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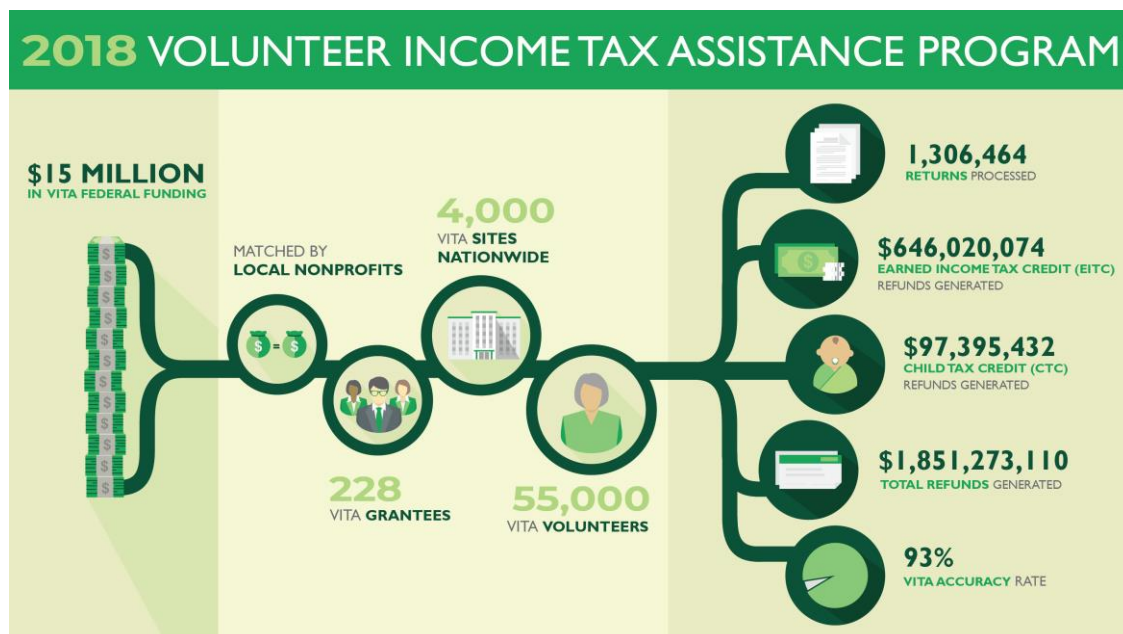
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Leveraging Tax Time for Working Families with VITA

Low-Income Households Rely on Tax Refunds Each Year

Tax refunds are an important source of income for working Americans. Tax refunds can account for three months' pay or one-fifth of annual income for low- and moderate-income households.¹ The significance of tax refunds is even more acute among working families that depend on the Earned Income Tax Credit (EITC), the largest and most effective antipoverty program in the United States today.² In 2017, 27 million workers claimed an average \$2,445 in EITC benefits.³

Yet, filing taxes remains complex and expensive for many households. Over time, the tax code has become increasingly complicated. Frequent changes, including the recent Tax Cuts and Jobs Act of 2017, are difficult for everyday tax filers to keep up with, not to mention ensure they receive any credits or deductions they are entitled to. Today, nearly 60% of tax filers turn to professionals for tax preparation assistance.⁴ Tax preparation remains a highly unregulated industry that tends to target vulnerable communities. There are 75% more paid tax preparers in communities with higher EITC participation rates.⁵ The need has been exacerbated by a reduced availability of IRS telephone assistance.⁶ This creates a troubling set of options: filers can



**Includes VITA, VITA Grantees and Military VITA programs that used IRS-provided software

SOURCE: IRS Stakeholder Partnerships, Education and Communication (SPEC), 2018

pay tax preparers at an average cost of \$273⁷ or risk forgoing tax credits that contribute to a significant share of household income.

Increasing access to free tax preparation helps working families. The Volunteer Income Tax Assistance (VITA) program presents a reliable, effective alternative for low- and moderate-income households to accurately file their taxes without paying an unregulated professional preparer.

