

# **Assessing Quality in EITC Campaigns:**

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## **Results from the 2005 Tax Season**

*Prepared by Amy Brown for  
The Annie E. Casey Foundation*

June, 2005

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## Executive Summary

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The Annie E. Casey Foundation launched the National Tax Assistance for Working Families Campaign (NTA) in January 2003 as a way to expand the impact of local Earned Income Tax Credit (EITC) outreach and free tax preparation projects. Forty-one campaigns participated in 2005, filing more than 150,000 tax returns and bringing over \$200 million in federal and state tax refunds to low-income working families.

While participating campaigns have always been concerned with quality, and have put in place internal controls designed to promote quality, there is little concrete data about the level of quality in the campaigns. Indeed, there is little information about the quality of tax preparation generally, whether by free tax sites or commercial firms. This report marks a first attempt to gather comprehensive data on quality at free tax preparation sites.

The analysis presented here is based on reviews of 161 tax returns at 21 free tax preparation sites from eight NTA campaigns. The campaigns represented a diversity of sites in terms of: geography, urban/rural, years of experience, size and key operational practices (such as training method and use of paid staff). Site visits took place between February and April, 2005. At each site, returns were reviewed after tax preparation was complete but before the filer left the site. The reviews covered all aspects of each federal tax return: personal data; dependency and exemptions; income, deductions and adjustments; schedules and attachments; tax credits; and e-filing, signatures and direct deposit information. The visits also documented measures of confidentiality and customer service.

## Major Findings: Return Accuracy

### **1. Nearly half of all returns had at least one mistake, but half of the mistakes had no consequence for the return.**

Tax preparation is a complex process, involving several hundred or more data entry and decision points, each of which offers the potential for error. Overall, 48% of returns had at least one mistake and the typical return contained 0.8 mistakes. However, some mistakes are more serious than others, and 48% of mistakes made no difference to the return.

### **2. 14% of returns had a mistake that changed the bottom line.**

These are the most serious mistakes, and were split roughly evenly between mistakes resulting in refunds that were too high and ones that were too low. The low refunds mean lost money to working families. High refunds could lead to IRS audit, repayment and financial penalties.

### **3. Another 18% of returns had a mistake that would likely delay the tax refund.**

Most commonly, these were mistakes that would cause an e-filed return to be rejected (such as a mismatch in a name or Social Security number). Delayed refunds can cause problems for

low-income filers who need to pay bills and other obligations, and also hinder the ability of campaigns to offer a competitive alternative to paid preparers and Refund Anticipation Loans.

**4. The most common mistakes were in data entry, but mistakes in income, adjustments and tax credits had the most serious consequences.**

Data entry errors accounted for 41% of all mistakes, and issues related to e-filing, signatures and direct deposit accounted for another 15% of all mistakes. However, these mistakes virtually never affected the return's bottom line. In comparison, mistakes in filing status, dependency, income and tax credits, although less common, had more serious consequences.

**5. Mistakes resulted from a variety of factors.**

Over the course of the review process, five distinct reasons for mistakes emerged:

- carelessness in data entry;
- copying information from intake forms rather than checking source documents or consulting the tax filer;
- failure to ask all the questions needed to make appropriate determinations;
- gaps in tax knowledge by less experienced volunteers and staff; and
- in rare instances, failure to adhere to tax law.

**6. There is some indication that more complicated returns were more problematic.**

In particular, returns with itemization (Schedule A) and self-employment (Schedule C) were more likely than other returns to contain mistakes, and were much more likely to have incorrect refund amounts.

**7. The reviews uncovered no clear best practices related to return accuracy.**

Certain characteristics seem to correlate with fewer mistakes overall, but not necessarily fewer serious mistakes. However, some characteristics do appear to reduce the number of delayed refunds. These include: sites preparing more returns in the tax season; sites using paid tax preparers; sites conducting on-site return reviews; and sites with quicker tax preparation.

**8. Sites were concerned about quality, but focused primarily on data entry issues.**

Quality control efforts at the sites tend to focus on data entry, especially on mistakes likely to cause an e-file rejection. However, as noted above, these types of mistakes are more likely than others to either have no consequence or result in a delayed refund. Even in sites that reviewed returns, the reviewers tended to check W-2s and other documents rather than ask questions of the tax filer related to filing status, dependency or tax credits.

**Major Findings: Confidentiality and Customer Service**

**1. Most sites offered a reasonable degree of privacy for tax filers.**

Tax filers were able to meet with a tax preparer in relative privacy in 62% of sites. Privacy was very limited in 14% of sites, and at 24%, the level of privacy fell somewhere in between.

**2. All sites used computer passwords to protect the confidentiality of tax returns, but were less vigilant about protecting personal data in other ways.**

Only 2/3 of sites had locked storage for records, and fewer than half the sites had shredders for disposal of confidential materials. Five sites did not have e-file capability, so site managers backed up returns to a disk to transmit from another location. In at least two sites, staff or volunteers took home documents to prepare back-year returns on a personal computer.

### **3. Bilingual preparers or translators were available whenever needed.**

38% of sites served tax filers whose primary language was other than English, and all of those sites had bi-lingual tax preparers or translators available to assist filers.

## **Recommendations and Conclusion**

The results from the site reviews provide clues as to where quality can be improved in free tax preparation. Key recommendations include:

- *Standardize procedures to ensure that certain questions are asked of all tax filers.*
- *Emphasize the use of decision trees in tax preparer training.*
- *Set – and enforce – guidelines for what types of returns will and will not be completed.*
- *Make sure that at least one person on site has a high level of tax law knowledge.*
- *Conduct on-site reviews of returns before the client leaves.*
- *Enter information directly from source documents and interviews rather than copying from intake forms.*
- *Keep an eye on the slowest tax preparers.*
- *Think beyond rejects.*
- *Emphasize the importance of applying tax law as it is written.*
- *Place a shredder in every site.*
- *Limit transportation of documents and files.*
- *Actively promote options that can speed up receipt of tax refunds.*

All in all, the results present both a positive appraisal of the services provided by sites and a warning about where improvement should be made. Quality appears to be both not as bad as some have suggested, but also not as good as campaigns might want to achieve. Unfortunately, no comparable data exists for IRS Taxpayer Assistance Centers, self-prepared returns or those completed by commercial tax preparation firms. Because there is no basis for comparison, these results should not be used to make any judgment about the value of free tax preparation programs. Looking ahead, they may be most useful as a baseline for future assessment and evaluation of efforts to improve quality in NTA campaigns.

