More Tax Time Troubles

Mystery Shopper Testing Exposes Refund Anticipation Loans in Reservation Border Towns

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EXECUTIVE SUMMARY

BACKGROUND

First Nations Development Institute conducted 10 "mystery shopper" tests of paid tax preparers in New Mexico between November 28, 2011 and April 17, 2012.[1] The goal of this research was to assess the quality of tax preparation services offered to Native American taxpayers and to assess whether exposure to Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs) was common. The mystery shopper tests were conducted in Gallup, Espanola, Bernalillo, Farmington, Milan, Santa Fe and Albuquerque, New Mexico, all communities with a high Native American population and relatively close to Indian reservations.

KEY FINDINGS

Major Finding 1: Questionable Practices to Encourage the Use of RACs or Similar Bank Products. Refund Anticipation Checks (or RACs) are non-loan bank products offered by paid tax preparers that, like RALs, facilitate access to tax refund money. RACs allow households without bank accounts to benefit from directly-deposited refunds into temporary bank accounts opened by the tax preparer. Once the refund has been received, the tax preparer extracts its fees, closes the temporary bank account, and then provides the payment of the remaining refund balance to the tax filer, which usually comes in the form of a check. Three of the ten participants in our study were pushed to automatically sign up for a costly bank product to receive their refund. Tax preparers used several tactics to encourage people to use the RAC product. In one case, the bank product was presented as the default option and the taxpayer was told he could not receive direct deposit into his bank account without paying a fee. In another case, a taxpayer was automatically rolled into a RAC product when her application for a RAL was denied. Some institutions required signatures on forms associated with RACs without explaining that the taxpayer is not required to sign them by law.

The following problems were encountered by taxpayers:

A. **Automatically Signing Up Taxpayer for Banking Product without Clear Explanation**

B. **Automatic Enrollment into RAC Banking Product if Taxpayer is Rejected for RAL**

C. **Claiming that Signing a RAC Form is Required**

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[1] This research builds on similar research conducted during the 2011 tax preparation season. For a report of findings from the previous mystery shopper study conducted by First Nations Development Institute, please reference: First Nations Development Institute (2011). *Tax Time Troubles: Mystery Shopper Testing Exposes Poor Quality Tax Preparation and Refund Anticipation Check Abuses*. Longmont, CO: First Nations Development Institute. Visit the Knowledge Center at www.firstnations.org to download a copy of this publication.

MAJOR FINDING 2: LOANS AGAINST TAX REFUNDS STILL HEAVILY MARKETED AND TAX PREPARERS USE TECHNIQUES TO INCREASE REVENUE RELATED TO LOAN PRODUCTS. Changes in the banking and tax preparation industries have eliminated all but one bank's ability to offer loans against tax refunds during the 2012 tax season.[2] However, these products were still heavily marketed to our mystery shoppers in the communities where we conducted our research. Seven of our ten mystery shoppers were directly offered loans against their tax refund by the tax preparer, and a few taxpayers encountered aggressive selling techniques. Nearly all of the participants were surrounded by Republic Bank posters advertising RALs, including all three shoppers who were not verbally offered the option. Five of our mystery shoppers applied for a loan against their tax refund, and three received at least one loan. Two loans were offered by Republic Bank, but the other loans were offered by consumer loan companies or pawnshop-type businesses. Two of the loans were marketed as "holiday loans" and were given out in November or December 2011, based on the borrower's projected tax refund. These two loans were offered by consumer loan companies (including a pawnshop).

Our research documented that tax preparation firms employ a variety of techniques to urge people to use RAL-like credit products and then squeeze even more revenue out of RAL borrowers. Most tax preparation firms required cash payment for tax preparation fees, which may encourage more people to take out a loan-type product if they do not have cash on hand to pay for tax preparation. Once a taxpayer takes out a loan, the tax preparation fees are often rolled into the cost of the loan, increasing the principal upon which the interest is charged. Filers who have the necessary cash to pay fees upfront but still would like a loan in a much larger amount are almost always told they are unable to pay these various fees at the time of signing the loan, resulting in the taxpayer incurring additional costs. Furthermore, when the RAL check is received, local banks and consumer finance companies often charge a small fee to cash the check. For the holiday loans, the companies often encourage filers to take out an additional refund loan at tax time, and rolling over existing loans into the new loan at least once is common.

A third finding of our research is that loan companies often employ questionable or illegal practices when managing the loan process or completing the loan agreements. For example, we documented two cases where birth certificates and/or social security cards were used as collateral for a loan, even though they have limited financial value. It was very common to have people sign Power of Attorney forms without any explanation of what they were, and we were informed about one case where a tax preparation firm had clients sign a 10-year Power of Attorney form, thus ensuring that the tax refund is returned to that business for the next ten years no matter where the tax return was prepared. There was also an incident in which the loan document did not clearly disclose the interest rates or fees. Finally, we also documented a case where a borrower received a loan against her tax refund several days after the IRS website said that payment had been dispensed to the loan company.

Our findings include the following:

A. **Some Still Aggressively Pushing the Loans Against Tax Refunds**

B. **Social Security Card and Birth Certificates Used as "Collateral" on Loans**

C. **Loan Stacking Common**

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[2] See Section III for a discussion of recent changes concerning bank regulation and bank's ability to offer lines of credit for loans against tax refunds.

D. **Firms Not Transparent About Annual Percentage Rates (APR)**

E. **Misinformation Used to Encourage a Borrower to Take Out Additional Loans**

MAJOR FINDING 3: POOR QUALITY TAX PREPARATION STILL A PROBLEM. A major theme that emerged in the research we conducted during the previous tax season was the frequency of poor quality service provided by tax preparers. Unfortunately, this remained a significant problem this year, and this finding is consistent with other research on this topic. All but one of the mystery shoppers encountered some issue when filing their taxes, and their problems included an incorrect statement of charges, improper explanation of forms, forgetting (or ignoring) to ask about qualifications such as enrolled tribal status, and inexperienced and unprofessional employees. While our sample of participants was small, the frequency of these errors calls into question how many people across the country are being overcharged and underserved by paid tax preparers. We documented the following issues:

A. **Staff Making Mistakes when Preparing Taxes**

B. **Inadequate Explanation of Forms**

C. **Not providing Tax Filers with Copies of Tax Return**

D. **Inexperience of Staff**

E. **Disorganization within Tax Preparation Site or Between Tax Preparation Company and Loan Provider**

F. **Tax Preparation Employees Displaying Rude and Unprofessional Behavior**

MAJOR FINDING 4: LACK OF CLEAR DISCLOSURE OF TAX PREPARATION FEES. As our research and previous studies have documented, tax preparation firms often make it hard to determine the costs associated with tax preparation services. Customers are rarely given an accurate estimate of fees in advance, and even after they get their taxes prepared, they may not receive an itemized list of the services they are paying for. Given that the fees for tax preparation are not disclosed beforehand or even after the service is provided, it makes it difficult for the customer to shop around for the best deal. Only two of our ten participant's verbal estimates matched the actual fees paid and none of shoppers received a fully itemized receipt upon the conclusion of tax preparation. We documented several instances of this:

A. **Fees Not Clearly Disclosed**

B. **No Itemized Receipts for Services**

POLICY RECOMMENDATIONS

Every year millions of Americans file their taxes and turn to a paid tax preparation firm for help. Unfortunately, this mystery shopper research project suggests that many tax preparation firms are providing low quality services and taking advantage of vulnerable low-income filers by imposing unnecessary fees or steering them towards unnecessary and costly bank and loan products.

