

Errors, Fraud & Arbitrary Fees:

A Secret Shopper Study of Paid Tax Preparation Services
In Southwest Atlanta

Georgia Watch Financial Protection Program



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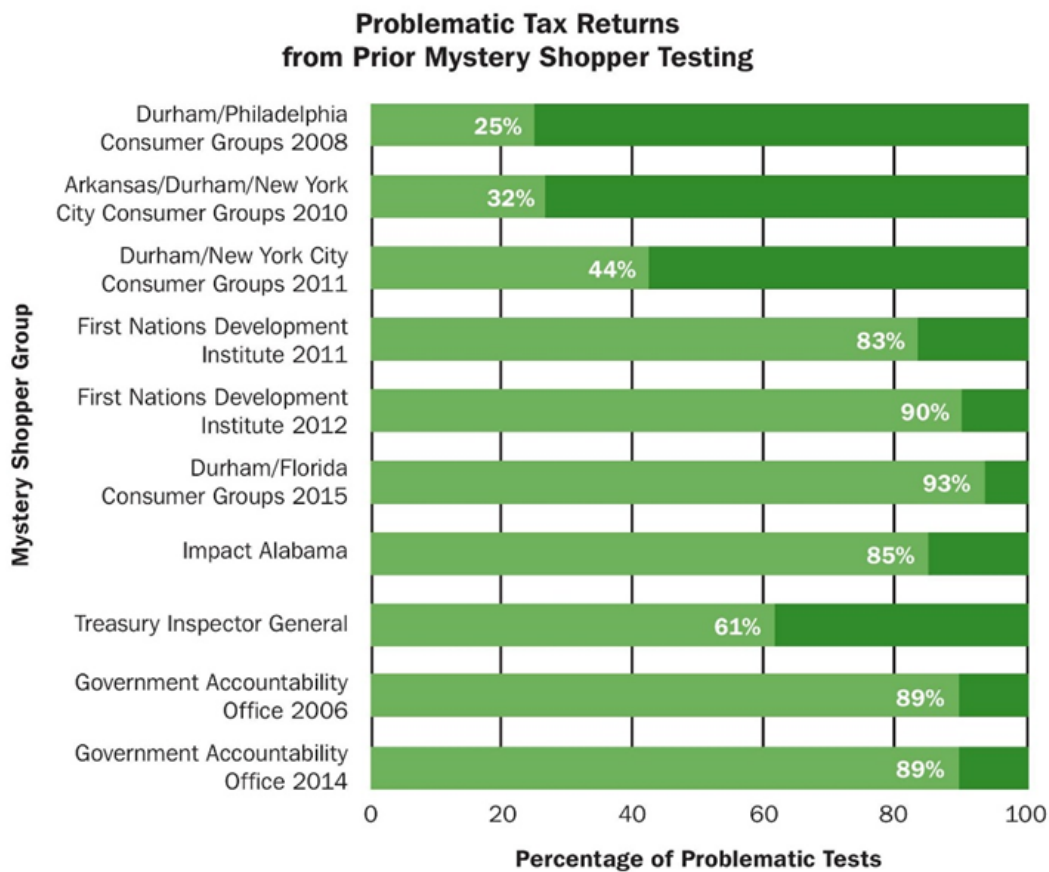
PROTECTING CONSUMERS.
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EMPOWERING CITIZENS.

FOREWORD

Chi Chi Wu, National Consumer Law Center, author of, *Prepared in Error: Mystery Shoppers in North Carolina and Florida Uncover Serious Tax Preparation Problems*

Georgia Watch has done an excellent job in uncovering the serious problems in the tax preparation industry in this state. Its test results show seriously troubling levels of errors, fraud, and an almost complete lack of transparency in pricing. The results are disturbing, but unfortunately they are neither surprising nor shocking to those of us who have examined the tax preparation industry.

Georgia Watch's mystery shopper results are consistent with the numerous similar studies conducted over the years by consumer groups, government agencies, and other organizations. Each round of testing has found similarly high levels of errors and fraud, as summarized by the following chart.



Source: National Consumer Law Center, *Riddled Returns*, March 2014, *Prepared in Error*, April 2015.

Prior to Georgia Watch's study, consumer advocates in Florida and North Carolina had conducted the most recent round of testing in 2015. The Florida and North Carolina testers used the same scenarios as Georgia Watch - the Single Mother (which was a Single Father in some tests) and the Graduate Student. In both states, we saw results similar to those uncovered by Georgia Watch.

Single Mother/Father Scenario:

- 8 of the 15 preparers (53%) tested in Florida and North Carolina had the tester claim the child, which improperly inflated the tester's refund by claiming the Earned Income Tax Credit (EITC).
- 12 of the 15 preparers (80%) did not report the tester's side income.

Graduate Student Scenario:

3 of the 14 preparers (21%) took questionable deductions, including 1 preparer who made up \$9,562 in fictitious businesses expenses.

Georgia Watch's test results, like so many before it, have uncovered serious problems in the tax preparation industry. The results show the dire need for competency and ethical standards in Georgia, as well as the 46 other states that do not prescribe minimum credentials for tax preparers. The failure to regulate paid preparers has been costly for taxpayers, as well as the federal and state treasuries.

Read the full report, ***Prepared in Error: Mystery Shoppers in North Carolina and Florida Uncover Serious Tax Preparation Problems***, and see NCLC's model law on individual tax preparer regulation online at:

<http://www.nclc.org/issues/prepared-in-error.html>

EXECUTIVE SUMMARY

Errors, Fraud & Arbitrary Fees:

A Secret Shopper Study of Paid Tax Preparation Services in Southwest Atlanta

Overview: This mixed-methods study sought to examine the paid tax preparation market in Southwest Atlanta. The outcomes reveal cause for major concern around the lack of regulation and education of paid tax preparers and absence of protections for consumers. Today, anyone in Georgia, regardless of education or training level, has the legal authority to charge consumers for the preparation of income taxes. The study sought to assess the transparency and variance of fees, error rates on returns and the prevalence of outright fraudulent activity affecting consumers in the region. The study was conducted in three parts: a phone survey of tax preparation firms that were actively hiring new preparers; a preliminary survey of residents of six primarily low-income neighborhoods in southwest Atlanta; and finally, sending mystery shoppers into paid tax preparation firms utilized by residents of those neighborhoods.

Phone Poll: Georgia Watch first conducted a phone poll of tax preparation firms that were actively hiring new preparers in Atlanta. The researchers pretended to be interested applicants in order to assess: duration of training, minimum qualifications and incentives for performance. Overall, results indicated:

- Wide variance in the amount of training required at each tax preparation site, ranging from 2 hours to 16 hours.
- Many sites stated that the applicants would not need any previous experience to prepare taxes at their firm.
- One preparer claimed that multiple preparers at their site use one person's IRS PTIN number.ⁱ
- Several individuals were trying to sell 'tax franchises', marketed specifically to low-income residents of southwest Atlanta.
- One preparer stated that they were primarily a used car lot, but prepared taxes in hopes that they could persuade customers into using their anticipated tax refund to purchase a vehicle.

ⁱ The Preparer Tax Identification Number (PTIN) is an identification number that all paid tax return preparers must use on U.S. federal tax returns or claims for refund submitted to the Internal Revenue Service (IRS). Each preparer should have their own PTIN number.

Preliminary Survey of Residents in Southwest Atlanta: Georgia Watch conducted a preliminary phone survey of taxpayers living in Neighborhood Planning Unit-V, (NPU-V)ⁱⁱ, made up of six primarily low-income neighborhoods in southwest Atlanta. In total, 146 individuals responded to the survey, with 36 respondents removed from the analysis for being incompatible with the criteria for inclusion, leaving 110 respondents in the final sample. Mostly respondents were removed because they were not residents of NPU-V. The survey results indicated that: (a) taxpayers living in these neighborhoods often utilize paid tax preparation services; (b) the services range widely in cost; and (c) that most taxpayers assume a baseline of protection exists through licensure of their tax preparers in Georgia.

- The majority (56.6%) of respondents expected to pay some amount for tax services in 2016, though the range varied.
- Of the 38 individuals who expected to pay for their tax preparation in 2016, and did not self-file or use a Certified Public Accountant (CPA), 78.9% believed their most recent preparer was licensed.
- Notably, almost one-third of respondents expecting free tax preparation services also claimed to use chain tax prep offices to file their taxes. We believe these respondents may have their fee automatically taken out of their tax refund and do not realize they pay for these services.

Mystery Shopper Testing: Georgia Watch conducted 20 mystery shopper tests, 10 tests for each of two scenarios between February 1, 2016 and April 1, 2016. All sites were within six neighborhoods in southwest Atlanta. None of the sites visited had a CPA on staff.

Single Mother Scenario:

In this scenario, the single mother does not have the child living with her for enough of the year to claim her as a dependent. She also has \$800 in side income from her jewelry business in addition to the income on her W-2. She should owe \$240 at the federal level and should receive a refund of \$104 at the state level.