VITA Provides High Quality Free Tax Preparation to Low-Income Americans

VITA is a community-based program that provides free tax preparation services to lower-income Americans. Since its founding in 1969, VITA has grown to a national network of 4,000 sites, each with highly trained volunteers.⁸ Individuals are eligible for VITA services if they earn \$54,000 or less in income, have a disability or have limited English proficiency.⁹ Since every dollar the federal government contributes to VITA is matched by local, state or private funds, a federal investment of just \$15 million yielded more than 1.3 million tax returns through VITA in 2018.¹⁰

VITA helps households access tax refunds and invest in their communities. In 2018, VITA helped tax filers access \$1.9 billion in tax refunds, including \$646 million from the EITC.¹¹ Without VITA, some eligible EITC recipients may not claim it, as evidence suggests that even people who have received the credit may not be aware it exists.¹² VITA helped tax filers with children access \$97 million in Child Tax Credits (CTC) in 2018.¹³ These lump-sum tax refunds help households accumulate savings.¹⁴ Refunds also contribute a massive infusion of money into local economies. Some cities have estimated that the local economic impact of programs like the EITC exceeds the value of the credit itself because of its ripple effect: EITC dollars move through and between consumers, businesses and workers to increase the monetary gain of society at large.¹⁵

Greater Impact Through Increased Funding

Doubling federal funding to \$30 million annually would allow VITA to:

- Prepare returns for more tax filers
- Increase access in underserved states, including in rural and native communities
- Hire more staff to extend VITA's reach and ensure a high quality of service
- Improve public awareness of VITA services through marketing

VITA is among the highest quality tax preparation services available. VITA-prepared tax returns are 93% accurate,¹⁶ which is one of the highest accuracy rates of any major kind of tax preparation service, including certified public accountants (CPAs) and large tax prep companies. This is despite rising demand for VITA services and a federal budget allocation that, for decades, has grown only a little. Federal funding supports training for approximately 55,000 VITA volunteers at locations across the country.¹⁷ Unlike other forms of tax preparation, which are largely unregulated, all VITA volunteers are certified annually using an IRS-approved curriculum and certification test while sites adhere to IRS standards and Quality Site Requirements.¹⁸

Paid tax preparers are largely unregulated. Unlike VITA volunteers, paid tax preparers in the United States are not subject to federal certification, training or consumer protections. Just four states (California, Maryland, New York and Oregon) have passed regulations around professional tax preparers.¹⁹ In the rest of the country, it's harder for a filer to know if they can trust a preparer, be sure that services are offered at a fair price and confidently expect a high-quality, accurate return.

VITA sites also serve as hubs for tax filer education and financial capability services. VITA sites have grown beyond tax preparation to provide other financial capability and education services. These services include credit counseling, small business tax returns, housing counseling, customized financial planning and public benefit screenings. VITA sites also play a significant role in promoting savings. Unbanked tax filers who use VITA are more likely to open a bank account for the first time.²⁰ Sites increasingly talk to clients about saving for retirement and emergencies, and share strategies for asset building.

VITA Has Broad Support

Congressional support for VITA is bipartisan. In April 2018, the House of Representatives passed the VITA Permanence Act (H.R. 2901), which would permanently authorize the program in statute.²¹ The legislation was introduced and championed by a bipartisan coalition, led by Rep. Carlos Curbelo (R-FL-26) and Rep. Danny Davis (D-IL-7). In the Senate, similar legislation has been introduced by Sen. Sherrod Brown (D-OH) and Sen. Dean Heller (R-NV).²² Congresses controlled by both Republicans and Democrats have increased the size of VITA in the federal budget.

Communities and states are invested in VITA. Federal VITA funding acts as a matching grant to augment local investment. For every \$1 of federal spending, VITA providers are required to secure at least \$1 of support from local non-profit organizations, cities or volunteers.²³ Several states also provide funding for local programs. Minnesota, for example, offers \$400,000 in grants for VITA.²⁴ Because VITA locations are set up and managed by local nonprofit organizations, rather than the federal government itself, communities are at the core of the program's operations.