Many small business owners offer needed tax preparation services to their clients but our research documented room for improvement in terms of staff training, disclosure of fees, and customer service in this project. This is especially true in communities with a high percentage of low-income tax filers who rely on the Earned Income Tax Credit, the Child Tax Credit, and other programs to make ends meet. We applaud the IRS's new policy that requires tax preparers to register with the IRS and to pass a competency exam. We offer the following additional policy recommendations:

- **A. Disclose All Fees Associated with Tax Preparation**
- **B. Improve Training to Reduce Errors**
- **C. Standardize Disclosures Related to Bank Products (Like RALs) and Enforce Compliance**
- **D. Research and Regulate the Small Loan Industry in New Mexico**
- **E. The Tax Preparation Industry Should Adopt and Follow a Code of Conduct**
- **F. Continue to Provide Resources to Volunteer Income Tax Assistance Programs**

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I. INTRODUCTION

Each year approximately 60% of all individual taxpayers turn to a paid tax preparer to file their returns. The tax preparation business has become an $8.9 billion industry, and with companies joining forces with retail stores (Jackson Hewitt recently partnered with Wal-Mart to expand to 2,800 more locations), paid preparers continue to be effective in marketing their products and services.[3] Taxpayers assume that the paid tax preparers are assisting them with meeting their legal tax filing requirements and are providing a high quality service for a reasonable price. Unfortunately, our research reveals that many providers in this largely unregulated industry are providing low quality service in New Mexico and tricking Native American tax filers into paying unnecessary or hidden fees. In addition, even with the changes in the industry that have eliminated all but one bank's ability to offer costly loans against tax refunds during the 2012 tax season,[4] loans against tax refunds, in the form of Refund Anticipation Loans (RALs) or holiday loans are still common. Furthermore, some tax filers are being taken advantage of and manipulated into paying unnecessary fees or purchasing unnecessary bank products.

Between November 28, 2011 and April 17, 2012, First Nations Development Institute conducted 10 "mystery shopper" tests of paid tax preparers in Albuquerque, Bernalillo, Espanola, Farmington, Gallup, Milan, and Santa Fe, New Mexico, all communities with a high Native American population and relatively close to Indian reservations. The goal of this research was to assess the quality of tax preparation services offered to Native American taxpayers and to test whether tax preparation firms are steering people toward expensive products such as Refund Anticipation Loans or Refund Anticipation Checks. In 2009, 52% of all tax filers in New Mexico used a paid tax preparer to help them file their tax returns, and 62% of all filers claiming the Earned Income Tax Credit (EITC), who tend to be lower income, used a paid tax preparer. This amounted to nearly 465,000 New Mexico tax filers (and over 127,000 EITC filers) who relied on paid tax preparation firms to help them file tax returns.[5]

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[3] Vega, Tanzina (2012). "Turning Tax Time into Party Time." *The New York Times,* January 3, 2012. Retrieved January 21, 2012 (www.nytimes.com).

[4] See National Consumer Law Center (2012). *One Last Bite: Final Year for Bank Tax Refund Anticipation Loans* (Press Release). January 17, 2012.

[5] Data from the Brookings Institute *EITC Interactive* website: http://www.brookings.edu/metro/eitc/eitc-homepage.aspx. Figures computed by the authors.

We conducted mystery shopper visits in several cities in New Mexico (see Table 1). We focused our tests on these areas because they are near communities with relatively high Native American population. In addition, in three of these cities, use of paid preparers by EITC filers was higher than the state average and use of Volunteer Income Tax Assistance (VITA) sites was lower.

Table 1: Characteristics of New Mexico Cities[6]

City	% Native American population in city	% of total returns claiming EITC 2008	% of EITC filers using a paid preparer 2008	% of EITC filers using a VITA Site 2008
Albuquerque	4.6%	18%	52%	7%
Bernalillo	5.3%	23%	55%	7%
Espanola	3.4%	24%	**63%**	**3%**
Farmington	22.2%	34%	**90%**	**1%**
Gallup	43.8%	51%	**91%**	**1%**
Santa Fe	2.1%	15%	55%	14%
State	*9.4%*	*23%*	*62%*	*5%*

This project replicated earlier mystery shopper studies conducted by the Community Reinvestment Association of North Carolina and The National Consumer Law Center in 2008 and 2010.[7] In addition, First Nations Development Institute conducted mystery shopper research in Native American communities in New Mexico during the previous tax season, in 2011.[8] The goals of this year's work were to see if 1) the findings in earlier studies conducted by others were corroborated, 2) to compare results to our previous study to see if there were any noticeable improvements, 3) to assess the quality of tax preparation services in communities with a high Native American population and close to Indian reservations, and 4) to assess whether the tax preparation firms are steering people toward expensive products such as Refund Anticipation Loans or Refund Anticipation Checks.

Earlier studies of tax preparation services have found that taxpayers often receive low quality service, are pushed into using high cost tax products such as Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs), and are charged frivolous or high fees.[9] In addition, previous research suggests that many tax preparers do not disclose that RALs and RACs are voluntary bank products and do not reveal the costs associated with such products or the alternatives to them such as free

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[6] Data from the U.S. Census and the Brookings Institute EITC Interactive website: http://www.brookings.edu/metro/eitc/eitc-homepage.aspx. Figures computed by the authors.

[7] See Wu et al. (2010). Raleigh, NC: Community Reinvestment Association of North Carolina and Wu et al. 2010. *Tax Preparers Take a Bite Out of Refunds: Mystery Shopper Test Exposes Refund Anticipation Loan Abuse in Durham and Philadelphia.* Raleigh, NC: Community Reinvestment Association of North Carolina.7

[8] First Nations Development Institute (2011). *Tax Time Troubles: Mystery Shopper Testing Exposes Poor Quality Tax Preparation and Refund Anticipation Check Abuses*. Longmont, CO: First Nations Development Institute.

[9] Again, see Wu et al. (2010). *Tax Preparers Out of Compliance: Mystery Shopper Testing Exposes Violations of Refund Anticipation Loans Laws in Arkansas, New York, and North Carolina.* Raleigh, NC: Community Reinvestment Association of North Carolina and Wu et al. (2010). *Tax Preparers Take a Bite Out of Refunds: Mystery Shopper Test Exposes Refund Anticipation Loan Abuse in Durham and Philadelphia.* Raleigh, NC: Community Reinvestment Association of North Carolina.

e-filing and using direct deposit of tax refunds into one's bank account.[10] Finally, studies also found that tax preparers are not following the highest standards of practice[11] and demonstrate problems with protecting the confidential data of tax filers and disclosing information on tax preparation fees.

Recent research on RALs and RACs suggests that use of these products is often geographically concentrated and these products are sold disproportionately to populations most vulnerable to being manipulated into using them, such as ethnic minorities, lower income tax filers, and military personnel.[12] Previous research by First Nations Development Institute suggests that filers in Native American communities use bank products such as RALs and RACs more often than filers in non-Native communities.[13] Recent research on the patterns of tax filers in New Mexico suggests that McKinley and Cibola counties, two counties with high Native American populations, had higher than average use of RALs and RACs by tax filers in past years. Our research in 2011 indicated that several Native American tax filers were automatically signed up for a costly Refund Anticipation Check when they could have easily used direct deposit to receive their tax refund. This 2012 research also documents that some Native American filers are being automatically signed up for expensive bank products or steered towards taking loans out against their tax refunds.

II. TESTING BACKGROUND

Mystery Shoppers were recruited in late 2011 and early 2012, provided with a consent form to sign, and given information about the project. For the majority of testers, we calculated their tax returns before they went to the selected tax preparers so that we could more easily catch any errors and also avoid any instances of serious tax liability or fraud. Testers were instructed to visit a paid tax preparer and inquire about getting a RAL or RAC if they had a large enough tax refund. All of the mystery shoppers were Native American and were enrolled tribal members, which allowed us to test tax preparer's knowledge of tax law related to tribal citizenship. A researcher and trained tax consultant from First Nations Development Institute accompanied the testers during the visits to the

[10] A Refund Anticipation Check is a product that allows the tax provider to open a temporary bank account in the filer's name into which the IRS direct deposits the refund check. After the refund is deposited, the tax preparer extracts fees and then issues the client a check and closes the bank account. Documented fees for Refund Anticipation Checks have ranged from $30 to $60 at different tax preparers. Such a product is unnecessary if a client already has a bank account. A Refund Anticipation Loan is a short term loan issued by a bank using a filer's tax refund as collateral. Such a product allows a filer to get access to funds usually in a few days rather than 5-10 days if they used direct deposit into a bank account.

[11] See the IRS webpage "Tips for Choosing a Tax Preparer" at http://www.irs.gov/individuals/article/0,,id=133088,00.html for some best practices.