# Assessing Quality in EITC Campaigns: Results from the 2005 Tax Season

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## Part I: Introduction

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### Background

The Annie E. Casey Foundation launched the National Tax Assistance for Working Families Campaign (NTA) in January 2003 as a way to expand the impact of local Earned Income Tax Credit (EITC) outreach and free tax preparation projects. Forty-one campaigns participated in 2005, filing more than 150,000 tax returns and bringing over \$200 million in federal and state tax refunds to working families. The NTA includes a range of campaigns, from city-wide efforts to neighborhood campaigns to rural and Southwest Border sites. Each of the participating campaigns is committed to:

- promoting awareness of tax benefits, especially the EITC, among low-income working families;
- providing low-cost or free tax preparation;
- conforming to quality standards to reduce error rates in filed returns; and
- incorporating the use of tax refunds as part of an overall asset-building strategy.

Almost all the campaigns partner with the Internal Revenue Service under the Volunteer Income Tax Assistance (VITA) program. The IRS provides free tax preparation software and, depending on the site, varying levels of training, hardware and technical assistance.

While participating campaigns have always been concerned with quality, and have put in place internal controls designed to promote quality, there is little concrete data about the level of quality in the campaigns. Indeed, there is little information about the quality of tax preparation generally, whether by free tax sites or commercial tax preparation firms. This report marks a first attempt to gather and analyze comprehensive data on quality at free tax preparation sites.

The issue of quality was highlighted after the 2004 tax season by the release of a report by the Treasury Inspector General for Tax Administration (TIGTA).<sup>1</sup> TIGTA auditors visited 35 free tax preparation sites across the country, posing as tax filers and presenting one of two scenarios for their returns: one in which the filer's child lived in the home for 5 ½ months of the year, and the second involving a foster child who lived with the filer for 8 months. The audit's findings were alarming: in none of the 35 cases was the entire return prepared correctly. In particular:

- dependency was incorrectly determined in eight (23%) of the returns
- the Child Tax Credit was incorrectly determined in eleven (31%) of the returns
- EITC eligibility was incorrectly determined in 22 (63%) of the returns
- filing status was incorrectly determined in 28 (80%) of the returns

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<sup>1</sup> Treasury Inspector General for Tax Administration. Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites, August 2004. Reference Number: 2004-40-154.

(A 2003 audit by TIGTA of IRS Taxpayer Assistance Centers found that 19 of 23 returns – 83% – were prepared incorrectly by IRS staff. No similar audits have been done of paid tax preparers.)

The free tax preparation community recognized the seriousness of the TIGTA findings, but also questioned the audit's limited scope and use of atypical scenarios involving complicated areas of tax law – areas that were already identified as problematic and that advocates have argued should be simplified. In part, the analysis conducted here was designed to get a truer picture of quality by looking at a larger number of real returns that are representative of those completed by the sites.

## **The Research Model**

The analysis presented here is based on reviews of 161 tax returns at 21 free tax preparation sites from eight NTA campaigns. Campaigns were asked to volunteer for the reviews, and the final eight were chosen from the pool of volunteers in an effort to include a diversity of campaigns in terms of: geography, urban/rural, years of experience, size and key operational practices (such as training method and use of paid staff).

While the research model may not stand up to the most rigorous standards for statistical significance, more than enough sites were visited and returns reviewed in order to give a meaningful picture of quality at the 41 NTA campaigns. Furthermore, the demographics of returns reviewed (filing status, dependents, receipt of tax credits, etc.) generally matched those of all NTA sites in the 2004 tax season – suggesting that the review in fact covered a representative sample of returns prepared at the sites.

Site visits took place between February and April, 2005. At each site, returns were reviewed after tax preparation was complete (including any local review process) but before the filer left the site. This allowed the reviews to not only look at the tax returns themselves but also examine all documents and ask questions of the filers. The reviews covered all aspects of each federal tax return (state and local returns were beyond the scope of this review), including: personal data; dependency and exemptions; income, deductions and adjustments; schedules, worksheets and attachments; tax credits; and e-filing, signatures and direct deposit information. The visits also documented measures of confidentiality of tax-filer data and, to a limited extent, customer service.

This report uses the data collected from the reviews to address the following questions:

- *How common are mistakes?*
- *How serious are mistakes?*
- *What types of mistakes are made?*
- *Why are mistakes made?*
- *Does the complexity of returns matter?*
- *Do any characteristics correlate with greater return accuracy?*
- *Are sites protecting tax filer confidentiality?*
- *What do the reviews say about customer service at tax sites?*
- *What steps can be taken to improve quality at free tax preparation sites?*

## Part II: Findings on Return Accuracy<sup>2</sup>

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### 1. How Common Are Mistakes?

Tax preparation is a complex process, involving several hundred or more data entry and decision points, each of which offers the potential for error. Overall, 48% of returns had at least one mistake and the typical return contained 0.8 mistakes. Among the eight campaigns visited, results ranged from 32% to 73% of returns with mistakes and between 0.5 and 1.6 mistakes per return.