- 100% of preparers incorrectly inflated the amount of the federal and state refund for this scenario.
- The federal refund amounts claimed by the preparers ranged from \$1,352 to \$6,580, none of which were correct. If prepared correctly, the federal return would show the single mother owed \$240 at the federal level. (cont'd)

ⁱⁱ Neighborhood Planning Units (NPUs) are citizen advisory councils that make recommendations to City of Atlanta government on zoning, land use, and other planning issues. The City of Atlanta is divided into twenty-five Neighborhood Planning Units. NPU-V is located in the southwest quadrant of the city, inclusive of six neighborhoods: Adair Park, Pittsburgh, Mechanicsville, Summer Hill, Capitol Gateway and Peoplestown.

- The state refund amounts ranged from \$146 to \$1,021. The correct amount she should have received was a refund of only \$104.
- 70% of preparers in this scenario incorrectly claimed the child as a dependent to inflate the tax return. Many falsified information to do so.
- Fees ranged from \$125 to \$457 for the preparation service for the single mother. In many cases, preparers indicated the cost would have been much higher if the taxpayer elected to e-file.

Graduate Student Scenario

In this scenario, the graduate student has taxable income from her internship, along with interest from an investment account. She should owe \$41 at the federal level and \$159 at the state level.

- 50% of preparers did not ask the researcher for identification of any kind;
- The federal amounts owed ranged from \$0 to \$1,175, three of which were correct at \$41;
- Two preparers calculated a federal refund of \$66 and \$1,000, respectively;
- The state amounts owed ranged from \$0 to \$165, three of which were correct at \$159;
- Only two firms prepared both the state and federal tax returns correctly, however those firms did improperly inflate refunds during their single mother scenario tests;
- Tax preparation fees ranged from \$0 to \$210, though several indicated giving her 'special' discounts because she owed, or because she was not electing to e-file.

Conclusion: Overall, in both scenarios researchers encountered a stunning lack of knowledge and professionalism from preparers, vast inconsistencies in preparation fees, and a wide range of outcomes given the same inputs at each site.

Based on the results of the study, Georgia Watch strongly advocates for regulation of paid tax preparers at the state level. We recommend state-based regulation that contains the following provisions to assure an adequate baseline of protection for taxpayers in the Georgia market:

- | | |
|---|--|
| 1. Establishment of a State Board of Individual Tax Preparers . | 4. Requirement of continued education. |
| 2. Requirement of registration and licensing with the State. | 5. Exemption of professionals governed by IRS Circular 230 , as well as AARP and IRS VITA volunteer preparers. |
| 3. Requirement of a competency exam. | 6. Provision of a fee schedule to taxpayers in advance of service. |

ACKNOWLEDGEMENTS

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We are particularly thankful to our secret shoppers whose time and energy made this project successful.

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I. Background

Today, any adult in Georgia, regardless of education or training level, has the legal authority to charge consumers for the preparation of income taxes. As tax season is one of the most important financial events for consumers of all income levels, this lack of regulation poses serious risks for consumers seeking professional tax preparation services in the Georgia market. Moreover, for many low-income families, the earned income tax credit and annual refund is the largest sum of money they will receive all year. It also serves as a method of 'forced savings' that often goes immediately toward paying off debts or purchasing household necessities.

Over 70 million Americans seek out paid tax preparation services to provide guidance on a myriad of income tax concerns.¹ However, only a select group of tax preparers providing these services have professional credentials or state-based licensing requirements. Certified Public Accountants (CPAs), licensed attorneys and enrolled agents with the IRS are the only professionals who must prove a standard level of education according to their respective credentialing bodies. More than half of paid tax preparers in the United States do not fall into these categories, and therefore lack any sort of formal credentials.

In response to these concerns, the IRS created a system to regulate paid 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. In 2014, the D.C. Court of Appeals issued a ruling that stated the IRS had overstepped its authority and invalidated the rule.² This decision, which means that Congress will now have to explicitly give the IRS the authority to regulate paid preparers, has pushed the responsibility to regulate to the states. Currently, however, only four states—Maryland, Oregon, California, and New York—mandate minimum educational, training, or competency standards for tax preparers. Additional reforms have been proposed at the federal level, and other states are currently considering regulation. For now, the broad lack of regulation has enabled tax preparers to charge for services, despite abuse, incompetence, unprofessionalism, and in some cases, tax fraud.

This Georgia study is one of several recent mystery shopper studies that have uncovered serious issues within the paid tax preparation market. A 2014 U.S. Government Accountability Office (GAO) study sent undercover investigators to 19 randomly selected

¹Data from IRS Stakeholder Partnerships, Education & Communication (SPEC) Returns Database for Tax Year 2013—Returns Filed through June 30, 2014 (Jan. 2015).

²Loving v. I.R.S., 742 F.3d 1013 (D.C. Cir. Feb. 2014).

tax preparer offices. Of the 19 sites visited, only two (11%) returns had the correct refund amount.³ In 2015, the National Consumer Law Center coordinated testing in North Carolina and Florida in partnership with Reinvestment Partners and the Florida Alliance for Consumer Protection. All of these studies highlighted major issues ranging from incorrect refund amounts, lack of professionalism, exorbitant and inconsistent fees for service, and lack of transparency. Significantly, several studies indicated that poorly trained preparers are incentivized to inflate refund amounts. This puts consumers at risk of audits and penalties in addition to paying back improper refunds; paying the correct amount owed and paying interest. Many of these consumers who use unregulated paid tax preparers are left without representation if they are audited by the IRS.

II. Preliminary Calls to Tax Preparation Firms

In late 2015, Georgia Watch conducted investigatory calls to tax preparation sites that were advertising to hire seasonal tax preparers. This investigation was a simple inquiry to better understand how the tax preparation services industry operates in Atlanta. Nine tax sites were selected for review based on help wanted ads on Craigslist and local yard signs found in southwest Atlanta. Only two of the nine sites assessed had a phone line connecting to a real person. Other sites either had recordings or no phone contact information at all. When a phone number was available, a researcher called each tax site and feigned interest in working as a tax preparer. The researcher asked questions regarding the amount of necessary experience, training provided, and compensation (see *Appendix A*). If a phone number was not available or the number directed them to a recording, the researcher assessed the advertising content and documented the available information.

A. Experience necessary to become a tax preparer

Only one site required any preparation experience to become a tax preparer. All other sites either required no tax preparation experience or did not specify. The one tax site that did require tax preparation experience only required one year of experience.

B. Training provided to tax preparers

Requirements for training to become a tax preparer with these firms varied from one week to six weeks. The researcher noted that this did not mean 8 hours a day, five days a week in training. In some cases, the site only required one partial day per week of training over the course of several weeks. It was also unclear if these training sessions were in person or online.

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>.

C. Pay structure for tax preparers

Sites advertised different methods of compensation for tax preparers. Tax preparers typically had some form of hourly income. Often tax preparers obtained additional income from commissions or bonuses provided for returns with higher refund amounts.

The findings from this inquiry highlight areas of potential concern in Atlanta-based tax prep businesses. Little training and no experience required for paid tax preparers indicates that many tax preparers are not sufficiently versed in the tax code. Paid tax preparers who are not fully aware of all relevant tax code provisions are more likely to make errors.

Another troubling insight from this inquiry is the common practice of paying tax preparers based on commission. By providing bonuses for tax preparers based on the size of the refund amount, the tax preparation office may incentivize preparers to fabricate deductions or not claim income on behalf of their customers.

III. Preliminary Survey of Residents in Southwest Atlanta (NPU-V)

In order to establish an understanding of where residents of the six neighborhoods in NPU-V go to have their income taxes prepared, Georgia Watch worked with The Center for Working Families and other community partners to distribute a survey. This survey consisted of four questions (see *Appendix B*) to help determine (1) whether or not respondents lived within these neighborhoods, (2) who prepared their taxes, (3) how much they expected to pay to have their taxes prepared, and importantly, (4) whether they realized preparers were not subject to State regulation. The survey was distributed via email to neighborhood groups, on Facebook pages for neighborhoods within NPU-V, at community events, and at neighborhood meetings. To incentivize survey participation, individuals who completed the survey were entered into a raffle for Visa gift cards.

A. Who were our respondents?

A total of 146 individuals responded to the survey. After reviewing each of the responses, 36 respondents were removed from the sample because:

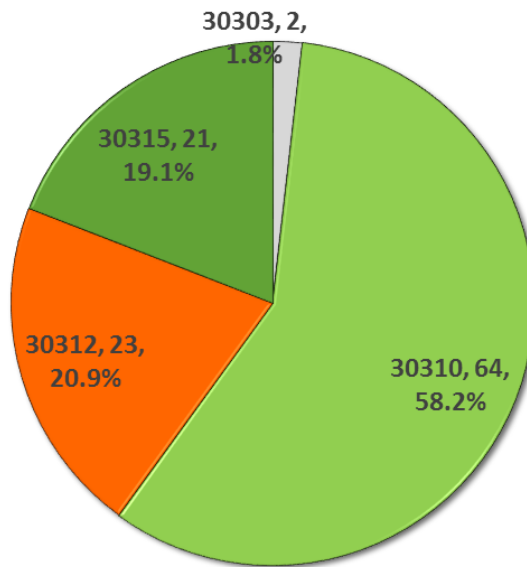
- Twenty-seven respondents lived outside of NPU-V;
- Eight respondents indicated that they do not file tax returns; and
- One individual indicated they filed a tax return in another state.