[12] See Theodos, B, et al. (2010). *Who Needs Credit at Tax Time and Why: A Look at Refund Anticipation Loans and Refund Anticipation Checks.* Washington D.C.: Urban Institute; Keeley, C. L. S.; Griffith, M.W. (2007). *Predatory Tax-Time Loans Strip $324 million From New York City's Poorest Communities: An Analysis of Tax Refund Anticipation Lending in NYC 2002-2005.* New York, NY: Neighborhood Economic Development Advocacy Project; Duda, S., Buitrago, K., and Smith, G. (2010). *Diverted Opportunity: Refund Anticipation Loans Drain Wealth from Low Wealth Tax Filers and Communities of Color*. Chicago, IL: Woodstock Institute; and Confessore, Nicholas (2008). "State Makes Bid to End Costly Tax-Refund Loans." *The New York Times*. January 18, 2008.

[13] See First Nations Development Institute (2009). *Borrowed Time: Use of Refund Anticipation Loans Among EITC Filers in Native American Communities*. First Nations Development Institute: Longmont, CO and First Nations Development Institute (2011). *Use of EITC and Predatory Tax Products in New Mexico.* First Nations Development Institute: Longmont, CO.

paid tax preparation firms and either paid upfront for all expenses associated with filing tax returns or reimbursed taxpayers later. Detailed field reports for each mystery shopper test were written up using a pre-designated rubric of key data points. Quotes from these field reports are provided in this narrative, and Appendix A includes two complete examples of these case studies.

During our visits to the study communities, we saw tax preparation services being offered by a variety of different companies. In addition to the national chains of Jackson-Hewitt, H&R Block, and Liberty Tax, we saw tax preparation services offered by pawn shops, rent-to-own furniture stores, consumer loan companies, and mom-and-pop businesses. We tried to visit as many different types of tax preparation firms as possible in this study to gather information about the range of companies that offer tax preparation services.

III. EITC AND LOANS AGAINST TAX REFUNDS: A CHANGING INDUSTRY

Five out of the ten mystery shoppers in our study applied for a loan against their tax refund and three received at least one loan. While recent regulation has diminished the opportunities for tax preparation companies to offer loans against refunds, our research indicates that several businesses still aggressively promote such loans, either directly or through advertisements around the store. This is especially true in border towns where a large number of low-to-moderate income individuals reside, many of whom qualify for the Earned Income Tax Credit.

Last year the Earned Income Tax Credit provided nearly $59 billion to over 26 million low-to-moderate income working individuals to help assist their families and communities. Every year the Earned Income Tax Credit lifts about 6.6 million people out of poverty.[14] Many of our mystery shoppers qualified for the Earned Income Tax Credit and had fairly large refunds due to them. The average refund for our borrowers was just under $4,000 and the largest refund was around $8,600 for a single mother of three who qualified for both the Earned Income Tax Credit and the Additional Child Tax Credit. The Earned Income Tax Credit continues to serve as an important financial boost for working people in a recovering economy. In 2012, the Earned Income Tax Credit could put up to $5,751 into the pockets of eligible taxpayers (even more if they live in a state with a similar state credit).[15]

Unfortunately, paid tax preparers have found a way to weaken the economic impact of the Earned Income Tax Credit by offering loans against tax refunds in a variety of forms. These loans may be marketed as holiday loans, tax time loans, or refund anticipation loans (RALs). These loans are marketed as a way to give Earned Income Tax Credit recipients and other filers quicker access to their refunds, but it is often in return for high fees equal to 50-500 percent APR.

Significant changes in the tax preparation and financial services industry have resulted in a reduction in lines of credit available for tax preparers to offer loans against tax refunds. The IRS stopped sharing debt indicator data with lenders in 2010, and banking regulators were concerned about loans against tax refunds made without any underwriting. In late 2010, JPMorgan Chase, as well as H&R Block and its partner bank HSBC, stated they would no longer provide tax loans after receiving a notice of concern from the Office of the Comptroller of the Currency. The 2012 tax season marks the final year that a bank can offer lines of credit associated with tax refund loans, signifying the end

[14] IRS's *EITC Fast Facts*. December 13, 2011. Retrieved July 26, 2012 (http://www.eitc.irs.gov/ptoolkit/basicmaterials/ff/).

[15] Ibid.

of such loans to be offered by banking institutions. There is one remaining bank, Republic Bank (most notably, a partner of Jackson Hewitt),[16] that offered lines of credit associated with tax refunds in 2012, though they have agreed to discontinue providing this product next year.[17] In addition, they had to pay a fine to the FDIC related to compromising its "safety and soundness" by making loans without debt indicator data and were also cited for numerous violations, including failure to disclose the annual percentage rate on tax time loans. While the demise of bank-offered RAL-type loans is on the horizon, it is likely that other lenders will fill this niche. Early research suggests that payday lenders and other consumer credit companies may continue to offer these types of loans as they have much less oversight than banks.[18] This will require tax filers to be increasingly cautious about tax preparation companies that partner with payday lending institutions or other consumer loan companies.[19] Our research in 2012 revealed that many consumer loan companies, including pawn shops, are readily offering loans against projected tax refunds.

A second important change in the tax preparation industry is that the IRS now is able to process tax refunds much faster than before and often deposit them into filers' bank accounts electronically in less than 10 days. This has reduced some of the demand for the loan products, especially loan products offered during tax season. However, holiday loans, or loans made before tax season in November and December and that provide a loan against a taxpayers' projected refund, continue to offer access to refund dollars earlier than if the taxpayer were to wait until tax season. We documented aggressive marketing of this product in the communities where we conducted our research, as well as significant demand for this product. While many experts are heralding the "end of Refund Anticipation Loans," we found that many tax preparers are still offering such loans in partnership with consumer finance companies in the communities where we conducted our research, and that these loan products are being heavily marketed to taxpayers.

[16] This tax season, Republic Bank charged 149% APR on the first $1,500 of the loan and included an additional $29.95 fee for an amount that exceeded $1,500.

[17] See Carnns, Ann (2012). "After this Year, No More Tax Refund Loans." *The New York Times.* January 19, 2012. Retrieved February 2, 2012 (www.nytimes.com).

[18] Ibid.

[19] See National Consumer Law Center (2012). *One Last Bite: Final Year for Bank Tax Refund Anticipation Loans* (Press Release). January 17, 2012.

IV. MAJOR FINDINGS

Our mystery shopper research in 2012 uncovered four key findings. First, the tax preparation businesses are utilizing techniques to encourage people to choose bank products such as RACs to access their refunds, even when direct deposit into a bank account would be quicker and cheaper. Second, while RALs nationwide are on the decline, businesses in border towns in New Mexico have adapted with new strategies to continue pushing the product and increase profits for their companies. Third, consistent with last year's study, our research documented poor quality tax preparation service and inexperienced and unprofessional tax preparers. Finally, we also documented the ways in which tax preparers fail to disclose the fees associated with tax preparation services. Given that the fees for tax preparation are not disclosed beforehand or even after the service is provided, it makes it difficult for the customer to shop around for the best deal, or even know what they have paid for a given service.

These findings are presented and analyzed below.

Major Finding 1: QUESTIONABLE PRACTICES TO ENCOURAGE THE USE OF RACS OR SIMILAR BANK PRODUCTS

Refund Anticipation Checks (or RACs) are non-loan bank products offered by paid tax preparers that, like RALs, facilitate access to tax refund money. RACs allow households without bank accounts to benefit from directly-deposited refunds into temporary bank accounts opened by the tax preparer. Once the refund has been received, the tax preparer extracts its fees, closes the temporary bank account, and then provides the payment of the remaining refund balance to the tax filer, which usually comes in the form of a check. Three of the ten participants in our study were pushed to automatically sign up for a costly bank product to receive their refund. Tax preparers used several tactics to encourage people to use the RAC product. In one case, the bank product was presented as the default option and the taxpayer was told he could not receive direct deposit into his bank account without paying a fee. In another case, a taxpayer was automatically rolled into a RAC product when her application for a RAL was denied. Some institutions required signatures on forms associated with RACs without explaining that the taxpayer is not required to sign them by law.

The following problems were encountered by taxpayers:

A. Automatically Signing Up Tax Filer for Banking Product without Clear Explanation

One of our participants was informed by an employee at a tax preparation firm that the firm did not have any no-cost options for the taxpayer to receive his refund. The tax preparer claimed he must take out fees from the refund to e-file. Therefore taxpayer was automatically signed up for a bank product without his consent, and was not clearly informed of alternatives. Later, a review of the fine print on one of the tax forms clearly stated that there were two free filing choices including filing by paper or electronically through the IRS.

