



## **Paid Tax Preparation Services in Southwest Atlanta: A Mixed-methods Study**

### ***Preliminary Results Summary***

**April 5, 2016**

#### **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 receive payment 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 outfits utilized by residents of those neighborhoods.

#### **Phone Poll:**

Georgia Watch first conducted a phone poll of tax preparation outfits 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 (e.g. inflation of refunds to get higher fees). 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.
- 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 coerce customers into using their anticipated tax refund to purchase a vehicle.

#### **Preliminary Survey of Residents in Southwest Atlanta:**

Georgia Watch conducted a preliminary survey of taxpayers living in Neighborhood Planning Unit-V, 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. The survey results indicated that: (a) taxpayers living in NPU-V 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.

- Only 5.6% of total respondents, who did not prepare their own taxes, knew their most recent tax preparer was not licensed.
- Of the 61 individuals who expect to pay for their tax preparation in 2016, 67.2% believed their most recent preparer was licensed.



- The majority (56.6%) of respondents expected to pay some amount for tax services in 2016, though the range varied.
- Notably, 77% of respondents who did not go to a CPA or self-file thought their preparer was licensed.

### **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 Certified Public Accountant (CPA) on staff.

### **Single Mother Scenario**

In this scenario, the single mother does not have the child for enough of the year to claim them 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 federal and state returns for a single mother scenario where the taxpayer was supposed to owe money back to the government.
- The federal return amounts ranged from \$1,352 to \$6,580, none of which were correct. She actually owed \$240 at the federal level.
- The state return amounts ranged from \$146 to \$1,021, none of which were correct. She should have only received a refund of \$104.
- 70% of preparers in that same scenario incorrectly claimed a child as a dependent to inflate the tax return and many falsified information to do so.
- Fees ranged from \$125 to \$457 for the actual 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 claims 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.

- 80% preparers did not ask researcher for identification of any kind;
- The federal amounts owed ranged from \$0 to \$1,175, 3 of which were correct at \$41;
- One preparer calculated a federal *refund* of \$66;
- The state amounts owed ranged from \$0 to \$165, 3 of which were correct at \$159;
- 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;
- One preparer said the researcher owed \$1,000 but then accidentally put it on the refund line for the federal return.

Overall, 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 exact inputs at each site.

The final study report will be made available in May of 2016. More at [www.georgiawatch.org](http://www.georgiawatch.org).