The final sample included 110 respondents who lived in NPU-V and filed tax returns.

B. Which zip codes did respondents live in?

The study area included four zip codes: 30310, 30312, 30315 and 30303. The sample appeared representative of the given population density for each of those zip codes (see figure below).

Respondents by Zip Code (n=110)

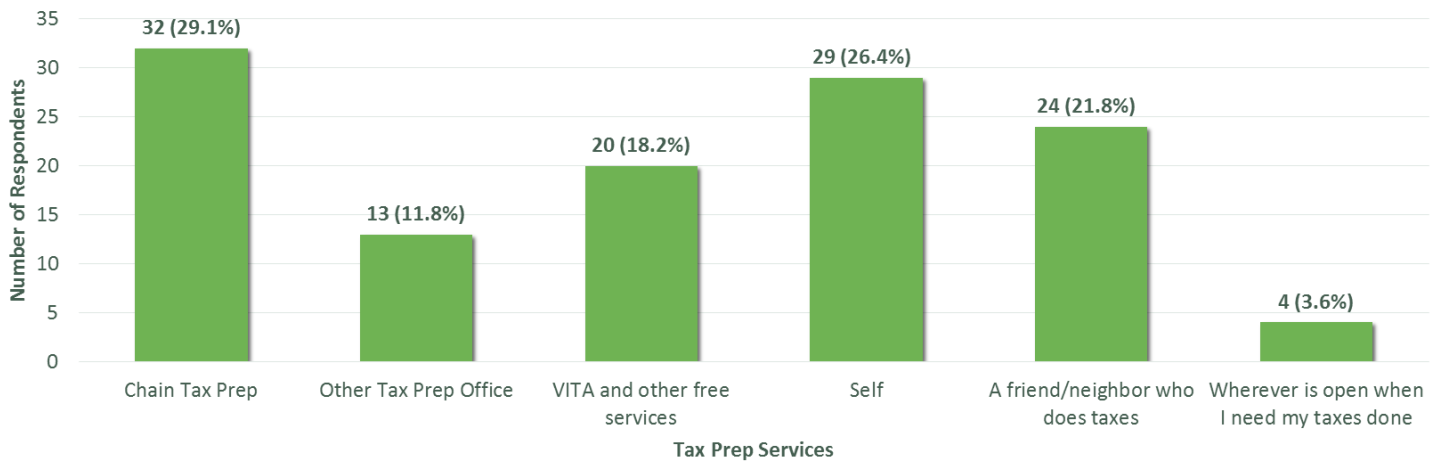


C. Where have respondents gone for tax prep over the last five years?

Respondents utilized various types of tax preparation services, ranging from self-filing to visiting a Certified Public Accountant (CPA). For the 110 respondents in the study, we received 122 responses for methods of tax preparation:

- 29.1% of respondents used large chain tax prep offices;
- 26.4% self-prepared their taxes by filing online with programs such as TurboTax or sending paper forms to the IRS;
- 21.8% of respondents turned to a friend, neighbor, or family member to prepare their taxes;
- 18.2% utilized free services such as the Volunteer Income Tax Assistance program run by the IRS (VITA);
- 11.8% took their taxes to other tax prep offices;
- And lastly, 3.6% indicated they went to wherever was open when they needed to prepare their taxes.

Number of Respondents Utilizing Each Tax Prep Resource as Percent of Total Respondents (n=110)



Of the 13 respondents that indicated they used other tax prep offices, ten different offices were named in the survey:

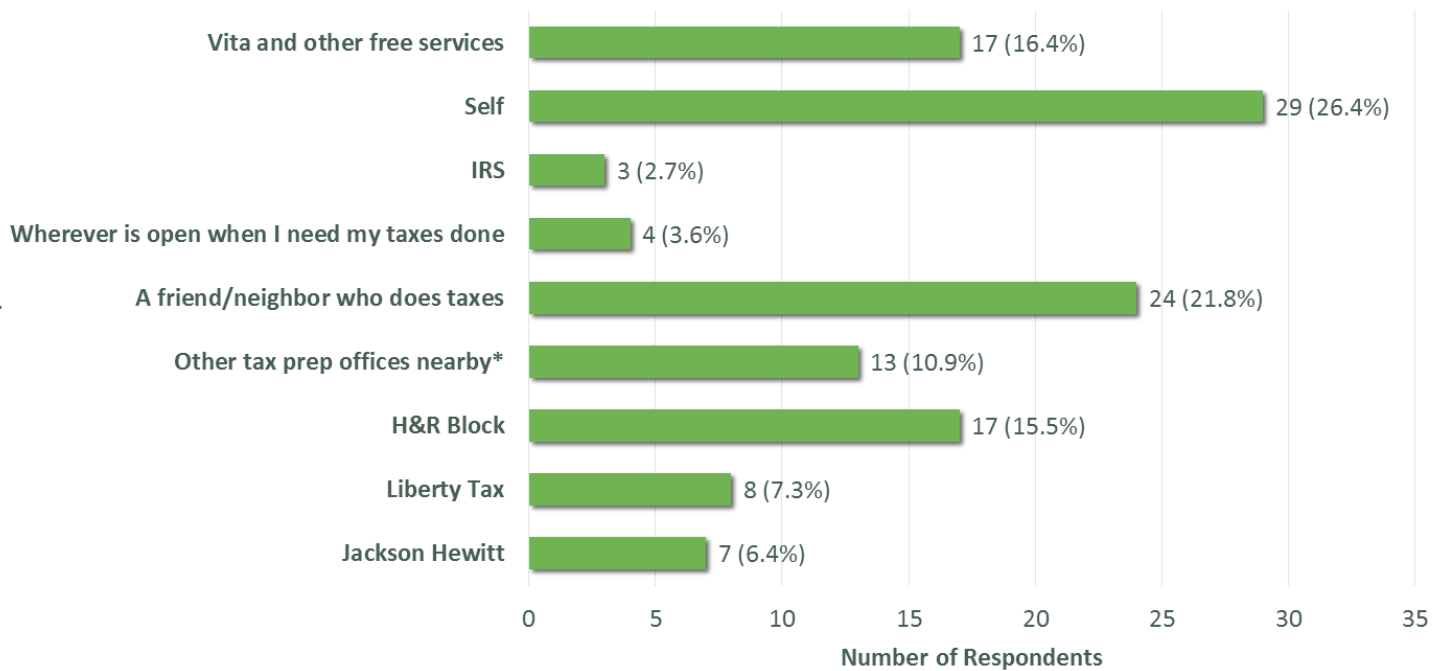
- Six offices were accounting firms or had CPAs on staff;
- Three offices were small tax preparation offices without accountants on staff; and
- One office indicated they had Certified Management Accountants at that location, and their main office had CPAs on staff.

D. How much do respondents expect to pay for tax preparation services?

The survey provided several ranges of fees that respondents could indicate they expected to pay for the preparation of their taxes. Three respondents did not answer this question, lowering the sample to 107 respondents for the following statistics. Thirty-seven respondents expected their tax preparation to be free (34.6%). The majority of respondents (65.4%), however, indicated they expect to pay some amount to prepare their taxes. The most common fee range respondents anticipated paying for their taxes was the lowest interval of \$1 to \$50, with 22.6% of all respondents falling into that category. The rest of the responses fell into ranges between \$50 to over \$1,000 (see chart on next page).

The majority of respondents (65.4%) indicated they expect to pay some amount to prepare their taxes.

Respondent Use of Tax Prep Services with Percent of Total Respondent Use



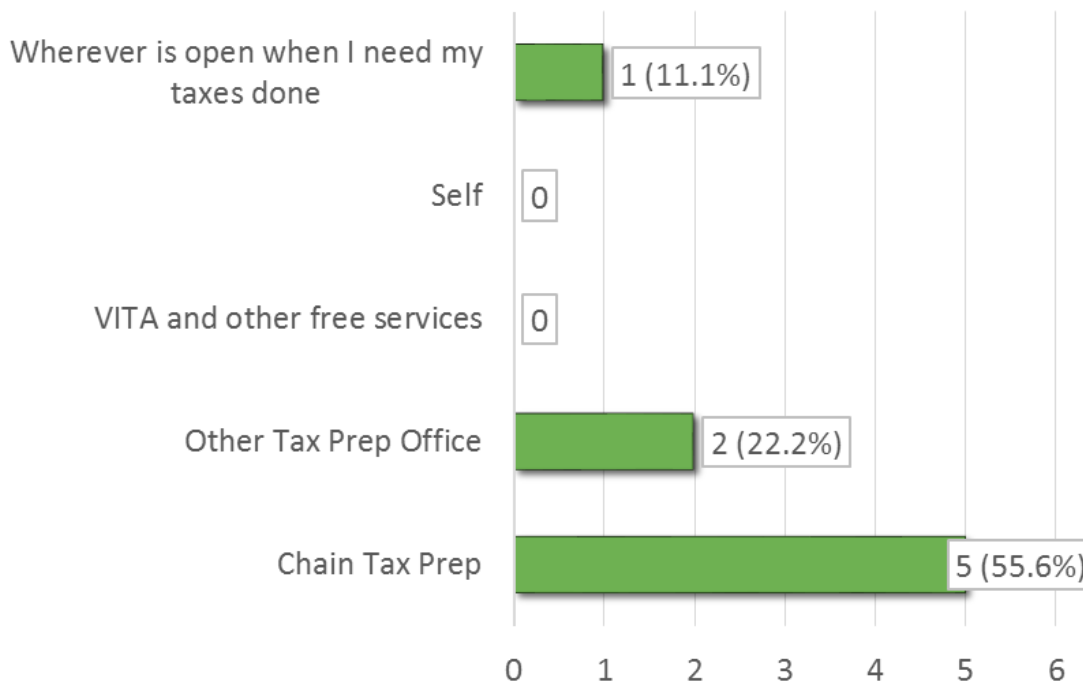
8.4% of respondents indicated they did not know how much money they would pay for taxes because their preparer usually takes the fee out of their return automatically.