**Table 1: Frequency of Mistakes**

| Campaign | # of Returns with Mistakes | % of Returns with Mistakes | Total # of Mistakes | Average # of Mistakes per Return |
|----------|----------------------------|----------------------------|---------------------|----------------------------------|
| A        | 6                          | 32%                        | 9                   | 0.5                              |
| B        | 7                          | 32%                        | 11                  | 0.5                              |
| C        | 10                         | 50%                        | 12                  | 0.6                              |
| D        | 13                         | 50%                        | 15                  | 0.6                              |
| E        | 8                          | 33%                        | 19                  | 0.8                              |
| F        | 12                         | 63%                        | 22                  | 1.2                              |
| G        | 11                         | 73%                        | 18                  | 1.2                              |
| H        | 11                         | 69%                        | 26                  | 1.6                              |
| All      | 78                         | 48%                        | 132                 | 0.8                              |

Whether these numbers should be viewed as high or low is difficult to say. *Overall, considering the number of potential errors, they are probably not numbers that on their own should cause concern about the level of quality at free tax preparation sites. The more important numbers, which take into account the severity of mistakes, are presented in the next section of this report.*

### 2. How Serious Are Mistakes?

As noted above, a mistake on a tax return could be anything from a misspelled name to the claiming of a child who does not qualify as a dependent. Some mistakes are more serious than others, and therefore the mistakes identified in this review were divided into three categories:

- a. *Mistakes with no consequence for the return.* Examples include: a typo in W-2 Social Security or Medicare wages, a missing signature on an e-file authorization, or a mistake in a non-refundable credit where the filer has no tax liability. There are reasons to pay attention to these mistakes: they may point to weaknesses in training; they may have consequences down the line for the tax site or filer (for example, a site with too many missing signatures can lose its e-file authorization); and the same mistake may have serious consequences on a different return or in a different tax year (if information is

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<sup>2</sup> A few notes on the analysis:

- Because all sites in the study used computer software to prepare returns, mathematical errors were not an issue in this analysis.
- A single return can contain multiple mistakes, so this analysis looks at accuracy through two somewhat different lenses: number of mistakes and number of returns with mistakes. In understanding the results, it is important to bear in mind which measure is used.
- While most mistakes on the same return are independent events (for example, a mistyped social security number and an incorrect tax credit), some mistakes are linked (for example, an incorrect filing status could lead to an incorrect determination of EITC eligibility).

carried forward). In the context of this review, however, these mistakes do not affect the accuracy of the return.

- b. *Mistakes that will likely delay receipt of a tax refund by the filer.* Most commonly, delays result from mistakes that cause an e-filed return to be rejected (such as a mismatch in a name or Social Security number). By the time the site makes the correction and re-files the return, the refund has likely been delayed (the delay could range from no days to several weeks). Other examples are a mistake in an address that might cause a mailed check to be misrouted or a mistake related to direct deposit of the refund (including when direct deposit was not indicated even though the filer wanted to use it and had the appropriate information). Delayed refunds can be a serious problem for low-income filers who need to pay bills and other obligations, and also hinder the ability of campaigns to offer a competitive alternative to paid preparers and Refund Anticipation Loans.
- c. *Mistakes that change the return's bottom line.* These are the most serious mistakes, and were split roughly evenly between mistakes resulting in refunds higher than they should have been (or an amount owed that was lower than it should have been), and those resulting in refunds lower than they should have been (or too-high amount owed). Too-high refunds might result from inclusion of a tax credit for which the filer is ineligible or claiming a child who does not meet dependency criteria. Too-low refunds result more or less from the opposite of the same mistakes. Either one could also result from failure to include all income on the return. Low refunds cost working families money and mean that they are not getting all the tax benefits to which they are entitled. High refunds could lead to IRS audit, repayment and financial penalties.

In all, 48% of mistakes had no consequence for the return, while 27% would likely delay a refund and 25% resulted in the refund being either too high or too low (split roughly evenly between the two). As the table below illustrates, results varied considerably from site to site.

**Table 2: Percent of Mistakes, by Consequence**

| Campaign | % of Mistakes with No Consequence | % of Mistakes Resulting in Delayed Refund | % of Mistakes Resulting in Lower Refund | % of Mistakes Resulting in Higher Refund |
|----------|-----------------------------------|---|---|--|
| A        | 22%                               | 44%                                       | 22%                                     | 11%                                      |
| B        | 36%                               | 45%                                       | 18%                                     | 0%                                       |
| C        | 58%                               | 25%                                       | 8%                                      | 8%                                       |
| D        | 60%                               | 40%                                       | 0%                                      | 0%                                       |
| E        | 42%                               | 5%  | 11%                                     | 42%                                      |
| F        | 55%                               | 23%                                       | 14%                                     | 9%                                       |
| G        | 50%                               | 17%                                       | 17%                                     | 17%                                      |
| H        | 46%                               | 35%                                       | 12%                                     | 8%                                       |
| All      | 48%                               | 27%                                       | 12%                                     | 13%                                      |

Looking at the results another way (see table 3), 14% of returns had a mistake that changed the bottom line and 18% of returns had a mistake that would likely delay the refund for the tax filer. *The former is probably the most important indicator of quality in tax preparation at free tax preparation sites: 14% of returns reviewed gave tax filers an incorrect refund amount.*

**Table 3: Percent of Returns with Mistakes, by Consequence**

| Campaign   | # of Returns with Delayed Refund | % of Returns with Delayed Refund | # of Returns with Incorrect Refund Amount | % of Returns with Incorrect Refund Amount |
|------------|----------------------------------|----------------------------------|---|---|
| A          | 3                                | 16%                              | 3   | 16%                                       |
| B          | 4                                | 18%                              | 2   | 9%  |
| C          | 3                                | 15%                              | 2   | 10%                                       |
| D          | 6                                | 23%                              | 0   | 0%  |
| E          | 1                                | 4%                               | 5   | 21%                                       |
| F          | 5                                | 26%                              | 3   | 16%                                       |
| G          | 3                                | 20%                              | 5   | 33%                                       |
| H          | 4                                | 25%                              | 3   | 19%                                       |
| <b>All</b> | <b>29</b>                        | <b>18%</b>                       | <b>23</b>                                 | <b>14%</b>                                |

### 3. What Types of Mistakes Are Made?

As noted above, there are potentially hundreds of points in each return where a mistake can be made. In analyzing the results of this review, mistakes were categorized by type, in order to see whether certain mistakes were either more frequent than others or had more serious consequences.