VITA runs on local volunteers. There are approximately 55,000 VITA volunteers responsible for most of the direct services provided by VITA sites across the country.²⁵ Some VITA providers have a small number of paid staff who coordinate their programs. But highly trained volunteers perform the bulk of the work: greeting tax filers, conducting intake interviews and working with clients to accurately complete and file tax forms.

VITA needs more funding to keep up with demand. At the end of 2015, Congress increased VITA's funding by \$3 million to reach a total of \$15 million, which has remained constant to date.²⁶ However, demand for the program's services continues to outstrip supply. From 2011 to 2018, the number of VITA participants increased by almost 50%—from 964,000 to 1.3 million.²⁷ Wait times are long, and limited capacity forces sites to turn tax filers away, especially as Tax Day approaches.²⁸ Because VITA is a matched-fund, public-private partnership between local organizations and the government, additional funding for grants would enable busy VITA locations to expand, rather than turn away people seeking tax preparation help. More funding would also allow community organizations in underserved regions—especially those in rural and native communities—to set up VITA locations for the first time.

Actions Congress Should Take to Strengthen VITA

By taking the following actions, Congress can help low- and moderate-income households leverage tax time to help them build financial security:

- **Help low-income families access free tax preparation services by making the VITA program permanent.** Even though VITA is a model private-public partnership that has been around for a half a century, Congress has never formally authorized the program. Authorizing VITA permanently in statute would afford VITA sites more certainty that the program will continue and potentially gain more support for increased funding. The House of Representatives has already passed the bipartisan VITA Permanence Act (H.R. 2901) to make VITA permanent and allow up to \$30 million in funding annually, but the Senate has yet to pass legislation authorizing the program. A permanent VITA program is particularly necessary as the tax code continues to change—including through the recent Tax Cuts and Jobs Act of 2017—and as tax filer assistance from the IRS is limited by low funding.
- **Increase funding to keep up with growing demand for VITA services.** Right now, funding constraints limit VITA sites' ability to serve more working families in their communities. Increasing federal funding from \$15 million to \$30 million annually would allow VITA to hire new staff for program coordination, add new sites, improve volunteer recruitment and increase outreach to low-income households. More funding would also help VITA prepare for and adjust to increasing demand related to the Tax Cuts and Jobs Act, as well as limited access to telephone support through the IRS.
- **Pass regulations on paid tax preparers.** Unless Congress acts to ensure quality and protect consumers, paid tax preparers will continue to take advantage of tax filers in the 46 states where they are not regulated. Congress should require tax preparers to be licensed, pass basic competency standards to prevent fraud and abuse, and protect consumers by requiring that preparers clearly disclose cost structures and fees.²⁹ VITA, which requires training and licensing by the IRS, presents a model for the paid tax preparation industry, as do the four states that already regulate preparers: California, Maryland, New York and Oregon.

This brief was written by Michael Auslen.

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² Joanna Ain, Chad Bolt, and David Newville, “Helping Working Families Build Wealth at Tax Time,” in *Our Kids, Our Future* (Washington, DC: Child Poverty Action Group, 2018), 25–31,

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³ “Statistics for Tax Returns with EITC,” *Internal Revenue Service*, May 7, 2018, <https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-eitc>.

⁴ “2017 Internal Revenue Service Data Book,” *Internal Revenue Service*, March 2018, 9–10, <https://www.irs.gov/pub/irs-soi/17databk.pdf>.

⁵ Paul Weinstein Jr. and Bethany Patten, “How Paid Tax Preparer Fees Are Diminishing the Earned Income Tax Credit (EITC),” *Progressive Policy Institute*, April 2016, 2, http://www.progressivepolicy.org/wp-content/uploads/2016/04/2016.04-Weinstein_Patten_The-Price-of-Paying-Takes-II.pdf.

