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**TESTIMONY IN SUPPORT OF R.B. 1047,
AAC TAX PREPARERS AND FACILITATORS AND THE DEPARTMENT OF REVENUE
SERVICES' CHANGES TO THE TAX AND RELATED STATUTES**

Senator Fonfara, Senator Frantz, Representative Rojas, and members of the Committee, I am Jim Horan, CEO of the Connecticut Association for Human Services (CAHS). CAHS is a statewide nonprofit agency that works to reduce poverty and promote family economic security through policy and program initiatives. CAHS also coordinates a free tax preparation program that served almost 14,000 low- and moderate-income filers at 40 sites last year.

I am submitting written testimony in strong support of R.B. 1047, AAC Tax Preparers and Facilitators. I am out of state today and regret that I am not there to testify in person, because I am very pleased that the Department of Revenue Services (DRS) seeks to regulate paid tax preparers and facilitators, and that the Committee has raised this bill. **I urge you to pass this bill to protect consumers from unscrupulous or incompetent preparers, and to provide a minimal level of regulation for this critical function.**

Some tax practitioners are already regulated, and would not be subject to new DRS regulations. These include attorneys, certified public accountants, and IRS-licensed "[enrolled agents](#)," all of whom are subject to the U.S. Department of the Treasury's [standards of practice](#), as well as IRS-certified VITA preparers. According to a report from the Center for American Progress, the remaining paid tax preparers—who account for more than half of all tax preparers—are currently not subject to any federal or state regulation. Right now, [anyone](#) can be a paid preparer, regardless of whether they have relevant training or experience. They can charge tax filers for their services but are not required to undergo training, meet even minimal standards for tax knowledge, or operate within any established code of professional ethics.

CAHS coordinates the state's largest Volunteer Income Tax Assistance (VITA) program. VITA is an Internal Revenue Service (IRS) service that provides free federal and state tax preparation for households that earn less than \$54,000 per year. All VITA preparers must pass an IRS certification test with annual updates. These unpaid, certified preparers would not be subject to the regulation of R.B. 1047. Testing by the IRS shows that VITA preparers have a 94% accuracy rate.

Regulating paid preparers will increase accuracy in filing. In contrast, tax preparation errors, and in some cases fraud, by paid preparers are a real problem that DRS understandably wants to reduce and control. "Multiple rounds of 'mystery shopper' tests show that tax return errors are a

serious problem,” according to a [recent Consumer Federation of America report and poll](#). “In 2014, the U.S. Government Accountability Office (GAO) sent undercover investigators to 19 randomly selected tax preparer offices. Only two of the 19, or 11 percent of the returns, had the correct refund amount.” In addition to this GAO [study](#), advocacy groups have found similar results, with both overpayments and underpayments, which expose consumers to fines or deprive them of refunds they are entitled to.

This same GAO study found that paid preparers in Oregon, one of four states that regulates paid preparers, were 72 percent more likely to file accurate returns than preparers in the rest of the United States.

Regulating paid preparers will protect low-income filers—and save the state money. Low-income filers are more likely to use paid preparers than other filers, because of the complexity of the federal Earned Income Tax Credit (EITC), a refundable tax credit available to lower-income workers. A survey by the National Taxpayer Advocate concluded that “the low-income population is vulnerable and more likely than the population at large to be taken advantage of by unskilled or unscrupulous tax return preparers.” R.B 1047 forbids refund anticipation loans or checks, and other unscrupulous practices, like signing blank or incomplete tax forms, most often sold to or imposed on lower-income filers.

Furthermore, National Taxpayer Advocate Nina Olson [testified](#) before Congress that nearly half of EITC returns prepared by unenrolled preparers who are not affiliated with a national tax preparation firm contain overclaims that average one-third of the amount claimed. Connecticut has a state EITC that piggybacks on the federal credit. DRS wants to avoid overclaims on returns claiming the state EITC and all refunds. It is in the best interest of our state at a time of budget crisis to regulate preparers, thus increasing accuracy—and benefitting the state treasury.

Regulating preparers will increase transparency of fees. Standards and requirements to publicize fees upfront are completely lacking at present. Mystery shopper testing from advocacy groups has uncovered tax preparation fees as high as \$500. Section 5 of R.B. 1047 requires clear and transparent fee structures, ensuring that Connecticut tax filers receive a clear estimate upfront. Such transparency will deter preparers who take advantage of unknowing filers.

Regulating preparers will codify what most people believe already happens. A recent Consumer Federation of America poll found that 68% of Americans believe that either the state or federal government require licensing of paid tax preparers, and that only 20% believe that neither requires licensing. In fact, only four states (California, Maryland, New York, and Oregon) have mandatory standards for unenrolled paid preparers. 88% of those polled support licensing requirements for paid preparers by states.

It’s easy to understand why one would assume that all paid tax preparers have special training that enables them to offer high-quality tax assistance—and an obligation to adhere to certain professional

rules. After all, Connecticut regulates animal trainers, bill collectors, upholsterers, among many other occupations. But not most tax preparers.

The Finance Committee and legislature should support R.B. 1047, a common-sense step to protect Connecticut's taxpayers.