**Table 4: Mistakes, by Type and Consequence**

|                                     | # of Mistakes | % of Mistakes with No Consequence | % of Mistakes Resulting in Delayed Refund | % of Mistakes Resulting in Lower Refund | % of Mistakes Resulting in Higher Refund |
|-------------------------------------|---------------|-----------------------------------|---|---|--|
| Names/SSNs*                         | 13            | 8%                                | 92%                                       | 0%                                      | 0%                                       |
| Address                             | 10            | 10%                               | 90%                                       | 0%                                      | 0%                                       |
| W-2s & Other Documents              | 31            | 81%                               | 13%                                       | 3%                                      | 3%                                       |
| <b>All Data Entry</b>               | <b>54</b>     | <b>50%</b>                        | <b>46%</b>                                | <b>2%</b>                               | <b>2%</b>                                |
| Correct Form                        | 2             | 100%                              | 0%  | 0%                                      | 0%                                       |
| Filing Status                       | 12            | 50%                               | 0%  | 17%                                     | 33%                                      |
| Exemptions                          | 3             | 67%                               | 33%                                       | 0%                                      | 0%                                       |
| Dependency                          | 6             | 50%                               | 17%                                       | 17%                                     | 17%                                      |
| <b>All Return Basics</b>            | <b>23</b>     | <b>57%</b>                        | <b>9%</b>                                 | <b>13%</b>                              | <b>22%</b>                               |
| All Income Included                 | 7             | 57%                               | 0%  | 29%                                     | 14%                                      |
| Adjustments                         | 4             | 25%                               | 0%  | 25%                                     | 50%                                      |
| Schedules                           | 5             | 20%                               | 0%  | 40%                                     | 40%                                      |
| <b>All Income &amp; Adjustments</b> | <b>16</b>     | <b>38%</b>                        | <b>0%</b>                                 | <b>31%</b>                              | <b>31%</b>                               |
| EITC                                | 9             | 0%                                | 0%  | 44%                                     | 56%                                      |
| Child Tax Credit                    | 3             | 67%                               | 0%  | 0%                                      | 33%                                      |
| Dependent Care Credit               | 1             | 100%                              | 0%  | 0%                                      | 0%                                       |
| Education Credits                   | 6             | 50%                               | 0%  | 50%                                     | 0%                                       |
| <b>All Tax Credits</b>              | <b>19</b>     | <b>32%</b>                        | <b>0%</b>                                 | <b>37%</b>                              | <b>32%</b>                               |
| Paper/E-file Appropriate            | 5             | 40%                               | 60%                                       | 0%                                      | 0%                                       |
| Direct Deposit Info                 | 6             | 0%                                | 100%                                      | 0%                                      | 0%                                       |
| DCN created                         | 6             | 100%                              | 0%  | 0%                                      | 0%                                       |

|                                    |            |            |            |            |            |
|------------------------------------|------------|------------|------------|------------|------------|
| Signature                          | 3          | 100%       | 0%         | 0%         | 0%         |
| <b>All E-filing and Signatures</b> | <b>20</b>  | <b>55%</b> | <b>45%</b> | <b>0%</b>  | <b>0%</b>  |
| <b>All Mistakes</b>                | <b>132</b> | <b>48%</b> | <b>27%</b> | <b>12%</b> | <b>13%</b> |

\*Names/SSNs were checked against Social Security cards whenever possible. Tax filers did not have the cards in 27 cases (17% of returns). In those cases, information was taken from another source, such as a W-2, past year return or filer information.

The greatest number of mistakes were in data entry (41% of all mistakes) and e-filing, signatures and direct deposit accounted for another 15% of mistakes. However, these mistakes virtually never affected the return’s bottom line. In comparison, mistakes in filing status, dependency, income and tax credits, although less common, had more serious consequences. The most common areas for mistakes were: copying information from W-2s and other documents (31 mistakes); typos in names or Social Security Numbers (13 mistakes); incorrect determination of filing status (12 mistakes); mistakes in the filer’s address (10 mistakes); and mistakes in the EITC (9 mistakes). The mistakes most likely to result in incorrect refund related to: determination of filing status and dependency; income and adjustments to income; schedules; and the EITC, CTC and education credits.

**Table 5: Mistakes in Tax Credits**

| Type of Credit                  | # of Returns with the Credit | % of Returns with the Credit | # of Returns with the Credit that have a Mistake in the Credit | % of Returns with the Credit that have a Mistake in the Credit |
|---------------------------------|------------------------------|------------------------------|--|--|
| Earned Income Tax Credit        | 61                           | 38%                          | 9  | 15%  |
| Child Tax Credit                | 43                           | 27%                          | 3  | 7%   |
| Child and Dependent Care Credit | 7                            | 4%                           | 1  | 14%  |
| Education Credits               | 14                           | 9%                           | 6  | 43%  |

Because the campaigns focus so strongly on promoting the EITC and other tax credits, it is useful to look more closely at exactly what mistakes were made regarding the credits:

- *Earned Income Tax Credit.* Sixty-one returns (38%) included the EITC, and of those, nine were incorrectly applied – with all affecting the returns’ bottom line. Four were incorrect determinations of qualifying child (half included an ineligible child and half excluded an eligible child); two were incorrect determinations of Married Filing Separately status, which makes the filer ineligible for the EITC (with one going each way); in one case, the preparer did not know that a foreign student was ineligible for the credit; one involved incorrectly checking a box saying the child was married; and the final mistake resulted from not including all income on the return.
- *Child Tax Credit.* Forty-three returns (27%) included the CTC, and of those, three were incorrectly applied – with two having no consequence and the remaining one resulting in a too-high refund. All three mistakes related to incorrect determination of qualifying child.
- *Child and Dependent Care Credit.* Seven returns (4%) included the credit, and of those, one was incorrectly applied – with no consequence for the return. The mistake involved claiming child care expenses for months when the child was over age 13.
- *Education Credits.* Fourteen returns (9%) included Education Credits, and of those, six were incorrectly applied – half with no consequence and the others resulting in lost refund

dollars. Four mistakes resulted from the tax preparer not including the credit, either because they did not ask about tuition payments or because they did not understand eligibility rules. The other two involved incorrect determination of which credit applied.