Taxpayer wanted to use direct deposit for refund. Preparer just printed up a statement of charges that listed a bunch of bank fees and software fees. I asked if we could pay tax preparation fees upfront. But she said "no" and there was no way we could pay up front and *that we must have fees taken out of the refund in order to e-file. Upon later review of copies provided to the taxpayer we noticed a form titled "e-Collect Tax Payer Agreement" that clearly states that no-cost options for receiving a federal refund are available. So, we ended up paying a $15 bank fee and a $30 technology fee because she gave us misinformation.*

B. Automatic Enrollment into RAC Banking Product if Rejected for RAL

Another technique that is used by tax preparers to force people into bank products is to default taxpayers into a RAC product if they are rejected for a RAL. Two of our mystery shoppers were interested in taking out a tax refund loan and were told that they would be automatically signed up for a RAC if they did not qualify for a loan. This is especially problematic, considering a taxpayer might be in the position to pay upfront for preparation fees, regardless of whether or not he or she qualifies for a loan. One mystery shopper was defaulted into a $29.95 product (imposed for an Electronic Refund Check) after being rejected by the loan company:

Preparer also showed us a fee breakdown on her computer screen which showed the difference in price between Electronic Refund Check (ERC) and RAL. The difference was $61.22 which included a $45 credit investigation fee and a $16.22 finance charge. She went on to say that the $61.22 is not charged if the taxpayer applies for a RAL and is denied; however a $29.95 Tax Refund Admin fee is charged either way. This concerned me because the Tax Refund Admin fee is usually only applied when tax prep fees are deducted from the refund. Therefore, I did not see why this was relevant.

She didn't explain why, but upon reviewing copies of forms later I discovered that if a loan is denied and Republic Bank receives the refund, then the taxpayer is required to receive their refund in the form of an ERC/ERD (RAC) and incurs the $29.95 fee. Taxpayer therefore forfeits the right to pay upfront, choose a non-bank product refund option, and avoid the $29.95 fee (as the preparer stated). This really hurts the taxpayer. Applying for a $1500 RAL does not necessarily mean a person is not able to pay upfront for the cost of their return… When reviewing the loan terms the preparer did not offer a direct deposit option, and stated that taxpayer had to pick up checks for both the loan and refund balance at the store. So there is an assumption that the taxpayer is unbanked but it seems like some options should be given.

C. Claiming that Signing a RAC Form is Required

Unfortunately, we found that some tax preparation institutions are still claiming that signing a RAC form is a mandatory requirement to complete the filing process. In one case a participant was automatically required to sign a RAC consent form for a paper return and refund by mail:

Upon reviewing the intake forms the taxpayer was instructed to sign, I noticed a RAC consent form from Republic Bank. I asked why the taxpayer had to sign this since he was mailing in his own return and had requested his refund by mail. The preparer replied that her system required the RAC form regardless.

Tax preparers continue to "push-market" tax filers into taking out a Refund Anticipation Check or similar bank product by using misinformation or defaulting clients into the product. This was true even for taxpayers who had bank accounts and could have used direct deposit to receive their tax refund for free. The result is that the tax preparers are able to collect additional fees from taxpayers, and moreover, banks or other cashing companies may cash the check for an additional fee. This all adds up to an increased revenue stream for the tax preparation businesses and their finance company partners.

Major Finding 2: LOANS AGAINST TAX REFUNDS STILL HEAVILY MARKETED AND TAX PREPARERS USE TECHNIQUES TO INCREASE REVENUE RELATED TO LOAN PRODUCTS

Changes in the banking and tax preparation industries have eliminated all but one bank's ability to offer loans against tax refunds during the 2012 tax season.[20] However, these products were still heavily marketed to our mystery shoppers in the communities where we conducted our research. Seven of our ten mystery shoppers were directly offered loans against their tax refund by the tax preparer, and a few taxpayers encountered aggressive selling techniques. Nearly all of the participants were surrounded by Republic Bank posters advertising RALs, including all three shoppers who were not verbally offered the option. Five of our mystery shoppers applied for a loan against their tax refund, and three received at least one loan. Two loans were offered by Republic Bank, but the other loans were offered by consumer loan companies or pawnshop-type businesses. Two of the loans were marketed as "holiday loans" and were given out in November or December 2011, based on the borrower's projected tax refund. These two loans were offered by consumer loan companies (including a pawnshop).

Our research documented that tax preparation firms employ a variety of techniques to urge people to use RAL-like credit products and then squeeze even more revenue out of RAL borrowers. Most tax preparation firms required cash payment for tax preparation fees, which may encourage more people to take out a loan-type product if they do not have cash on hand to pay for tax preparation. Once a taxpayer takes out a loan, the tax preparation fees are often rolled into the cost of the loan, increasing the principal upon which the interest is charged. Filers who have the necessary cash to pay fees upfront but still would like a loan in a much larger amount are almost always told they are unable to pay these various fees at the time of signing the loan, resulting in the taxpayer incurring additional costs. Furthermore, when the RAL check is received, local banks and consumer finance companies often charge a small fee to cash the check. For the holiday loans, the companies often encourage filers to take out an additional refund loan at tax time, and rolling over existing loans into the new loan at least once is common.

A third finding of our research is that loan companies often employ questionable or illegal practices when managing the loan process or completing the loan agreements. For example, we documented two cases where birth certificates and/or social security cards were used as collateral for a loan, even though they have limited financial value. It was very common to have people sign Power of Attorney forms without any explanation of what they were, and we were informed about one case where a tax preparation firm had clients sign a 10-year Power of Attorney form, thus ensuring that the tax refund

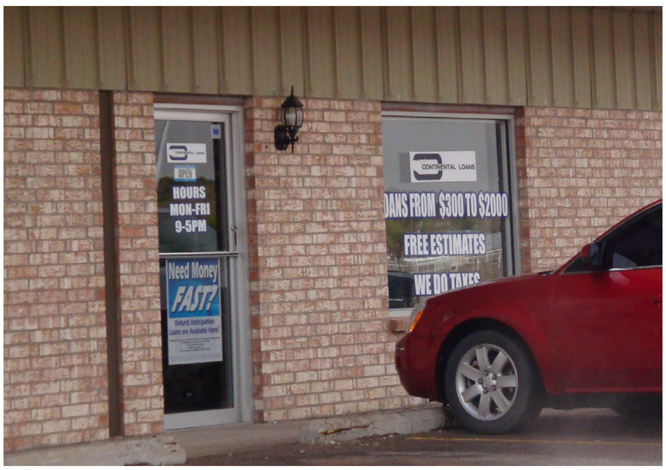
[20] See Section III for a discussion of recent changes concerning bank regulation and bank's ability to offer lines of credit for loans against tax refunds.

is returned to that business for the next ten years no matter where the tax return was prepared. There was also an incident in which the loan document did not clearly disclose the interest rates or fees. Finally, we also documented a case where a borrower received a loan against her tax refund several days after the IRS website said that payment had been dispensed to the loan company.

We documented the following:

A. Some Still Aggressively Pushing the Loans Against Tax Refunds

One mystery shopper couple was questioned multiple times if they were interested in a loan during the tax preparation process:



Taxpayers were given intake forms to complete, asked if they were repeat customers, and if they wanted a loan. Taxpayers replied that they were not repeats but that they were interested in a loan. I noticed that throughout the return process the preparer asked a number of questions about the taxpayers' credit worthiness, such as: have you ever had a car repossessed or a loan cancelled? She was obviously doing some basic loan underwriting while completing the return; in effect, pushing the loan pretty hard… After completing the return, the preparer asked again if the taxpayers wanted a loan.

Another mystery shopper had this experience:

We took our copies of the tax return next store to the pawnshop so we could pay the fees. The first words out of the cashier's mouth were "How much do you want to borrow?" The cashier just assumed we wanted a loan, and never offered any other options for the refund.

As stated above, it was very common to see posters in the stores advertising RALs:

At one location, Republic bank posters were all over the walls advertising RALs; at another store Republic Bank promotional materials were displayed throughout the store advertising the $1500 RAL for $61.22.

B. Social Security Card and Birth Certificates Used as "Collateral" on Loans

All tax filers are required to supply photo identification (or a birth certificate) and their social security card in order to file taxes. However, multiple participants in our study temporarily lost possession of these identification documents because they were used to secure a loan or to ensure that participants returned to the company to have their taxes prepared. For loans against tax refunds, several people were asked to leave social security cards and birth certificates for themselves and their dependents as collateral. For one of our participants:

A very friendly lady took the newly signed forms from the pawnshop as well as the borrower's photo ID, social security card, and paystubs, and told us to have a seat. After the full completion of her tax forms and loan document we were told that the social security card and birth certificate will be held until the refund comes in.