Upon further consideration, some of the respondents reporting fees at \$500 and above may have indicated such high fees due to a misunderstanding of the survey question. Of the five respondents in these categories, three claimed a friend or neighbor did their taxes for them. Due to the personal relationship between the respondent and their tax preparer, the interval reported may have been a description of expected income taxes owed rather than fees paid for preparation. We cannot confirm if the friend or family member was indeed charging a fee for preparation services or what that amount was.

The most interesting response to this question was that 8.4% of respondents indicated they did not know how much money they would pay for taxes because their preparer usually takes the fee out of their return automatically. Of these respondents, five used a large chain tax prep office and two used an 'other tax prep office' located within three miles of the study area (see chart on next page). One of these tax firms was included in the subsequent mystery shopper testing, while the other had shut down prior to the study taking place.

Almost one-third of respondents expecting free tax preparation services also claimed to use chain tax prep offices. These respondents may have had fees taken out of their refund automatically and not realized that they paid for these services.

Tax Prep Location Where Fees Taken Out of Refund

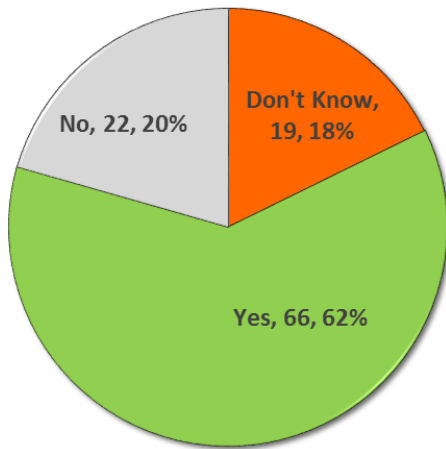


We also found that almost one-third of respondents expecting free tax preparation services also claimed to use chain tax prep offices to file their taxes. Because of the commercial nature of chain tax prep offices, these respondents may have had fees taken out of their refund automatically and not realized that they paid for these services.

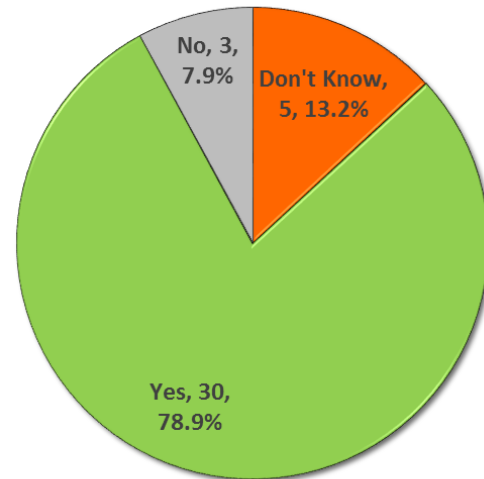
E. Do respondents think their tax preparers are licensed?

Though there is no licensure for tax preparers in Georgia, most respondents to the survey believed their tax preparer was licensed. Of the total sample, 61.7% believed their tax preparer was licensed (see chart on next page).

License Knowledge as Percent of Total Respondents (n=107)



License Knowledge as Percent of Respondents Who Paid (n=38)



To obtain more meaningful data, those respondents that did not expect to pay for tax preparation services, went to a CPA, or self-prepared their taxes were removed from the sample to examine what percentage of remaining individuals thought their preparer was licensed (above, right). Of the remaining 38 respondents, only 7.9% of respondents who expected to pay for tax services knew their preparer was not licensed, while the remainder either did not know or thought their preparer was licensed. **This indicated that at least 92.1% of these respondents were unaware there is no licensure for tax preparers in Georgia.**

The outcomes demonstrate that many taxpayers are under the mistaken assumption that their tax preparer has been subject to minimum standards with respect to training and education.

Findings from this initial survey of residents of NPU-V indicate that while it is common for residents to use paid tax preparation services, few residents of the area know their tax preparer is not licensed by the State of Georgia. While some respondents used paid preparers that were trained CPAs, many likely used paid seasonal preparers such as those tax preparation firms that were the subject to the phone survey in the first part of the study.

These revelations are concerning for consumer advocates, since the outcomes demonstrate that many taxpayers are under the mistaken assumption that their tax preparer has been subject to minimum standards with respect to training and education. In addition, the survey results with respect to what residents expected to pay is also concerning due to the practice of tax preparers charging high amounts of fees and sometimes taking fees out of tax returns through use of refund anticipation checks or similar products.

IV. Secret Shopper Study

Our methodology included sending 'secret shopper' researchers into tax preparation firms with two specific tax-filing scenarios to better understand the common consumer experience in utilizing paid tax preparation services in southwest Atlanta. Georgia Watch conducted 20 mystery shopper tests, 10 tests for each of two scenarios between February 1, 2016 and April 1, 2016. All sites were within six neighborhoods in southwest Atlanta. None of the sites visited had a Certified Public Accountant (CPA) on staff.

A. Methodology

i. Sample

We selected tax preparation firms located within three miles of NPU-V in southwest Atlanta. The preliminary survey indicated that residents of these neighborhoods utilize a mix of large chains, medium chains and independent preparers. We conducted twenty tests at thirteen different preparation firms using two standard tax filing scenarios. At six of these firms, we conducted tests for both scenarios. At the remaining seven firms, we conducted either the single mother or graduate student scenario solely.

Firm Types Included in Study			
	Large	Medium	Independent
Single Mother	1	2	7
Graduate Student	2	2	6
TOTALS	3	4	13

To select the tax firms for inclusion in the sample, tax preparation firms were pulled from Google Maps, a common source of available business services for many consumers. Ninety-one personal tax preparation firms, including sites reported in our initial survey, were pulled from a three mile radius of NPU-V. Each site was contacted by a Georgia Watch researcher to confirm address and contact information, and to ask what their fees were, whether they provided advances on refunds, and if they had a CPA on staff. Of the sites listed on Google Maps, twenty-five (27.5%) were no longer in service. This seemed indicative of the temporary, seasonal nature of tax preparation firms. An additional twenty-six locations appeared to have CPAs or other types of accountants on staff, and were removed from possible testing. When asked if there were CPAs on staff, several sites indicated confusion about what a CPA was. Others

tried to convince the caller that they did not need an accountant to prepare their taxes.

After removing sites that had accountants on staff, were unreachable by phone, or indicated suspicion about the purpose of our call, a list of thirty-two potential testing sites remained. At this point, researchers attempted to set up appointments to prepare their taxes.

Some restrictions were placed on the use of chain tax preparers as the researchers had each used at least one of the chain tax preparers identified for the study in the past. These locations would likely have records of their true identities and would not be suitable sites for testing. As the tax season went on, it became increasingly difficult to reach independent firms to set up appointments. Some quit answering their phones, were no longer open during normal business hours, or closed up for the year. In the end, researchers were able to conduct twenty total tests at thirteen different sites.

ii. Testing Protocol

The researchers (secret shoppers) were provided with an in-depth training on the methodology and associated protocol. Researchers were required to file their personal income tax returns prior to beginning any tests. It was important to ensure that if a tax preparer decided to electronically file the return against the researchers' express instruction, that it would not be accepted by the IRS because their real return had already been filed and accepted.

Researchers were provided with all necessary tax documents to match their individual scenario for each mystery shopping test:

Tax Forms Provided	
Graduate Student	Single Mother
1099-Misc (internship income) 1095-B (health insurance) 1099-Div (investment account)	W-2 (wages) 1095-A (health insurance)

Each researcher was provided with a pen that contained a small recording device to capture the conversation between the researchers and tax preparers during each test. Georgia is a one-party consent state with regard to recording conversations, meaning the researchers provided consent making it legal to record their experience at each testing site. Transcripts from the tests were then compared to the researchers' notes, as

well as the resulting tax return to assure the integrity of the data.

Researchers were instructed to follow their scenarios exactly and without deviation. At each site, the researchers would ask the same questions, provide the same information to the preparers, and were instructed to consistently refuse to fabricate additional expenses. Researchers always requested paper returns to 'mail in' instead of e-filing, a request that was met with mixed reactions.

iii. Researcher Scenarios

Georgia Watch utilized the same two tax filing scenarios used in the North Carolina and Florida studies conducted by Reinvestment Partners and Florida Alliance for Consumer Protection in conjunction with the National Consumer Law Center in 2015. We made minor modifications to the scenario by providing health insurance forms in accordance with the new Affordable Care Act requirements in order to avoid the shared responsibility payment (also known as the 'penalty'). We also provided enough information on the tax forms for preparers to prepare state returns in addition to the federal returns for both scenarios.