#### **4. Why are Mistakes Made?**

While it was not possible to systematically determine the cause of each mistake, certain factors became clear over the course of the reviews. There appear to be five distinct reasons for mistakes:

- a. *Carelessness.* Many of the typos and other data entry mistakes were caused by simple carelessness – spelling a name wrong, transposing numbers, etc.
- b. *Reliance of intake forms.* Many tax preparers copied information from intake forms without checking source documents or questioning the tax filer. This led to mistakes when information was entered incorrectly on the form or when handwriting was unclear.
- c. *Not asking questions.* Other mistakes occurred because tax preparers did not ask all the questions needed to determine the appropriate entry. For example, a preparer might assign a filing status of head of household to a female tax filer without asking if she was married. Similarly, a preparer might neglect to ask whether the filer paid for child care or education during the tax year.
- d. *Gaps in tax knowledge.* While all campaigns train and certify tax preparers, many volunteers and staff have only limited knowledge of the complicated tax code. Mistakes resulted when a preparer did not fully understand tax rules, such as the volunteer who thought education credits applied only to four-year colleges, or the staff member who believed a filer had to be legally separated in order to claim head of household status.
- e. *Not adhering to tax law.* Finally, some preparers made incorrect entries even though they knew tax law. These mistakes resulted less from willful deceit than a sense that they were “working” the tax code to the advantage of their clients. They tended to be made by the more experienced volunteers and paid tax preparers with accounting backgrounds and experience working at commercial firms, such as H&R Block and Jackson Hewitt.

#### **5. Does the Complexity of the Returns Matter?**

One quality control measure used by campaigns is limiting the types of returns they prepare. Site guidelines commonly exclude returns with self-employment or business income, rental or farm income, or itemized deductions. Returns are also considered simpler if the filing status is single or if no tax credits are claimed.

In general, neither the frequency nor the severity of mistakes appears to correlate strongly with either filing status or the number of tax credits. However, returns with additional schedules – in particular itemized deductions (Schedule A) and self-employment (Schedule C) – were more likely than other returns to have mistakes that resulted in an incorrect refund amount.

The reviews also found that despite policies limiting the types of returns prepared, almost all sites regularly stretch those rules because they are reluctant to turn away filers who would otherwise have to pay for tax preparation. Site managers generally say they bend the rules only when a tax preparer is available who “knows how to do those types of returns.” This may be the site manager

him/herself or a more experienced volunteer. However, since certification is based only on topics covered in training, the ability to complete these returns is generally self-attested.

**Table 6: Mistakes, by Complexity of Return**

|                        | # of Returns | % with Mistakes | % of Mistakes with No Consequence | % of Mistakes Resulting in Delayed Refund | % of Mistakes Resulting in Lower Refund | % of Mistakes Resulting in Higher Refund |
|------------------------|--------------|-----------------|-----------------------------------|---|---|--|
| <b>Filing Status</b>   |              |                 |                                   |   |   |  |
| Single                 | 102          | 47%             | 50%                               | 26%                                       | 12%                                     | 12%                                      |
| Other                  | 59           | 51%             | 45%                               | 29%                                       | 12%                                     | 14%                                      |
| <b>Credits</b>         |              |                 |                                   |   |   |  |
| None                   | 79           | 48%             | 53%                               | 25%                                       | 12%                                     | 10%                                      |
| One                    | 46           | 46%             | 46%                               | 29%                                       | 11%                                     | 14%                                      |
| Two or More            | 36           | 47%             | 42%                               | 31%                                       | 11%                                     | 17%                                      |
| <b>Other</b>           |              |                 |                                   |   |   |  |
| Itemizing (Sch. A)     | 8            | 63%             | 38%                               | 13%                                       | 13%                                     | 38%                                      |
| Self-Employed (Sch. C) | 11           | 73%             | 29%                               | 36%                                       | 21%                                     | 14%                                      |
| Farm Income (Sch. E)   | 1            | 100%            | 67%                               | 33%                                       | 0%                                      | 0%                                       |
| Back-Year Return       | 4            | 25%             | 75%                               | 25%                                       | 0%                                      | 0%                                       |
| Amended Return         | 2            | 50%             | 0%                                | 100%                                      | 0%                                      | 0%                                       |
| <b>All Returns</b>     | <b>161</b>   | <b>48%</b>      | <b>48%</b>                        | <b>27%</b>                                | <b>12%</b>                              | <b>13%</b>                               |

## 6. Do Any Characteristics Correlate with Greater Return Accuracy?

In selecting campaigns for this analysis, an attempt was made to visit a diversity of sites, representing various characteristics and operational approaches to free tax preparation. The goal was not only to review a representative sample of sites, but also to see whether any particular factors or practices appear to result in a higher degree of return accuracy.

The results of this analysis are presented in tables 7 and 8, below. Before discussing them, two caveats should be stated. First, the number of returns becomes smaller as the total is broken down, making the data less reliable. Second, interactions between characteristics may confuse the analysis (for example, larger sites were more likely to have paid tax preparers). Despite these limitations, it is useful to look at the characteristics to see if any appear to stand out as quality best practices.