In another case, the identification documents were referred to as collateral:

There was some confusion at first – one lady said that they only needed a birth certificate for dependents, not the filer, and then a second loan specialist leaned over and said "Are you sure? What do we use for collateral then?" Our lady said "The Power of Attorney." Our lady went off to check just in case and she came back and said we did need the borrower's birth certificate. We didn't have it, so she said that they could take the social security card instead.

Another filer who applied for a holiday loan had to leave the social security cards and birth certificates for her dependents as collateral on her loan, in addition to her previous year's 1040 form. This was most likely to ensure that she would return to have her taxes prepared at the same company, but because she had to hand over her dependent's birth certificates, she was unable to apply for the Toys for Tots program that Christmas:

He had her sign two Power of Attorney forms (never explained the purpose of these) and then said jokingly that this was a "hostage situation" because he would keep the birth certificates and the dependents' social security cards until filing time; however, she would get her driver's license and social security card back on the way out. Later, (taxpayer) told me she was unable to apply for the Toys for Tots program for her kids because she did not have documentation for them.

Later, the taxpayer got her previous year's 1040 forms back:

When we had finally finished with the tax return preparation, we got the cards back which had been "held hostage" since applying for the holiday loan nearly two months earlier. However, the tax forms were not present, so we asked where they were. The preparer was shocked to learn the holiday loan preparer had kept the tax forms and said they should have given them back to us... The preparer was then unable to locate the tax forms in the store. After a few phone calls, she discovered that the tax forms had not been delivered to this location along with the other documents (recall, we had applied for the holiday loan at another location and were given the option of having our taxes later prepared at this location), but had been mistakenly left at the business' other location a few miles away. This required us to drive over there to pick up the previous year's tax return.

C. Loan Stacking (Combing of Previous Loans with Refund Loans) Common

Our research this year documented that many loan companies roll previous loans into new loans against the tax refund. By doing so, the company increases the loan principal balance, which results in higher interest charges for the borrower. For example, one of our client's loans from earlier in the year was rolled into her refund loan:

We returned to the pawnshop and after checking the borrower's file it was revealed that she has two preexisting loans from last summer for a total of $200 which the borrower acknowledged. Therefore based on the estimated refund of $618, the maximum principal they would allow was $390.14 (which includes a current loan balance of $240.14, a new holiday loan of $100, and the estimated fee of $50). In addition, a finance charge of $58.52 will apply for a total payment of $448.66. The loan company expressed no concerns about rolling these pre-existing loans into a new loan against the tax refund.

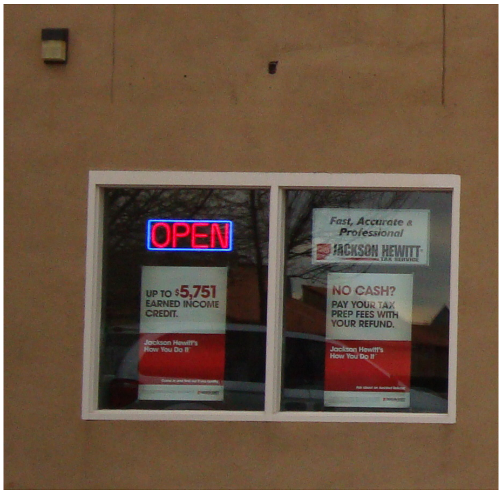
Another client rolled over her loan against her tax refund two times:

After getting a holiday loan, she returned to the store to get her taxes prepared. She was asked if she wanted a loan against her tax refund, and she said yes. The company then rolled the previous loan, as well as the tax preparation fees, into a new loan. Later she applied for a third loan because she was told her refund had not come in yet. By the time she had rolled over her original loan two times (a holiday loan, then a RAL loan, and then a second RAL loan), she had incurred a total of $1,318.47 in fees and finance charges, which amounted to over 16% of her total refund amount.

D. Firms Not Transparent About Annual Percentage Rates (APR)

Our research documented that annual percentage rates (APR) for loan products are not always clearly communicated. Several borrowers felt that the rates were not properly disclosed:

When it came time for us to sign the forms, the cashier barely spoke a word. She just handed the forms to the borrower and told her where to sign.



Another borrower had this challenge:

The loan form had all the appropriate boxes where the lender has to post the interest rate and total fees, etc. However, the printer had printed it in such a way that the APR was unreadable.

This same borrower was also offered a loan by an associate who presented finance charges that were based on a monthly percentage rate as opposed to an annual percentage rate. This practice is illegal in New Mexico:

The taxpayer called the business on 2/10/12 to check on the status of her refund. They informed her that her return had been rejected by the IRS, and for her to call back later in the day after they had time to investigate the matter. She called back as instructed but was then told that there was no problem with the return as it had in fact been accepted by IRS (with no explanation provided for the earlier misinformation). The associate on the phone was bright, cheery, and told her she was now more than welcome to come in for another loan at an interest rate of 18.8%. It turns out she was quoting a monthly interest rate, not an Annual Percentage Rate (APR).

E. Misinformation Used to Encourage a Borrower to Take Out Additional Loans

In one of our most concerning cases, a taxpayer was given misinformation about her tax refund which led to her taking out a third tax-time loan. Our participant was not informed that her refund had come in until several days after the IRS website showed it had been deposited in the tax preparation business' account. During this time period, our shopper, who had recently become unemployed, decided to take out another loan and the loan company enabled her to apply for a third costly loan.

Taxpayer had had her taxes prepared in January and applied for a refund anticipation loan. She called the tax firm three weeks later to see if her refund had come in, and was told it hadn't even though the IRS website indicated that it had (she was later told the company needed 10 days to "process" the refund). Under economic pressure because she was recently unemployed, she applied for a third refund loan.

This client later filed a complaint against the loan company with the New Mexico Office of the Attorney General, Consumer Protection Division. The New Mexico Attorney General's Office, Consumer Protection Division sent three letters to the firm. The taxpayer did finally receive payment for the fees associated with the third loan, although the firm did not admit any wrongdoing.

Major Finding 3: POOR QUALITY TAX PREPARATION STILL A PROBLEM

A major theme that emerged in the research we conducted during the previous tax season was the frequency of poor quality service provided by tax preparers. Unfortunately, this remained a significant problem this year, and this finding is consistent with other research on this topic.[21] All but one of the mystery shoppers encountered some issue when filing their taxes, and their problems included an incorrect statement of charges, improper explanation of forms, forgetting (or ignoring) to ask about qualifications such as enrolled tribal status, and inexperienced and unprofessional employees. While our sample of participants was small, the frequency of these errors calls into question how many Native American taxpayers, and moreover, how many taxpayers across the country are being overcharged and underserved by paid tax preparers. We documented the following issues:

A. Staff Making Mistakes when Preparing Taxes

Mistakes were common in this year's mystery shopper study and this continues to be a serious problem with the tax preparation industry. Many of our participants had refund totals incorrectly presented to them and only had them corrected once our trained staff person intervened. Additionally, many of the tax preparation employees failed to screen participants for a number of deductions they may have qualified for, such as the state Native American income tax exemption.

In one example, an inexperienced staff member miscalculated the total refund for her client stating that it was $55 (which was the same as the filing fee) instead of the correct amount of $70:

[21] Gross, Paul (2011). "IRS Tracking Paid Tax Preparers: New Law Imposes Annual Fee on Staffs." *Columbus Dispatch*, January 2, 2011. Columbus Dispatch. Retrieved April 5, 2011 (www.dispatch.com).

When she finished she told us that the taxpayer's refund was $55 which was the same as the fee to file… Unfortunately, I had completely assumed the preparer correctly listed the daughter as a dependent because she asked so many questions, so I didn't catch the omission until reviewing the return later. I ended up having to write a whole new paper return, changing the filing status to Head of Household and listing the daughter as a dependent. This raised the refund from $55 to $70… missing a dependent standing next to a taxpayer across your desk is probably inexcusable.

Some participants' tax preparers hastily went through forms which resulted in errors. For example:

Later we discovered that they had entered one of the children's social security numbers incorrectly. This caused the IRS to delay the acceptance of the return.