⁶ “Objectives Report to Congress,” *National Taxpayer Advocate*, June 28, 2017,

https://taxpayeradvocate.irs.gov/Media/Default/Documents/2018-JRC/JRC18_Volume1.pdf.

⁷ “NSA Survey Reveals Fee and Expense Data For Tax Accounting Firms in 2016 and 2017 Projections,” *National Society of Accountants*, January 27, 2017, <https://connect.nsacct.org/blogs/nsa-blogger/2017/01/27/nsa-survey-reveals-fee-and-expense-data-for-tax-accounting-firms-in-2016-and-2017-projections>.

⁸ Internal Revenue Service, email message to Prosperity Now staff, January 15, 2018.

⁹ “Free Tax Return Preparation for You by Volunteers,” *Internal Revenue Service*, June 5, 2018, <https://www.irs.gov/individuals/free-tax-return-preparation-for-you-by-volunteers>.

¹⁰ *IRS Stakeholder Partnerships, Education and Communication (SPEC)*, data downloaded from the IRS SPEC provided software, 2018.

¹¹ Ibid.

¹² Jeffrey B. Liebman, “The Impact of the Earned Income Tax Credit on Incentives and Income Distribution,” *Tax Policy and the Economy* 12 (January 1998): 106, <https://www.journals.uchicago.edu/doi/10.1086/tpe.12.20061856>.

¹³ *IRS Stakeholder Partnerships, Education and Communication (SPEC)*, data downloaded from the IRS SPEC provided software.

¹⁴ Steve Holt, “Ten Years of the EITC Movement: Making Work Pay Then and Now,” *Metropolitan Policy Program at Brookings*, April 2011, https://www.brookings.edu/wp-content/uploads/2016/06/0418_eitc_holt.pdf.

¹⁵ Alan Berube, “Using the Earned Income Tax Credit to Stimulate Local Economies,” *The Brookings Institution*, The Living Cities Policy Series, June 2006, <https://www.brookings.edu/wp-content/uploads/2016/06/Berube20061101eitc.pdf>.

¹⁶ “FY 2017 Stakeholder Partnerships, Education and Communication Quality Statistical Sample Review Results,” *Internal Revenue Service*, July 5, 2017, <https://www.irs.gov/pub/irs-utl/qssreviewresults.pdf.pdf>.

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¹⁸ “Volunteer Training Certification,” *Internal Revenue Service*, March 27, 2018, <https://www.irs.gov/individuals/volunteer-training-certification>;

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²¹ *Volunteer Income Tax Assistance Permanence Act*, HR 2901, 115th Congress (2017), <https://www.congress.gov/bill/115th-congress/house-bill/2901>.

²² Joanna Ain, “From Protecting to Strengthening: It’s Been Quite the Year for VITA!,” *Prosperity Now*, April 20, 2018,

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²³ “VITA Grant FAQs Category: Matching Funds,” *Internal Revenue Service*, March 27, 2018, <https://www.irs.gov/individuals/vita-grant-faqs-category-matching-funds>.

²⁴ “Grant to Provide Volunteer Taxpayer Assistance Services to Minnesotans Who Are Low-Income and Disadvantaged,” *Minnesota Department of Revenue*, June 27, 2018,

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²⁵ *IRS Stakeholder Partnerships, Education and Communication (SPEC)*, data downloaded from the IRS SPEC provided software.

²⁶ Joanna Ain and Caitlin Carey, “Tell Congress We Need VITA Funded at \$30 Million,” *Prosperity Now*, May 14, 2018,

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²⁸ “Making the Case for Community VITA Funding,” *Center for Economic Progress*, November 2007, <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-nyus-evangelist.pdf>.

²⁹ David Newville and Chad Bolt, “The Urgent Need for Basic Competency Standards for Paid Tax Preparers,” *Prosperity Now*, January 2017, https://prosperitynow.org/sites/default/files/resources/paid_preparer_brief_01-2017.pdf.