In the end, the findings provide some interesting information but few clear answers. For example, certain characteristics seem to correlate with having fewer mistakes overall, but not necessarily fewer serious mistakes. These include: campaigns with more experience; campaigns with longer training; sites preparing more returns; sites using paid tax preparers; sites conducting on-site return reviews; and sites with quicker tax preparation (a possible indicator of preparer skill level).

**Table 7: Campaign Characteristics and Return Accuracy**

| Campaign Characteristic                  | # of Campaigns | % of Returns with Mistakes | Average # of Mistakes per Return | % of Returns with Delayed Refund | % of Returns with Incorrect Refund Amount |
|--|----------------|----------------------------|----------------------------------|----------------------------------|---|
| <b>Years of Experience</b>               |                |                            |                                  |                                  |   |
| Campaign in 3 <sup>rd</sup> year or less | 4              | 53%                        | 0.9                              | 23%                              | 11%                                       |
| Campaign in 4 <sup>th</sup> year or more | 4              | 44%                        | 0.7                              | 14%                              | 17%                                       |
| <b>Scale</b>                             |                |                            |                                  |                                  |   |
| Campaign completed under 5,000 returns   | 3              | 43%                        | 0.7                              | 18%                              | 18%                                       |
| Campaign completed 5,000-10,000 returns  | 2              | 66%                        | 1.4                              | 26%                              | 17%                                       |
| Campaign completed over 10,000 returns   | 3              | 44%                        | 0.7                              | 14%                              | 10%                                       |
| <b>Length of Training*</b>               |                |                            |                                  |                                  |   |
| Volunteer training fewer than 10 hours   | 4              | 58%                        | 0.9                              | 21%                              | 13%                                       |
| Volunteer training more than 10 hours    | 3              | 42%                        | 0.8                              | 15%                              | 18%                                       |
| <b>Training Provider**</b>               |                |                            |                                  |                                  |   |
| Volunteer training by IRS                | 2              | 47%                        | 0.8                              | 21%                              | 16%                                       |
| Volunteer training by Link & Learn       | 2              | 40%                        | 0.5                              | 17%                              | 10%                                       |
| Volunteer training by Volunteers         | 2              | 40%                        | 0.5                              | 17%                              | 10%                                       |
| Volunteer training by Paid Staff         | 5              | 52%                        | 0.9                              | 17%                              | 15%                                       |
| <b>Total</b>                             | <b>8</b>       | <b>48%</b>                 | <b>0.8</b>                       | <b>18%</b>                       | <b>14%</b>                                |

\*One site used only Link and Learn and so is not included in number of hours of volunteer training.

\*\*Three campaigns used more than one training provider (e.g. both IRS and volunteer).

The most striking correlations related to delayed refunds. Sites preparing more returns, those with paid tax preparers, those with on-site review and those with quicker tax preparation were all far less likely to have mistakes that would delay a refund – essentially because they committed fewer data entry mistakes. Other results were especially confusing. For example, sites with a paid site manager were far more likely to have serious mistakes than those with volunteer site managers. Similarly, campaigns using Link & Learn or volunteer trainers did better than those using either IRS trainers or paid staff.

**Table 8: Site Operations and Return Accuracy**

| Operational Factor                                | # of Sites | % of Returns with Mistakes | Average # of Mistakes per Return | % of Returns with Delayed Refund | % of Returns with Incorrect Refund Amount |
|---|------------|----------------------------|----------------------------------|----------------------------------|---|
| <b>Site Scale</b>                                 |            |                            |                                  |                                  |   |
| Site expected to complete 250 or fewer returns    | 10         | 54%                        | 1.0                              | 23%                              | 16%                                       |
| Site expected to complete 251-999 returns         | 6          | 48%                        | 0.7                              | 20%                              | 11%                                       |
| Site expected to complete 1000 or more returns    | 5          | 41%                        | 0.7                              | 9%                               | 16%                                       |
| <b>Intake Procedure</b>                           |            |                            |                                  |                                  |   |
| Intake and tax prep completed by different people | 11         | 51%                        | 0.9                              | 11%                              | 16%                                       |
| Intake self-completed                             | 6          | 49%                        | 0.8                              | 26%                              | 9%  |
| Intake and tax prep completed by same person      | 4          | 43%                        | 0.7                              | 20%                              | 17%                                       |
| <b>Site Manager</b>                               |            |                            |                                  |                                  |   |
| Paid site manager                                 | 15         | 50%                        | 0.8                              | 18%                              | 17%                                       |

|   |           |            |            |            |            |
|---|-----------|------------|------------|------------|------------|
| Volunteer site manager                              | 6         | 45%        | 0.8        | 18%        | 8%         |
| <b>Tax Preparers</b>                                |           |            |            |            |            |
| Mix of paid and volunteer tax preparers             | 3         | 50%        | 0.6        | 15%        | 10%        |
| Volunteer tax preparers                             | 15        | 50%        | 0.8        | 22%        | 12%        |
| Paid tax preparers                                  | 3         | 39%        | 0.9        | 4%         | 25%        |
| <b>On-Site Review</b>                               |           |            |            |            |            |
| Returns not reviewed before client leaves*          | 17        | 54%        | 0.9        | 21%        | 13%        |
| Returns reviewed by 2nd person before client leaves | 4         | 33%        | 0.7        | 9%         | 19%        |
| <b>Speed of Tax Preparation</b>                     |           |            |            |            |            |
| Tax preparation took over an hour                   | 5         | 56%        | 0.9        | 22%        | 11%        |
| Tax preparation took 20-60 minutes                  | 7         | 51%        | 0.9        | 26%        | 16%        |
| Tax preparation took less than 20 minutes           | 9         | 42%        | 0.7        | 8%         | 14%        |
| <b>Total</b>  | <b>21</b> | <b>48%</b> | <b>0.8</b> | <b>18%</b> | <b>14%</b> |

\* In four sites, site managers reported that they review returns against W-2s prior to e-filing. This may catch some of the data entry mistakes included in this analysis.