Some mystery shoppers were not screened for deductions that they may have qualified for. Everyone who participated in the study is Native American and should have been screened to determine whether they qualified for the Native American state income tax exemption. To qualify one must meet both of the following requirements:

- You lived on the land of the Indian nation, tribe, or pueblo of membership when you earned income, AND
- You earned that income on the lands of that nation, tribe or pueblo.

A few tax preparation employees questioned mystery shoppers about this important deduction; however, unfortunately, there were several preparers who skipped over this step. For example:

Preparer never asked taxpayer if she was Native American or the location of her employer to check if taxpayer qualified for the New Mexico State income exemption for certain qualifying Native Americans. This was a pretty major oversight because the taxpayer lives on a nearby Pueblo, works for a Native American business situated on a reservation, and had $571 of state withholding.

B. Inadequate Explanation of Forms

On several occasions, the participants were rushed through the screening and filing process with very little or no explanation of the forms they were asked to sign.

i. Tax Preparers Giving Little or No Assistance to Help Taxpayer Understand Forms

Some preparers spent as little time as possible to get through the filing of their client's taxes. Without taking the time to explain what was being completed, filers were left without understanding all the different forms they were signing. At one site, the tax professional failed to disclose information on a number of forms:

Preparer flew through the return and asked hardly any questions of the taxpayer. He never explained one item on the return and zipped through screens checking off EITC questions and such without asking taxpayer first… At the very end of the return he explained a few things on the return hastily; however, he didn't explain e-file authorization form (8879) or PIT Transmittal Form. He also didn't explain 3 pages of bank fee documents, consent of tax use form, consent of disclosure form, or EITC Eligibility Checklist form. Nor did he have taxpayer sign any of these forms.

ii. Asked to Sign Consent-to-Disclose Forms with no Explanation

One client was automatically asked to sign a RAL consent-to-disclose form without any explanation, even though he had no intention of taking out a loan:

Almost immediately after sitting down at preparer's desk, taxpayer was asked to sign consent-to-disclose forms (for RAL purposes) which were never explained.

C. Not Providing Tax Filers with Copies of Tax Return

We encountered several tax preparation firms that would not give clients copies of their completed tax forms when the client asked for them. Many were told that they would only receive copies of their tax forms after the IRS had confirmed submission of the tax forms. It is unclear why firms adopt this policy, but it was very common. Our research suggests that some businesses employ this practice in the event the return is rejected by the IRS; a situation which requires submission of a new return. This allows the preparation company to avoid the hassle of having to provide a taxpayer with an updated form at a later date. However, it is illegal to deny a tax filer a copy of his or her return at the time of filing, not to mention making it difficult for taxpayers to get proper documentation for his or her records, and subjecting him or her to the inconvenience of an additional trip to pick up paper copies. Furthermore, it is a way to ensure customer loyalty–since the tax preparation business already has one's records on site, it is more likely that a customer will return.

We encountered one example where the tax preparer stated that the return would not print until it has been accepted by the IRS:

Preparer (at a Jackson Hewitt in Albuquerque) told us she would not provide copies of completed return until after IRS acceptance. I asked why and she said "company policy." She also said the return will not even print until after IRS accepts it. That sure wasn't the case when they immediately provided requested copies at the Jackson Hewitt in Santa Fe.

D. Inexperience of Staff

After all the visits to various tax preparation locations, the low level of experience of the average employee became apparent. Several of the tax preparers in this study had only been through a training course that lasted no longer than a few months and were conducting tax preparation for the first time. Their inexperience resulted in a number of errors, inability to figure out how to fulfill various requests based on the idiosyncrasies of a given tax return, and the need for constant support from office managers. Our sample size was small; however, with the number of new employees in this study, as well as the previous year's study, it is our assumption that staff turnover in this industry may be quite high. Below were the major findings pertaining to the inexperience of the tax preparers.

i. Needing Managerial Support

As a result of the lack of experience, a number of employees who our shoppers encountered during this study had to request assistance from managers at their business. Asking for help is not necessarily a bad thing; however, it highlights the preparers' lack of expertise and makes one question how many items she or he had trouble with prior to seeking out his or her superior.

Preparer took adequate care to see that return was completed accurately; however, her inexperience was clear as she had to defer to her store manager regarding numerous issues on the return; such as how to handle the taxpayer's father as a dependent for "Head of Household" status, how to determine if father's social security income was taxable, and for assistance to determine taxpayer's eligibility for EITC. She also at one point asked how to round a dollar amount to a whole figure and later needed assistance in explaining refund options to the taxpayer.

In another example, an inexperienced staff member only got her numbers right after a manager came to assist:

When we returned to the pawnshop the cashier explained that we would no longer owe the $123 prep fee loan, but she didn't adjust the $76.97 interest charge to reflect this. When I told her the $18.45 in loan interest needed to be removed and the corrected amount should only be $58.52, it took her a long time to understand. She kept saying she didn't know how to adjust it (I think she was being honest), but then got really rude when I persisted. Finally she got the store owner again and he came back and calculated the correct amount. I asked for a corrected statement, but he told me they could not make one. Instead the owner used an adding machine to print the total of both refunds less adjusted fees which stated a net refund of $340.34. He informed us that the taxpayer will be able to pick this amount up (provided IRS finds no problem with the return) at the pawnshop when IRS receives the refund.

ii. Not Knowing How to Prepare a Paper Form

One tax preparer's lack of experience was evident when she had difficulty preparing a paper version of the tax form, and she also encouraged the taxpayer not to file his taxes after miscalculating that he would not receive any return:

It was obvious she was unfamiliar with completing a paper return (at least for the State of New Mexico) and at one point called someone on the phone to ask how to input the low income comprehensive credit. When she finished she told us that the taxpayer's refund was $55 which was the same as the fee to file. She then asked us "Why file?.... You're not required to file and you'll have to pay me what your refund is."

It turns out this total was miscalculated by the preparer and when completed correctly, the shopper's refund actually came out to be $70. In addition, the preparer failed to list $105 in public assistance benefits even though information for how to list this was clearly written on the statement, and she did not include copies of all schedules of the return. She also made no effort to screen the taxpayer for possible credits.

E. Disorganization within Tax Preparation Site and Between Tax Preparation Company and Loan Provider

We also documented problems with file management at many tax preparation sites. In addition, when tax preparation sites worked in partnership with loan companies, there was often confusion over policies and procedures. The first example comes from a visit to a tax preparation store conjoined with a loan office that it does business with. There is a lack of communication between the two offices, as well as between employees in the same office:

A short time later tax preparer asked the borrower if she had her birth certificate and the borrower replied that she didn't have it and was told over the phone that she didn't need to bring it. The lady answered that yes she did need a birth certificate, but then a second loan specialist/tax preparer working in a station across from her interjected and said "No she doesn't need her birth certificate, it's ok. We only need birth certificates for dependents."

Later on in this visit when calculating if the participant qualified for a loan, there was more confusion:

Tax preparer said "No you don't qualify, I'm sorry. Your refund has to be at least $1000." They also will not loan for more than half the refund amount, up to a maximum of $2500 (according to the forms I saw). I asked, "Can't you at least loan us $50." She said she'd go check. She returned 10 minutes later, smiling, and exclaimed "You were persistent, they gave you a loan!" She then took back the borrower's soc sec card, her most recent pay stub, and asked her to please try and drop off her birth certificate next time she's in town. Borrower was also instructed to sign a Power of Attorney form with no explanation of what it was. The preparer commented that what saved us was the fact that the borrower has been coming to firm for so long. I also asked about the credit check they did next door, but she didn't know anything about it. Apparently, the two businesses maintain fairly separate polices or lack thereof. Case in point: while walking out, the borrower commented to the receptionist that she had just been told that she needed a birth certificate but had been told otherwise over the phone. The receptionist replied by affirming that we didn't need the birth certificate, but the preparer who was still standing there said "Yes she does, I checked next door." Then they went back and forth (in a friendly way) regarding their opposing understanding of the policy.

At another tax preparation business, there was disagreement over company policy on receiving paperwork on returns:

Taxpayer was told he could not get a copy of his return until it was submitted. This didn't make sense though because she (preparer) had already said she would submit it right away (even though taxpayer didn't have his daughter's social security card). Then when we returned two days later with the social security card and asked for copies of the return, a new guy sounded really surprised when we said the preparer hadn't given us our copies when we first came in. So who knows what their actual policy is? This whole issue that we see time and time again with preparers not providing copies until stipulations are met is problematic.