Single Mother Scenario

This scenario involved a single parent, unmarried, with a young child. In all tests, the single parent was female. Therefore, we will refer to the researcher as the single mother for the purposes of discussion.

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

- **Wages:** \$22,000/year from an administrative assistant job, reported on a W-2.
- **Side Business:** Selling craft jewelry; approximately \$800 income in non-W-2 income for 2014.
- **Child:** 3-year-old daughter.
- **Health Insurance:** Her income level at \$22,000 qualified her for a plan through the Federal Marketplace. Therefore she had a 1095-A form outlining her advanced premium tax credits.

Graduate Student Scenario

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 form. The student also had \$1,520 in income from mutual fund distributions, which were a gift from her grandfather. The student's additional income included non-compensatory (not taxable) funding such as student loans and a small grant-funded stipend to cover the cost of tuition.

- **Wages:** \$9,180 from a paid internship at a local nonprofit reported on a 1099-MISC.
- **Investment income:** \$1,520 from a 1099-DIV.
- **Health Insurance:** The student had a plan provided by the local university and therefore received a 1095-B.

B. Results

i. Single Mother Tests

In the single mother sample (n=10), 100% of the returns contained at least one error including:

- claiming the child as a dependent and accepting the EITC;
- not reporting additional business income;
- fabricating expenses, and
- incorrectly calculating the amounts to be refunded at both the state and federal levels.

See Appendix C for full data set.

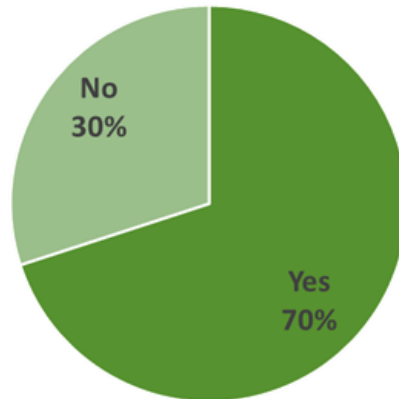
In the single mother sample (n=10), 100% of the returns contained at least one error.

Claiming the Child

Seventy percent of preparers improperly inflated the refund amount by claiming the child as a dependent. Many locations encouraged the researcher to convince the father to let her claim the child because she would likely receive a larger refund. Several preparers also encouraged the researcher to file before the father did in order to claim the child first.

Seventy percent of preparers improperly inflated the refund amount by claiming the child as a dependent. The three firms that did not claim the child found other ways to inflate the refund.

Return Improperly Prepared with Claimed Child: Single Mother Scenario

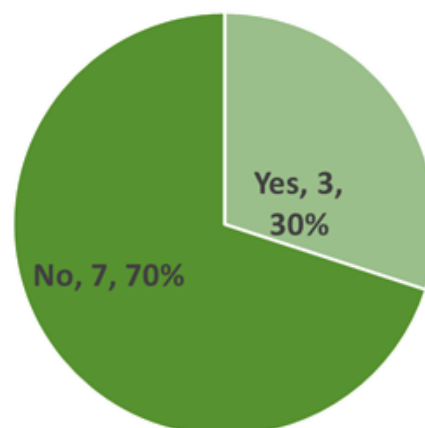


The three firms that did not claim the child found other ways to inflate the refund, such as fabricating business expenses.

Reporting Additional Business Income

In this scenario, the preparer should have reported the \$800 in jewelry business income on a Schedule C form. Seventy percent of the preparers did not include the side business income either because it would decrease her return or because she did not have documentation. Of those who claimed the business, all of them claimed incorrect amounts of \$815, \$128 and \$415, respectively.

Side Business Income Reported: Single Mother Scenario



Fabricated Expenses

The researcher was instructed not to answer in the affirmative if a preparer asked about additional 'business-related expenses'. Despite this, preparers claimed business expenses as illustrated in the chart below.

Preparers Who Used the Schedule C:	
Amount of Jewelry Business Income Claimed	Expenses Claimed
\$815	\$6400: Advertisements, Car, and 'Other'
\$128	\$4,868: Supplies, Pension, Office and 'Other'
\$415	\$830: Rent, Advertisements & Equipment
\$0	\$2,275: Supplies, Car Expenses and Advertisements

Notably, in one test, a preparer did not claim the additional business income but still proceeded to fabricate business expenses that ended up inflating the refund amount. The preparer falsely reported a \$2,275 loss on a Schedule C due to supplies, car expenses and advertisements associated with the single mother's administrative job.

One preparer falsely reported a \$2,275 loss on a Schedule C due to supplies, car expenses and advertisements associated with the single mother's administrative job.

Refund Amounts

The federal return amounts ranged from \$1,352 to \$6,580, and were 100% inaccurate. The average federal refund amount was \$4,478 per return. The single mother in the scenario actually owed \$240 at the federal level and should not have received a refund of any amount. The average amount of lost federal revenue from incorrectly prepared returns was \$4,718 per return.

The state return amounts ranged from \$146 to \$1,021, and were also 100% inaccurate. The average state refund amount was \$467 per return. The refund amount should have been \$104. The average amount of lost state revenue was \$367 per return.

Lost Government Revenue in Single Mother Scenario				
Test	Federal Refund	Federal Revenue Lost*	State Refund	State Revenue Lost**
A1	\$4,921	\$5,161	\$396	\$292
A2	\$6,580	\$6,820	\$734	\$630
A3	\$1,352	\$1,592	\$439	\$335
A4	\$2,712	\$2,952	\$146	\$42
A5	\$2,132	\$2,372	\$1,021	\$917
A6	\$5,597	\$5,837	\$464	\$360
A7	\$5,108	\$5,348	\$396	\$292
A8	\$5,110	\$5,350	\$396	\$292
A9	\$6,443	\$6,683	\$356	\$292
A10	\$4,820	\$5,060	\$326	\$222
AVG	\$4,478	\$4,718	\$467	\$367

*Overpaid refund amount + \$240 owed = lost federal revenue.

**Refund amount - \$104 correct refund amount = lost state revenue.

ii. Graduate Student Tests

In the graduate student sample, there were two returns that were correctly prepared for both the state and federal level. Therefore, 80% of the returns from the ten tests conducted contained at least one error including:

- fabricated expenses;
- not reporting certain types of income;
- calculation of the amounts refunded or owed, and
- incorrectly used forms.

See Appendix D for full data set.

Reporting Internship Income

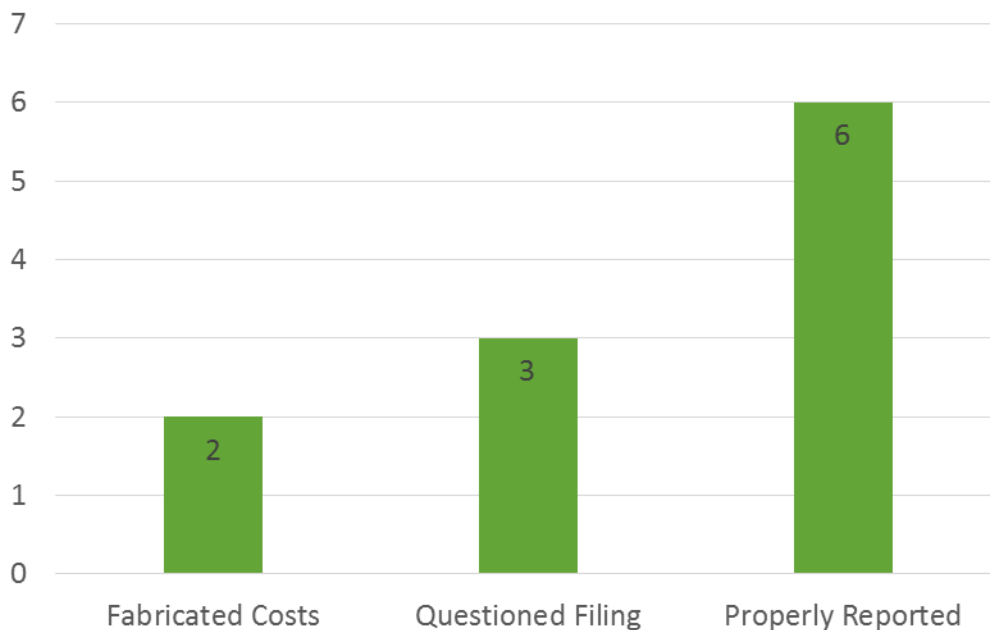
Only three preparers correctly used the Schedule C form to claim the internship income of \$9,180. Six preparers claimed the income on the 1099-MISC and one preparer did not claim the internship income at all. Interestingly, one preparer listed the income on line 12 indicating they would use the Schedule C, but then ended up using the 1099-MISC and never corrected the 1040 form accordingly.

Only three preparers correctly used the Schedule C form to claim the internship income of \$9,180.

Reporting Dividend Income

All preparers properly reported the dividend income. Eight preparers reported the dividends without fabricating expenses or discouraging the researcher from filing. Two locations fabricated expenses or encouraged the researcher to fabricate expenses. Three locations asked if the researcher was sure she wanted to file at all, because she would owe money. One location both discouraged her from filing and encouraged her to add expenses.