### Part III: Findings on Other Quality Measures

#### 1. Are Sites Protecting Tax Filer Confidentiality?

Most sites offer a reasonable degree of privacy for tax filers. Filers were able to meet with a tax preparer in relative privacy in 62% of sites; that is, they were either in separate rooms or cubicles, or at separate tables with enough distance from other filers that individual conversations could not be unavoidably overheard. Privacy was very limited in 14% of sites, where filers were squeezed together, often at rows of computers in a computer lab, and there was no way to keep conversations private. At 24% of sites, the level of privacy fell somewhere in between.

**Table 9: Measures of Confidentiality at Tax Sites**

| Factor                                      | # of Sites | % of Sites |
|---|------------|------------|
| <b>Computer Password Required</b>           |            |            |
| Yes   | 21         | 100%       |
| No  | 0          | 0%         |
| <b>Locked Files for Documents</b>           |            |            |
| Yes   | 14         | 67%        |
| No  | 7          | 33%        |
| <b>Shredders at Site</b>                    |            |            |
| Yes   | 10         | 48%        |
| No  | 11         | 52%        |
| <b>Degree of Privacy in Tax Preparation</b> |            |            |
| High  | 13         | 14%        |
| Moderate                                    | 5          | 24%        |
| Low   | 3          | 62%        |

All of the sites reviewed used computer passwords to protect the confidentiality of tax returns, but sites were generally less vigilant about protecting personal data in other ways. Only 2/3 of sites had locked file storage to maintain tax-related records. Sites without locked files either stored documents in unlocked files or site managers took files home until the end of the tax season (at

which time they are turned over to the IRS). Fewer than half of sites had shredders for disposal of confidential materials (at other sites, managers indicated that they either tear up documents, keep them in the client's file, take them home to shred elsewhere, or give them to the tax filer to dispose of themselves). Five sites did not have e-file capability, so site managers backed up returns to a disk to transmit from either their home or a central location. Finally, in at least two sites, staff or volunteers took home tax filer documents to prepare back-year returns on a personal computer that had the appropriate software.

## 2. What Do the Reviews Say About Customer Service at Tax Sites?

Visits to the 21 free tax preparation sites gave the impression of strong customer service. The sites offered a welcoming environment, generally enhanced by their location in community based organizations or public buildings. Staff and volunteers were friendly and clearly focused on assisting filers. While some sites projected a more professional feeling than others, neither type seemed intrinsically better from a customer service standpoint (it is likely that some filers would prefer each environment). In general, tax filers seemed very happy with the service they received – there were a lot of thanks and very few complaints.

While the reviews did not comprehensively look at customer service (for example, no interviews or surveys were conducted with filers), they did document a few key factors:

- *Waiting time and tax preparation time.* In general, filers did not have to wait long for tax preparation, but there was a wide range in the speed of tax preparation itself. The wait for tax preparation was less than 15 minutes at 48% of sites and between 15 and 30 minutes at another 24% of sites; filers waited more than 30 minutes at 29% of sites. Tax preparation generally took less than 20 minutes at 43% of sites; between 20 and 60 minutes at 33% of sites; and more than an hour at 24% of sites. Though long waits created difficulty for a few filers (who had other commitments or restless children), people were generally patient and did not seem to mind even very long waits.
- *Speed of the tax refund.* All sites offered electronic filing, which can speed up receipt of refunds by two weeks or more compared to mailing a return to the IRS. However, one site actively discouraged filers from e-filing, apparently from a belief that it would delay the refund or put the return at greater risk of audit. All sites also offered the option of direct deposit of the refund into a bank account, though only a few actively promoted direct deposit (and only one actually had staff from a local bank on site at the time of the visit to open new accounts for filers without one).
- *Availability of bilingual preparers or translators.* Bilingual assistance was available wherever it was needed. Thirty-eight percent of sites served tax filers whose primary language was other than English, and all of those sites had bilingual tax preparers or translators available at the time of the visit.
- *Provision of additional services for tax filers.* Because NTA campaigns have broad anti-poverty and asset development goals, their focus often extends beyond tax preparation. Thirty-eight percent of sites offered additional services on-site, most commonly access to bank accounts and benefits outreach. Several sites were located inside community agencies that offered a wide range of services. Another 24% of sites provided information and referral for additional services, generally through flyers or questions on the intake sheet. At the same time, however, additional services were rarely actively marketed, and

in only one site was another service actually observed at the time of the site visit (in that case, a Food Stamp screening).

**Table 10: Measures of Customer Service at Tax Sites**

| Factor  | # of Sites | % of Sites |
|---|------------|------------|
| <b>Wait for Tax Preparation</b>                               |            |            |
| Less than 15 minutes  | 10         | 48%        |
| 15-30 minutes   | 5          | 24%        |
| More than 30 minutes  | 6          | 29%        |
| <b>Speed of Tax Preparation</b>                               |            |            |
| Less than 20 minutes  | 9          | 43%        |
| 20-60 minutes   | 7          | 33%        |
| More than an hour   | 5          | 24%        |
| <b>Bilingual Preparers or Translators Available if Needed</b> |            |            |
| Yes   | 8          | 38%        |
| No  | 0          | 0%         |
| Not Applicable  | 13         | 62%        |
| <b>Additional Services Beyond Tax Preparation</b>             |            |            |
| Provided on Site  | 8          | 38%        |
| Outreach and Referral   | 5          | 24%        |
| No Other Services   | 8          | 38%        |

#### **Part IV: Recommendations for Improving Quality**

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The results of the site reviews provide clues as to where quality can be improved in free tax preparation. Responding to the findings, the recommendations below attempt to address specific problems identified during the course of the reviews, while bearing in mind that sites have different levels of capacity in terms of funding, volunteers and available expertise.