F. Tax Preparation Employees Displaying Rude and Unprofessional Behavior

Some of the participants in our study encountered unprofessional, rude and/or hostile behavior on the part of tax preparers. Given the sensitive legal and financial nature of paying taxes, a customer should be assured of high quality customer service when visiting a tax preparation firm. One of our mystery shoppers had to deal with exceptionally poor customer service when she asked why she needed to sign a credit check background investigation form:

About 5 minutes into the appointment, the preparer presented several consent forms including a credit background check authorization form that she instructed the taxpayer to sign for loan purposes. The taxpayer signed the other forms but replied that she wasn't comfortable authorizing a credit check because it might lower her credit score and furthermore she had already signed the same form in November for her holiday loan. The preparer responded that the form was from the loan office not H&R Block and that they required the form a second time. She also said it wasn't a full credit check and would not negatively affect the taxpayer's credit score. The taxpayer persisted that she didn't think it made sense to sign the same form again and that she didn't want to do it. The preparer responded: "That's just how we do it." She reiterated that the loan office was a separate business and since she worked for H&R Block, she couldn't speak on behalf of the loan office. By now the preparer was beginning to get noticeably irritated.

I asked the preparer: "If you are working for H & R and not the loan company, then why are you presenting documents for us to sign on behalf of the loan company?" She looked at me with a blank stare for a few moments before providing the same response as earlier: "That's just how we do it." I then asked if she could go to the loan office (through the door behind her) and get our file so we could retrieve the original consent form and review everything else we had signed in November. She said: "No, it's a separate business. I can't do that."

So I persisted: "Then why do you continue to present forms and speak on behalf of the loan company when you don't work for them?" Now she really got mad and stated heatedly, "Because you signed a form that authorizes me to do so." So I reply, "OK fair enough, since we have already signed these documents and the loan company is right there, as a courtesy, could you walk over there and get our file from the loan company?" At this point, she became angry and raised her voice, "Alright that's it! I'm sending you over to the other office and you can take this up with them." She picked up the phone and began dialing. I said, "We're not going to that other office. H&R has agreed to let us file here and this where we are going to file." By this time she had someone on the line and was telling them how difficult we were being. I stated again that we weren't going to the loan office but she ignored me. She hung up and pushed the taxpayer's file across the desk toward us and told us again to go to the Hwy 666 location (about 2 miles away). At this point the taxpayer interceded stating she would sign the form and continue filing here. The preparer cooled off saying something about how things can get emotional with tax returns and we could continue.

Major Finding 4: LACK OF CLEAR DISCLOSURE OF TAX PREPARATION FEES

As our research and previous studies have documented, tax preparation firms often make it hard to determine the costs associated with tax preparation services. Customers are rarely given an accurate estimate of fees in advance, and even after they get their taxes prepared, they may not receive an itemized list of the services they are paying for. Given that the fees for tax preparation are not disclosed beforehand or even after the service is provided, it makes it difficult for the customer to shop around for the best deal. Only two of our ten participant's verbal estimates matched the actual fees paid and none of shoppers received a fully itemized receipt upon the conclusion of tax preparation. We documented several instances of this:

A. Fees not clearly disclosed: Of the ten mystery shopper visits, only three of the businesses openly displayed a list of their fees with corresponding services. Three of the ten participants requested but were not given a verbal estimate of their fees. One of the mystery shoppers received confusing information about how much he had paid for his tax preparation fees. He received one fee total during his original visit and another total just a couple days later ($331 vs. $304):

At the conclusion of the visit, the preparer printed a screenshot from the Accurate Tax Solutions/Drake Software website that listed "Calculation Results" showing the charges. The printout appeared very informal and did not look anything like an official statement of charges or receipt. When we returned two days later to drop off a social security card and to pick up copies of the return, I asked if we could get an actual receipt of charges, and the guy said in a gruff tone that the printed screenshot was our receipt.

Upon later review of the documents, I found an 'e-Collect Product Information' form that does show the more formalized breakdown of charges that I requested; however, this form lists a tax prep fee of only $224 ($27 less than the screen shot charge). As a result the total of all charges on the e-collect form is only $304 as opposed to the $331 shown on the screenshot printout. So which one is the correct total?

B. No itemized receipts: Many receipts did not delineate a breakdown of individual charges for customers. These non-itemized receipts ensured that costs would remain hidden from consumers:

C. *We got a receipt but had trouble telling what we were being charged for. The receipt was for $166 plus $13.60 tax. Included on the receipt but not broken down:*

1 1040 A

1 W2

1 SCD EIC

1 8812-Additional Child Tax Credit

1 8867-Paid Preparer's EITC Checklist

1 NM Base Rate

Another shopper encountered a similar receipt of mystery charges:

We got a receipt but fees weren't itemized. The receipt listed the following:

Federal and Supplemental Forms: $120

1040A-(fee not supplied)

8879-(fee not supplied)

9325-(fee not supplied)

8880-(fee not supplied)

Credit Limit Worksheet -(fee not supplied)

W-2 (1) -(fee not supplied)

Tax Year Comparison Sheet-(fee not supplied)

Administration Fee: $10 *Total: $130*

V. POLICY RECOMMENDATIONS

Every year millions of Americans are required to file their taxes and turn to a paid tax preparation firm for help. Unfortunately, this mystery shopper research project suggests that many tax preparation firms are providing low quality services and taking advantage of vulnerable low-income filers by imposing unnecessary fees or steering them towards an unnecessary Refund Anticipation Check product. We also documented that loans against tax refund are being aggressively marketed and that lenders are finding ways to maximize their profits from these products.

We support the small business owners who are offering needed tax preparation services to their clients but saw room for improvement in terms of staff training, disclosure of fees, and customer service in this project. This is especially true in communities with a high percentage of low-income tax filers who rely on the Earned Income Tax Credit, the Child Tax Credit, and other programs to make ends meet. We applaud the IRS's new policy that requires tax preparers to register with the IRS and to pass a competency exam by 2013. We offer the following additional policy recommendations:

A. **Disclose All Fees Associated With Tax Preparation:** Given that the fees for tax preparation are not disclosed beforehand or even after the service is provided, it makes it difficult for the customer to shop around for the best deal. We recommend that tax preparation firms clearly list all their fees in a wall poster[22] and then provide a detailed, itemized bill before receiving payment for service.

B. **Standardize Disclosures Related To RAC-Like Bank Products And Enforce Compliance:** Our mystery shoppers were automatically signed up for bank products without their permission. There needs to be a standardized disclosure related to RAC-like bank products that is enforced, and customers need to know where to go to report violations in this area. This is increasingly important as the income associated with RALs has diminished and tax preparation firms are looking for new revenue streams.

C. **Research And Regulate the Small Loan Industry in New Mexico:** Our research documented the prevalence of small loan companies that offer loans against tax refunds. These loan companies may be using illegal or unethical tactics to extract additional funds from borrowers and may be in violation of the Unfair Practices Act or other consumer protection codes in New Mexico. We recommend that the New Mexico Attorney General's office conduct research on these small dollar lenders to determine if additional regulation is needed related to disclosure of fees, truth-in-lending, and management of refunds.

D. **Improve Training to Reduce Errors:** We applaud the IRS's decision to require tax preparers to pass a competency exam. Such a standard already exists for the volunteers working at IRS-supported Volunteer Income Tax Assistance sites. We encourage the IRS to mandate a rigorous training standard that addresses all the issues raised in this report related to common errors on tax returns. In addition, we encourage specialized training on issues related to filing a Schedule A, Schedule C, retirement contributions, certain exemptions and credits for some Native Americans, and any other forms or worksheets that preparers struggled with during our research.

[22] In New York City and the state of New York, RAL providers are required to have wall postings (see NY Tax Law Section 32; NY General Business Law Section 372; and New York City Administrative Code Sections 20-739 to 20-741.1).

E. **The Tax Preparation Industry Should Adopt And Follow A Code Of Conduct:** While several of the tax preparation firms we visited were very professional and helpful to our testers, in some cases tax preparers reacted negatively to being corrected or being asked questions. Given the sensitive legal and financial nature of paying taxes, a customer should be assured of high quality customer service when visiting a tax preparation firm.