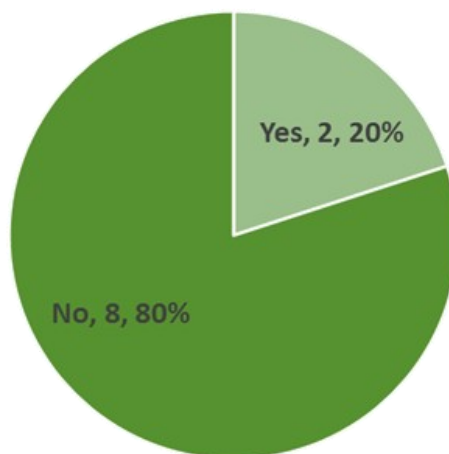
**Treatment of Dividend Income:
Graduate Student Scenario**



Fabricated Expenses

Two preparers fabricated expenses including: mileage, a computer, and work uniform, none of which the researcher had suggested or raised. One preparer told the researcher outright that she had added expenses for the purpose of reducing how much she would owe back.

Expenses Fabricated: Graduate Student Scenario



Additional Credits

In this scenario, the graduate student is not eligible for additional credits or payments that might reduce the amount owed. Out of ten tests, 60% incorrectly claimed an earned income credit or the American Opportunity Credit, or both. Two (20%) preparers claimed the American Opportunity Credit of \$1,000 which is only for undergraduate students. Five preparers (50%) claimed an earned income credit: four in the amount of \$363, and one in the amount of \$248.

In the graduate student scenario, 60% of preparers incorrectly claimed an earned income credit or the American Opportunity Credit, or both.

Amounts Refunded and Owed

In this scenario, the student expected to owe money due to the combination of internship income and dividends from a mutual fund that had not been previously withheld. However, the tax returns prepared at the test sites had the student owing federal amounts ranging from \$0 to \$1,175, three of which were correct at \$41. Two preparers (20%) calculated federal refunds at \$66 and \$1,000 respectively.

Preparers calculated the state amounts owed ranging from \$0 to \$165, three of which were correct at \$159. Of the remaining seven tests, three preparers told the researcher that she did not need to file a state return at all.

Only two firms prepared both the state and federal tax returns correctly, making 80% of the sample of returns incorrect.

Federal and State Revenue Positions: Graduate Student Scenario				
Test	Federal Refund/ Owed Amount	Federal Revenue Position*	State Refund/ Owed Amount	State Revenue Position**
B1	-\$41	Correct	-\$165	+\$6
B2	+\$1,000	-\$959	N/A	-\$159
B3	-\$934	+\$893	-\$126	-\$33
B4	\$0	-\$41	-\$159	Correct
B5	-\$934	+\$893	N/A	-\$159
B6	-\$934	+\$893	-\$126	-\$33
B7	-\$1,175	+\$1,134	\$0	-\$159
B8	-\$41	Correct	-\$159	Correct
B9	-\$41	Correct	-\$159	Correct
B10	+\$66	-\$107	N/A	-\$159
AVG	-\$303	+\$387	-\$149	-\$99

In this scenario, the graduate student would have ended up overpaying the federal tax owed amount by \$387 on average, even after factoring in the two incorrect \$1,000 and \$66 refund amounts.

iii. Overall Observations & Analysis

Professionalism

Professionalism speaks to the preparer's competency in preparing the return, adherence to the IRS guidelines for income tax return preparation, and whether they supplied prompt service and were courteous and respectful.

Generally, we found the level of professionalism to be varied among preparers in the study. Our researchers encountered a range of unprofessional behaviors ranging from providing incorrect advice, unwelcome conversation, lack of knowledge around tax preparation, difficulty in providing receipts, and unreliable hours of service. Our researchers only identified one firm as being professional, courteous and demonstrating attempts to adhere to all IRS guidelines by referring to the tax code on multiple occasions. This particular firm correctly prepared the graduate student return, but

incorrectly claimed a credit during the single mother scenario.

- **Providing incorrect advice:** One preparer at a larger chain whispered to the graduate student researcher during the test, “You should really go somewhere else because here, you are going to owe.” While it might seem that the preparer was trying to be helpful, that advice puts the taxpayer at risk of audit and/or fines by encouraging them to go to an unscrupulous preparer who will falsify information to reduce their tax burden.
- **Inappropriate behavior:** During multiple tests, both female researchers encountered unwelcome advances or inappropriate conversation from male preparers.
- **Failure to sign returns:** Of the total sample, 10% of returns were not signed with the preparers name and PTIN on the document. Both of the unsigned returns were from the Single Mother Scenario which made up 20% of returns for that scenario. The Graduate Student Scenario returns were all signed.
- **Unpredictable hours:** Many locations did not keep regular hours. One researcher had to return to a paid preparer location repeatedly for three weeks before she could retrieve her forms. In several instances, tax preparers met up with the researcher in odd locations, such as a gas station or a mall, to give her the completed forms.
- **Lack of knowledge around tax preparation practice:** One preparer had to take pictures of the returns and send them to her boss before she would file the return. The single mother researcher describes a similar encounter below:

“[the preparer] initially prepared taxes but was new and didn’t know how to complete mail-in return or how to include jewelry business. [the preparer] relied on Manager, to help finish the return. [the preparer] didn’t know how to give Earned Income Credit. I put on their information sheet that my child only lived with me 5 months out of the year (later explained that child lives with me on the weekends). [the manager] told [the preparer] to give me credit and change on the paper that I had child for 6 ½ months. Also, when questioned about jewelry business, I felt coerced to answer questions the way he wanted me to. Every time I told him how much I spent on an expense, he would look at me crazy and say ‘look at me, don’t look down’. [the manager] also would say ‘Are you sure you made that much money on your business?’”

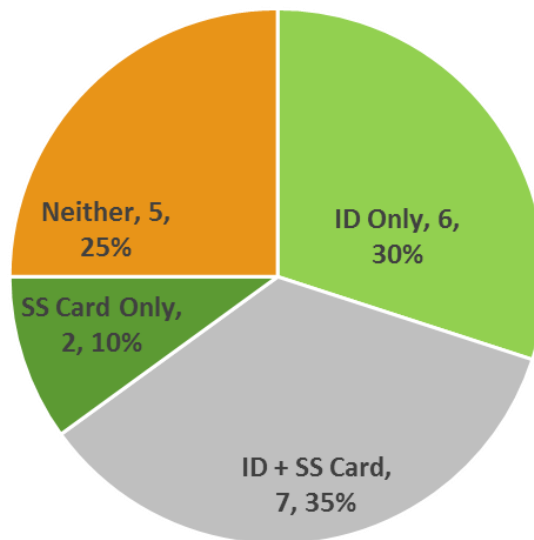
One preparer at a larger chain whispered to the graduate student researcher during the test, “You should really go somewhere else because here, you are going to owe.”

- **Difficulty in obtaining receipts:** On several occasions, researchers had difficulty getting itemized receipts from the preparers. In one case, the preparer wrote out on a piece of scratch paper the amount paid without including the full name of the preparer, the date, the location or any contact information. Researchers were almost always able to get an itemized receipt from large and medium size chains. They encountered greater variance with independent preparers, especially when paying cash.

Identity Verification

Verification of identify is an important practice to safeguard the personal information of consumers. According to the Federal Trade Commission, in 2015, Georgia had the seventh highest number of identity theft reports across the United States.⁴ In the total sample, 75% of preparers asked for some form of ID verification. Overall, 30% of preparers required photo ID, 10% required a physical Social Security Card, and 35% required both.

Verifying Identification (n=20)



There were higher rates of identity verification for the single mother scenario tests, with all (100%) preparers asking for some form of identification. Sixty percent requested both forms, and 40% requested only photo ID.

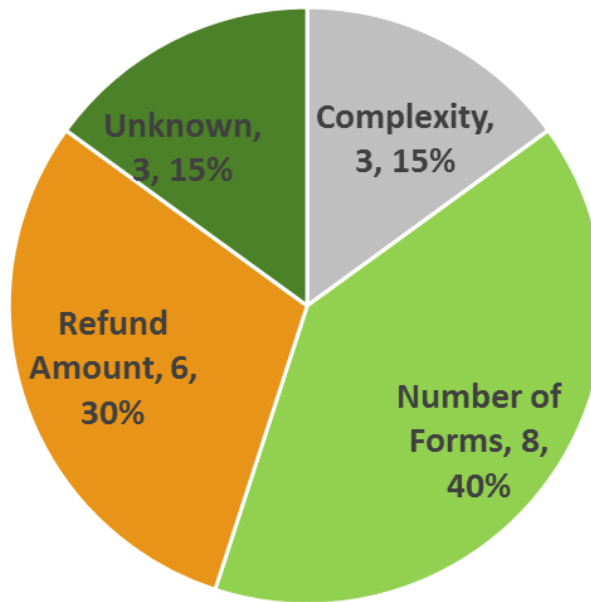
There were much lower levels of identity verification during the graduate student scenario tests, with only 50% of preparers asking for some form of identification. Three preparers (30%) requested both forms of ID, and two preparers (20%) requested only a social security card.