##### **Recommendations for Improving Return Accuracy**

- *Standardize procedures to ensure that certain questions are asked of all tax filers.* Mistakes occurred because preparers failed to ask key questions. Campaigns should take steps to ensure that basic questions – about marital status, residence of children, and who keeps up the home – are asked by the tax preparer at each interview. This could be done through a questionnaire, an interactive computerized form or some other method.
- *Emphasize the use of decision trees in tax preparer training.* The most serious mistakes occurred in determination of filing status, dependency and eligibility for tax credits. Each of these determinations follows a decision tree that asks a series of questions leading to a single correct answer. Training tax preparers to use those decision trees could help ensure that all appropriate questions are asked and the correct determination is made.
- *Set – and enforce – guidelines for what types of returns will and will not be completed.* While most sites had rules for what types of returns they could complete, few enforced those rules, generally because they were reluctant to turn away low-income filers. However, more complex returns tended to have more – and more serious – mistakes than other returns. Guidelines should follow training curricula, with preparers completing only

returns for which they have been certified. Sites wishing to prepare other types of returns might offer advanced certification for those topics.

- *Make sure that at least one person on site at all times has a high level of tax law knowledge.* While the reviews were unable to document individual preparer knowledge, there appeared to be a threshold in which at least one person (usually the site manager) knew what they were doing. This was especially evident in environments that promoted volunteers asking questions, and where the site manager, rather than only doing returns him/herself, circulated, observing and mentoring volunteers.
- *Conduct on-site reviews of returns before the client leaves.* A double-check of each return appears to be effective at eliminating most data entry mistakes. Expanding reviews to include questions for the filer may also reduce the number of more substantive mistakes. While these reviews would ideally be conducted by a volunteer or staff member experienced in tax law, any second set of eyes will likely improve quality.
- *Enter information directly from source documents and interviews rather than copying from intake forms.* While intake forms are useful tools for gathering information, relying too heavily on those forms led to mistakes at the sites. Tax preparers should look at Social Security cards and other documents, and should take advantage of the person sitting across from them to ask questions and confirm information. Promoting conversation can also help identify other issues that might affect the return.
- *Keep an eye on the slowest tax preparers.* While many factors contribute to the speed of tax preparation, the slowest preparers (those taking an hour or more to prepare a return) tended to be the least skilled and/or experienced volunteers and made more mistakes on average than faster preparers. Site managers should make a special effort to mentor these preparers, partner them with more experienced volunteers and review their work.
- *Think beyond rejects.* It is easy for sites to focus on e-file rejections because they represent the only direct feedback sites receive about return quality. But e-file rejections represent only a segment of mistakes, and generally not those with greatest consequences. One challenge for maintaining a focus on quality is that in many cases, campaigns – and filers – may never know a mistake has been made. As described in this report, however, those mistakes can still have serious consequences.
- *Emphasize the importance of applying tax law as it is written.* In rare cases, preparers treated tax law as if it provided a set of options, to be applied as benefit the filer. While some options do exist – such a whether to apply a tuition deduction or education credit – decisions related to filing status, qualifying child and other return basics generally have a single answer. Training and site management should reinforce tax law, with a particular eye for tax preparers who might bend that law in an effort to maximize the filer’s refund.

### **Recommendations for Improving Confidentiality**

- *Place a shredder in every site.* The ability to immediately shred excess or incorrect documents not only protects tax filer confidentiality, but also sends a message to filers about the site’s commitment to doing so. This does not present a significant cost for sites – a basic waste bin-sized shredder sells for \$19.94 at a national office supply store.
- *Limit transportation of documents and files.* Because programs make use of a variety of community sites, it is not always possible to store materials at each location. However,

lack of locked storage and e-file ability at many sites means that site managers and volunteers carry tax documents back and forth, often leaving them in the backs of their cars for days at a time. Attempts should be made to coordinate with sites for use of a locked closet or cabinet during the filing season. If this is not possible, sites should set guidelines for transport and maintenance of documents that protect confidentiality.

### **Recommendations for Improving Customer Service**

- *Actively promote options that can speed up receipt of tax refunds.* While all sites offered e-filing, not all encouraged filers to take advantage of the option. Similarly, few sites actively encouraged filers to use direct deposit when they had a bank account – and even fewer assisted filers in opening accounts in order to take advantage of direct deposit. Tax preparers rarely explained to filers exactly when their refund might arrive and the timing of various options. Marketing these options might help sites improve customer service as well as compete more effectively against commercial preparers.

### **Part V: Conclusion**

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Free tax preparation programs fill a critical need in low-income communities. They educate workers about their tax obligations and the benefits available through the EITC and other tax credits. They offer an alternative to commercial firms that can charge \$100 or more for tax preparation. And they promise the expertise of trained tax preparers who can help filers interpret the often complicated and intimidating tax code.

But how well do these programs deliver on the promise of quality tax preparation? The research and analysis presented in this report mark a first attempt to get a comprehensive picture of quality in free tax preparation programs. By visiting multiple campaigns and sites, and by examining a large number of actual tax returns with the tax filer present, the results provide a credible assessment of return accuracy.

All in all, the results present both a positive appraisal of the services provided by sites and a warning about areas where improvement should be made. Quality appears to be both not as bad as some have suggested, but also not as good as campaigns might want to achieve. Overpayments may be the most serious concern for the IRS, but both underpayments and delayed refunds also directly impact campaigns' ability to accomplish their goals.

Unfortunately, the most obvious question cannot be answered: how do these sites compare to the alternatives? It is unfortunate that no comparable data exists for IRS Taxpayer Assistance Centers, self-prepared returns or those completed by commercial tax preparation firms. Because there is no basis for comparison to the available alternatives, these results should not be used to make any judgment about the value of free tax preparation programs.

Looking ahead, the results may be most useful as a baseline for future assessment and evaluation of efforts to improve quality. It will be interesting to see whether implementation of the recommendations outlined above, or other efforts by sites to improve quality, are effective at increasing accuracy, confidentiality and customer service at free tax preparation sites.