, “Reducing the Tax Gap: The Illusion of Pain-Free Deficit Reduction,” Tax Policy Center, 2007.
24. Robert Greenstein, John Wancheck, Chuck Marr, “Reducing Overpayments in the Earned Income Tax Credit,” Center on Budget and Policy Priorities, December 2015.
25. Ibid.
26. Testimony of Internal Revenue Service Commission John Koskinen before the Senate Finance Committee, April, 8 2014.
27. Chi Chi Wu and Jean Ann Fox, ‘RALs, Tax Fraud, And Fringe Preparers,’ NCLC and Consumer Federation of America, 11, February 2009.

28. Michael Brostek, Director of Strategic Issues, United States Government Accountability Office, testimony before the Senate Committee on Finance, April 4, 2006.
29. Treasury Inspector General for Tax Administration, “Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors,” September, 2008.
30. Michael Best & Tom Feltner, “Protecting Consumers at Tax Time: Federal and State Efforts to Address Common Problems Associated with Paid Tax Preparation,” Consumer Federation of America, January 2015.
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