⁴Federal Trade Commission. Consumer Sentinel Network Data Book for January - December 2015: <https://www.ftc.gov/reports/consumer-sentinel-network-data-book-january-december-2015>

Cost and Transparency

Many preparers asserted that they charged by the form and could not predict which forms would be used until they actually finished the tax preparation. This type of behavior prevents consumers from comparison shopping or predicting 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.

Method of Determining Cost (n=20)



The most common method of determining preparation fees was based on the number of tax forms (40%), the second most common was based on the amount of the refund (30%).

In our testing, it was very difficult for the researchers to obtain price quotes before having taxes prepared. **Only one office had the prices disclosed publicly.** Overall, the most common method of determining preparation fees was based on the number of tax forms (40%). The second most common was based on the amount of the refund (30%) – despite the fact that IRS rules prohibit preparers from basing their fees on a percentage of the refund amount.⁵ The single mother researcher was told most frequently that the preparation fee would be based on the refund amount (50% of the time) and the graduate student researcher was told most often that the fee would be based on the number of forms (60% of the time) required.

⁵See IRS Publication 1345 at page 45: <https://www.irs.gov/pub/irs-pdf/p1345.pdf>

Single Mother Fees

For the single mother, tax preparation fees ranged from \$125 to \$457, with an average fee of \$234.

The fee was significantly reduced in several instances because the researcher did not e-file and she paid up front in cash, rather than having it taken out of the return.

In one scenario, the preparer indicated to the researcher that based on a federal refund of \$1,351 and a state refund of \$439, the electronic filing fees would be \$421 (\$300 'Prep Fee', \$74.95 'Transmitter Fee', and \$47 'Account Manager Fee'). The \$421 would then be deducted from the \$1,351, which would leave \$930--reducing her federal refund by 31%. Because she then asked to paper file by mail, she paid \$175.

At another site, the researcher described the following scenario: "I was initially charged \$490 for tax prep. When I asked for a mail-in return, the price was based upon preparer, and I was charged \$260 cash." In this instance, the researcher received a different quote after she indicated she would be asking for a mail-in return, versus e-filing. This was a consistent finding across scenarios.

Graduate Student Fees

For the graduate student, tax preparation fees ranged from \$0 to \$210, with an average fee of \$106. The preparation fees were frequently discounted for this researcher due to the 'high amount' she owed in taxes.

The researcher explained: "The first visit the preparer stated it would cost me \$274 cash to prepare. After returning the second time when asked she told me she would let me know the amount after inputting the information." She ended up paying \$160 at this firm.

Interestingly, three preparers could not offer a fee estimate and of the seven who did, all of them were higher estimates than what the researcher ended up paying. Several preparers indicated that they were giving her a discount because they felt badly for her.

The data indicates that if the preparer can inflate the refund amount, the fee will rise substantially, especially if the consumer elects to electronically file the return. If the consumer comes to the preparer expecting to owe, especially if they have not yet paid any income taxes during the tax year or do not have access to additional credits, the preparer is likely to reduce the fee.

Refund Discrepancies

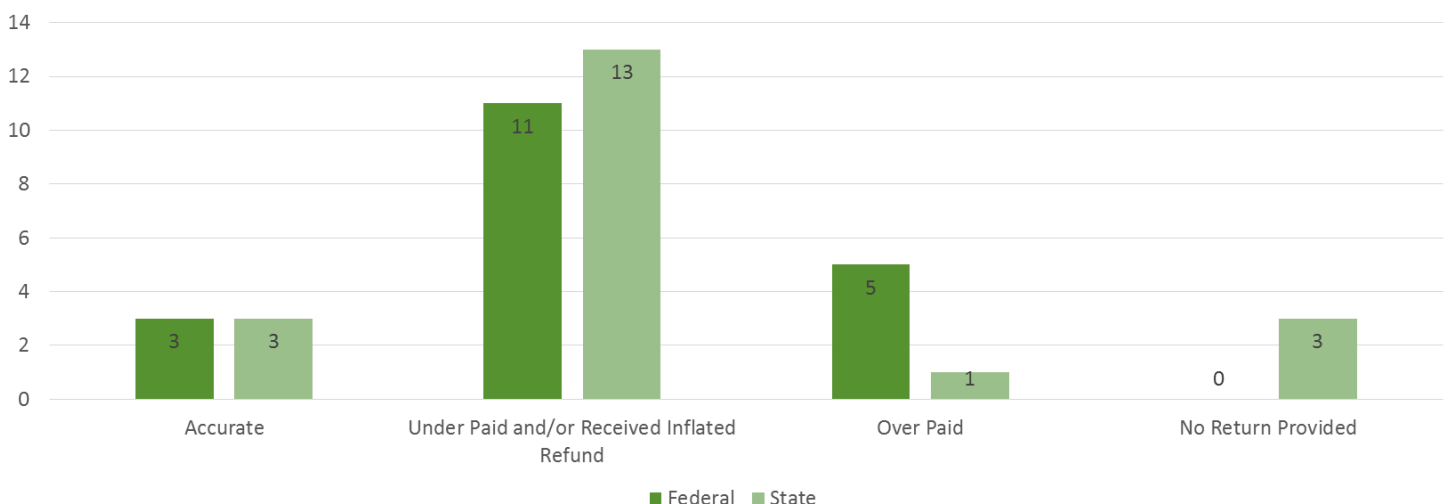
As described above, the refund discrepancies within each scenario are striking. In the single mother scenario, the average federal refund amount was \$4,478, compared to the correct amount of \$240 owed. Across all tests, this resulted in an average of \$4,718 in lost federal revenue. The state refund average was \$467, compared to a correct refund amount of \$104, resulting in an average of \$367 lost in state revenue for all ten tests. In one case where the single mother received a state refund of \$1,021, the preparer stated, “I’m that good!” in reference to the high amount.

In the single mother scenario, the average federal refund amount was \$4,478, compared to the correct amount of \$240 owed.

In the graduate student scenario, the results were more complex. The student should have owed \$41 at the federal level, but instead would have overpaid by an average of \$387 across all ten tests. At the state level, she should have owed \$159, but instead underpaid the state government by an average of \$99.

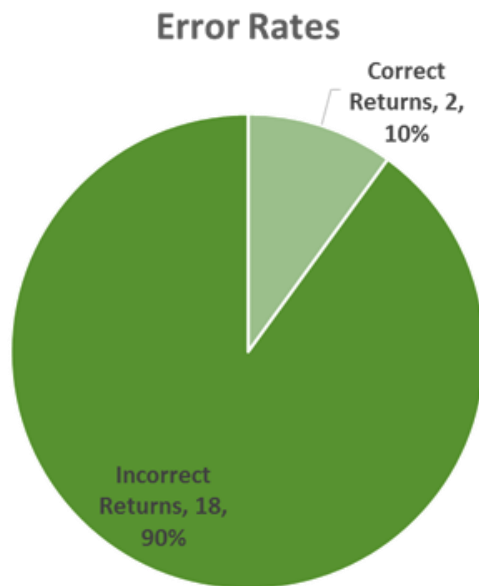
These results point toward concerns for the Internal Revenue Service and the Georgia Department of Revenue, as well as for consumers. Georgia taxpayers may either be overpaying, which is obviously bad for consumers, or underpaying, which puts consumers at risk of an audit.

Resulting Accuracy of Amounts Owed and Refunded of Prepared Tax Returns



Error Rates

In only two tests (10%) were both the state and federal tax returns prepared correctly, both of which were for the graduate student scenario. However in both of these cases, the preparer also improperly inflated refunds during their single mother scenario tests. The 90% of returns that were incorrect had mistakes including the inflation of the refund amount, incorrect use of forms, falsifying expenses, claiming inappropriate credits, and/or not reporting income.



These results are incredibly striking given the number of tax preparers tested and the different sizes of their businesses ranging from large national chains to independent preparers operating solely in southwest Atlanta.

The 90% of returns that were incorrect had mistakes including the inflation of the refund amount, incorrect use of forms, falsifying expenses, claiming inappropriate credits, and/or not reporting income.

V. Policy Recommendations

Based on the results of this study, Georgia Watch strongly advocates for regulation of paid tax preparers at the state level. According to a recent nationwide survey conducted by Consumer Federation of America, 80% 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. Moreover, 83% of the public supports paid tax preparer licensing requirements for preparers by a state agency that would also accept and resolve complaints, and enforce taxpayer protections. In terms of providing transparency of fees for tax preparation services, 89% of respondents support a requirement to provide a fee schedule up front to taxpayers prior to service.⁶

We recommend state-based regulation that contains the following provisions to assure an adequate baseline of protection for taxpayers in the Georgia market:

- I. **Establish a State Board of Individual Tax Preparers** to provide guidance for the agency tasked with oversight and implementation of regulation. The Board should have representation from several stakeholder groups including:
 - a member of a nonprofit tax program or nonprofit consumer advocate program;
 - a commercial individual tax preparer who has been in practice in the state for more than 5 years;
 - a member of the state association of Certified Public Accountants;
 - a member of the state society of accountants;
 - a member of the state bar association; and
 - a member of the National Association of Enrolled Agents.
- II. **Require registration with the State:** No individual should be able to provide individual tax preparation services unless the individual has been issued a license by the Board. To qualify for a license, the applicant must:
 - be of good character and reputation;
 - be at least 18 years old;
 - possess a high school diploma or have passed an equivalency examination;
 - present evidence satisfactory to the Board that the applicant has successfully completed at least 60 hours in basic personal income tax law, theory and practice at a qualified education provider approved by the Board; (cont'd)

⁶New National Poll Indicates Strong Support for Reform of Paid Tax Preparer Industry (2016): http://consumerfed.org/press_release/new-national-poll-indicates-strong-support-for-reform-of-paid-tax-preparer-industry/

Continued:

- possess a preparer tax identification number issued by the Internal Revenue Service; and
- pass an IRS administered exam pertaining to federal tax code as well as a State Board administered exam pertaining to state tax code.

III. Require a Competency Exam:

- Tax preparers should be required to pass a competency exam to assure familiarity with the state and federal tax codes. For this reason, we recommend that the preparers take a Board administered test at the state level, and pass an IRS administered exam OR;
- Pass a state exam that serves as an equivalency to both exams, covering both state and federal tax code.

IV. Require Continuing Education: Every registered preparer should complete a minimum of 15 hours of continuing education every year. Two (2) hours of continuing education should specifically address the topic of professional conduct.

V. Clearly Exempt from the Above Requirement: attorneys, certified public accountants and “enrolled agents” who are governed by IRS Circular 230, in addition to employees and volunteers at IRS VITA and AARP Tax Aid Program sites.

VI. Provide Taxpayers with a Fee Schedule Prior to Service: A written disclosure of fees for individual tax preparation services that contains the following information should be provided:

- a list of, description of, and the fee for each tax preparation service offered by the tax preparer, including fees for the preparation of individual forms;
- a list of, description of, and price of all miscellaneous fees associated with registered preparer’s tax preparation services, including filing fees and processing fees; and
- an estimate of the total charge to the consumer based upon the tax preparation services the consumer has selected to purchase.

These requirements represent the best practices found in the legislation regulating tax preparers in Maryland, Oregon, New York and California. The National Consumer Law Center produced such a model law for state adaptation that can be found online.⁷

⁷ Model Individual Tax Preparer Regulation Act, National Consumer Law Center: http://www.nclc.org/images/pdf/high_cost_small_loans/model-individual-tax-preparer-reg-act.pdf

APPENDIX

Appendix A: Phone Survey Script

Researcher Phone Script

Hello, I'm calling about the ad you placed for a tax preparer?

[they confirm they are hiring, if they are not still hiring, see if you can still ask them a few questions for next season]

Can I ask you a few questions before I send in my resume?

-How many hours of training will I go through?

-What kinds of things will I learn during that training?

-Do I need to have experience preparing taxes? Does preparing my own taxes count?

-If I make a mistake on someone's income tax return, can I be held liable?

-Do I need to become licensed?

-How much do you pay per hour?

-Do I need to pay for the training? And how much is it?

-And who do I address my resume to?

If you didn't get their name by this point, ask "sorry what was your name again?" and then say "Thank you (name here) for your time."

Appendix B: Preliminary Survey of Residents in Neighborhood Planning Unit – V

SURVEY

Which zip code do you live in?

30310

30303

30315

Other _____

30312

Please check all that apply:

Jackson Hewitt

Liberty Tax

H&R Block

Other tax prep offices that are nearby: _____

A friend/neighbor who does taxes

Wherever is open when I need to do my taxes

Other (please explain): _____

Was your most recent tax preparer licensed in the State of Georgia to prepare taxes?

Yes

I don't know

No

How much do you expect to pay for tax preparation services in 2016?

\$0

\$100-\$200

\$400-\$500

\$1-\$50

\$200-\$300

\$500-\$1,000

\$50-\$100

\$300-\$400

\$1,000+

I don't know, my tax preparer takes the fee out of my refund.

Appendix C:

Single Mother Results

Code	Site	Claim Child	Amount Paid	Refund Federal	Refund State
A1	Large Scale	Yes	\$447	\$4,921	\$396
A2	Independent	Yes	\$160	\$6,580	\$734
A3	Independent	No	\$175	\$1,352	\$439
A4	Independent	No	\$140	\$2,712	\$146
A5	Independent	No	\$300	\$2,132	\$1,021
A6	Medium Scale	Yes	\$457	\$5,597	\$464
A7	Independent	Yes	\$125	\$5,108	\$396
A8	Independent	Yes	\$125	\$5,110	\$396
A9	Medium Scale	Yes	\$260	\$6,443	\$356
A10	Independent	Yes	\$150	\$4,820	\$326
BASELINE	VITA	No	N/A	OWES \$240	REFUND \$104

Notes

- **Baseline:** This refers to the correctly prepared returns verified by an IRS Volunteer Income Tax Assistance (VITA) program site located at The Center for Working Families, Inc. in southwest Atlanta.
- **Amount Paid:** Refers to the fee paid for the tax preparation service.

Appendix C:

Single Mother Results

Code	Asked for ID?	PTIN and Name on Return?	Claimed Side Business?	Fabricated Costs?	Cost Transparency?	Fee Determined?
A1	Yes	Yes	No	No	No List	Forms
A2	Yes	Yes	Yes	Yes	No List	Refund
A3	Yes	Yes	Yes	Yes	No List	Refund
A4	Yes	Yes	No	No	List Provided	Forms
A5	Yes + SS	No	No	Yes	No List	Unknown
A6	Yes	Yes	Yes	Yes	No List	Refund
A7	Yes	Yes	No	No	No List	Complexity
A8	Yes + SS	Yes	No	No	No List	Refund
A9	Yes + SS	Yes	Yes	Yes	No List	Refund
A10	Yes + SS	No	No	No	No List	Unknown
BASELINE	Yes	Yes	Yes	No	Free	N/A

Notes

- **Asked for ID:** “SS” refers to Social Security Card.
- **Claimed Side Business:** Refers to whether or not the preparer claimed the \$800 in jewelry-business income.
- **Fabricated Costs:** Whether or not the preparer made up additional expenses to inflate the refund or reduce tax burden.
- **Cost Transparency:** Refers to whether or not a list of fees was provided to the tester upon request outlining fees for tax preparation services.
- **Fee Determined:** Refers to whether the preparer claimed that cost of service was based on the: complexity of the filing, the number of forms, the refund amount, or other.

Appendix D:

Graduate Student Results

Code	Site	Amount Paid	Federal Owe/ Refund Amount	State Owe Amount	Asked for ID?
B1	Large Scale	\$100	-\$41	-\$165	No
B2	Independent	\$150	+\$1,000*	Not Prepared	No
B3	Medium Scale	\$189	-\$934	-\$126	Yes + SS
B4	Independent	\$100	\$0	-\$159	No
B5	Medium Scale	\$210	-\$934	Not Prepared	SS, Not Photo ID
B6	Independent	\$120	-\$934	-\$126	SS, Not Photo ID
B7	Large Scale	\$113.50	-\$1,175	\$0	Yes + SS
B8	Independent	\$25	-\$41	-\$159	No
B9	Independent	\$50	-\$41	-\$159	No
B10	Independent	\$0	+\$66**	Not Prepared	Yes + SS
BASELINE	VITA	N/A	\$41	\$159	Yes + SS

Notes

- **Baseline:** This refers to the correctly prepared returns verified by an IRS Volunteer Income Tax Assistance (VITA) program site located at The Center for Working Families, Inc. in southwest Atlanta.
- **Amount Paid:** Refers to the fee paid for the tax preparation service.
- **Federal Owe/Refund Amount:** The outcomes were varied in this scenario with both refund amounts and amounts owed back calculated for the student.
 - *The preparer in test B2 said the researcher owed \$1,000, but then listed the amount under the 'refund' line.
 - **In B10, the preparer calculated a \$66 federal refund.
- **Asked for ID:** "SS" refers to Social Security Card.

Appendix D:

Graduate Student Results

Code	Name and PTIN on Return?	Fabricated Costs?	Cost Transparency	Fee Determined	Schedule C?
B1	Yes	Yes	No List	Complexity	1099 MISC
B2	Yes	No	No List	Forms	NOT LISTED
B3	Yes	No	List Provided	Forms	1099 MISC
B4	Yes	No	List Provided	Forms	1099 MISC
B5	Yes	Yes	No List	Forms	Schedule C
B6	Yes	No	No List	Forms	1099 MISC, but put on line 12 for Schedule C
B7	Yes	No	No List	Forms	Schedule C
B8	Yes	No	No List	Unknown	1099 MISC
B9	Yes	No	No List	Refund Amount	1099 MISC
B10	Yes	No	No List	Complexity	Schedule C
BASELINE	Yes	No	N/A	N/A	Schedule C

Notes

- **Name and PTIN on Return:** This refers to whether or not the preparer signed the prepared return with their name and Preparer Tax Identification Number (PTIN).
- **Cost Transparency:** Refers to whether or not a list of fees was provided to the tester upon request outlining fees for tax preparation services.
- **Fee Determined:** Refers to whether the preparer claimed that cost of service was based on the: complexity of the filing, the number of forms, the refund amount, or other.
- **Schedule C:** In the scenario, the internship income should have been reported on a Schedule C form. Some preparers claimed on a 1099 MISC or not at all.



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