F. **Continue To Provide Resources To Volunteer Income Tax Assistance Programs:** Low-income tax filers should have access to reliable, accurate, and no- and low-cost tax preparation services so they can keep more of their hard earned money. We recommend that the IRS VITA grant program continue to provide funding to VITA sites and that other sources of funds be cultivated to support VITA programs and low-cost alternatives to paid tax preparation.

VI. CONCLUSION

First Nations Development Institute conducted this mystery shopper research in Native American communities in 2012 to assess the quality of tax services provided and gather data on the marketing of Refund Anticipation Checks and Refund Anticipation Loans. While our survey did not use a random sample and therefore is not generalizable to the larger population, it does raise some serious concerns about the quality of tax preparation services offered to tax filers living in and around Gallup, Espanola, Bernalillo, Farmington, Milan, Santa Fe and Albuquerque, New Mexico, all communities with a high Native American population and close to Indian reservations. Given that a high percentage of tax filers in these cities apply for the Earned Income Tax Credit, and a majority of them use paid tax preparers to access their tax refund,[23] this research highlights issues with the quality and prices of services provided to low-income taxpayers. Furthermore, while the sample size is small, comparisons to our data from the previous tax year indicates consistent findings over two tax seasons.[24]

Just as in our previous study, we found evidence that clients who visit tax preparation sites continue to be "push marketed" into signing up for costly bank products such as a Refund Anticipation Check (RAC) even if they could have received their refund quickly and easily through direct deposit. We also documented aggressive marketing of loans against tax refunds, including "holiday loans" that are loans granted in anticipation of a projected tax refund. Once customers sign up for such a loan, finance companies later encourage them to take out additional loans, and often roll tax preparation fees into the loan balance. Loan companies often do a poor job disclosing all interest rates and fees, and in one case, a loan company appeared to deceive a loan client by giving her a new tax refund loan several days after the IRS website indicated the client's tax refund had been paid to the company.

In addition to problems with bank products, we also documented poor quality tax preparation service and a failure to clearly disclose the fees associated with tax preparation services. We hope that this report brings attention to the multi-million dollar tax preparation industry and the practices used to extract unnecessary fees from its clients, many of whom are low-income.

Appendix A: Mystery Shopper Field Reports

[23] Please refer to Table 1 on page 6 for complete statistics.

[24] First Nations Development Institute (2011). *Tax Time Troubles: Mystery Shopper Testing Exposes Poor Quality Tax Preparation and Refund Anticipation Check Abuses*. Longmont, CO: First Nations Development Institute.

Summary of "Mystery Shopper 1" Visit to H&R Block/SW Tax Loans

November 29, 2011; January 29, 2012; February 18, 2012

Mystery Shoppers: TS
Occupation: Cashier
Total Income: $15,999
Qualifies for: EITC, Child Tax Credit

Store: H&R Block/SW Tax Loans, 923 W Aztec Ave, Gallup, NM 87301

Total Charges: $204.24 tax preparation fee
$52.50 account fee
$1,046.73 finance charges
$15 check cashing fee

TS is a single mother with several dependents. She was willing to take out a holiday loan product so we went to a combination business run by H&R Block and SW Tax Loans (doing business as Fast Tax Loans). The businesses are both located in the same building and customers can pass between the two through an open interior door. They were advertising a holiday loan (see picture).

Summary of 1st Visit:

Borrower lives in Albuquerque, NM and agreed to travel with me to Gallup to participate in the study. I had called H&R Block the week beforehand to find out what documentation is required for a holiday loan, and was able to instruct the borrower to collect the following in advance:

- Driver's License
- Social Security card (for her and two dependents)
- Original birth certificates (for her and two dependents)
- Copies of 2009 and 2010 federal returns
- Bank statement documenting direct deposit of full 2010 refund
- Most recent check stub

The borrower signed in at the Fast Tax Loans office and waited in the lobby area about five minutes before being called to the counter. An employee made copies of her 2010 federal return and bank account statement (listing direct deposit of 2010 refund). He filled out a simple quarter page form that was titled "Approval Slip" and took social security cards, driver's license, birth certificates, and check stub. Borrower was then sent to the front counter at the H&R Block office.

Here the borrower was given a "Tax Preparation Form" and a "Personal Tax Information" form. She sat down in this waiting area and began filling them out. After about ten minutes and before she had finished completing the two forms a tax preparer called her to his desk in the main office to calculate her estimated 2011 refund. He completed a hand written "Estimated Tax Worksheet" and used Tax Preparation System (TPS) software to initiate a 1040 "Practice Return." He also used an EITC worksheet, asking and documenting the required question "Who watches the kids when you are at work?" He did an excellent job of explaining the 1040 and exemptions, going step by step. He was very courteous and professional and calculated an estimated 2011 refund of $7,298. He also clearly stated that she would have to come back to H & R in Gallup to file her taxes in January.

He then had her sign two Power of Attorney forms (never explained the purpose of these) and said jokingly that this was a "hostage situation" because he would keep the birth certificates and dependents' social security cards until filing time; however, she would get her driver's license and her social security card back on the way out. He also held onto the 2010 tax return and bank statements and didn't give us copies. He said she would get all of her copies when she files in January. In fact he joked again saying "You'll have more copies than you can carry!" Later, (taxpayer) told me she was unable to apply for the Toys for Tots programs for her kids because she did not have documentation for them.

The borrower then returned to the waiting area for about ten minutes. After which she was called again to the front desk to schedule a filing appointment after the first of the year. She was also given the option of returning to the same office or going to the other H &R location in Gallup, and whether or not she wanted to have the same preparer as today. She scheduled her appointment at the south side location.

Back again to the Fast Tax Refund office (it was now 3:30 pm) and another 10 minute wait. When called up she was presented with a check for $2,000 (the max loan amount they give). The employee said that they rarely loan the full amount to new customers but because she had all of the necessary documents her loan had been approved. He then hastily read the terms of the loan:

- $100 Tax prep fee
- $17.50 Account fee
- $550.55 Finance charge
- 316.33% Annual Percentage Rate

We left the loan office at 3:50 pm, but when driving out of the parking lot the borrower noticed her name on the check was misspelled. She went back inside and came out five minutes later with a correctly written check.

Summary of 2nd Visit- Tax Preparation:

When applying for the holiday loan in November, taxpayer was asked which Gallup H&R Block location she would like to visit for her upcoming tax appointment. Taxpayer had requested to visit the store on the south side of Gallup. H & R Block had provided this option when she completed her holiday loan and stated at the time that they would send her whole file to the south side location in time for her appointment in January. Taxpayer and I drove to Gallup the morning of the appointment (Sunday). We agreed that we would try to take out a second tax refund loan if possible. We arrived at 12:45 pm and were greeted by a receptionist whose first words were to ask if we'd had a preseason loan. The store was not crowded and we were able to meet with a preparer by 1:00. The preparer was initially friendly and hospitable and everything started off smoothly.

About 5 minutes into the appointment, the preparer presented several consent forms including a credit background check authorization form that she instructed the taxpayer to sign for loan purposes. The taxpayer signed the other forms but replied that she wasn't comfortable authorizing a credit check because it might lower her credit score and furthermore she had already signed the same form in November for her holiday loan. The preparer responded that the form was from the loan office not H&R and that they required the form a second time. She also said it wasn't a full credit check and would not negatively affect the taxpayer's credit score. The taxpayer persisted that she didn't think it made sense to sign the same form again and that she didn't want to do it. The preparer responded: "That's just how we do it." She reiterated that the loan office was a separate business and since she worked for H&R, she couldn't speak on behalf of the loan office. By now the preparer was beginning to get noticeably irritated.

She then completed the return with no further incidents and even did a thorough intake and due diligence assessment. When we had finally finished, the taxpayer asked for her "2010" 1040 back which they had been holding since applying for the holiday loan nearly two months earlier. However, the tax forms were not present, so we asked where they were. The preparer was shocked to learn the holiday loan preparer had kept the tax forms and said they should have given them back to us... The preparer was then unable to locate the tax forms in the store. After a few phone calls, she discovered that the tax forms had not been delivered to this location along with the other documents (recall, we had applied for the holiday loan at another location and were given the option of having our taxes later prepared at this location), but had been mistakenly left at the business' other location a few miles away. This required us to drive over there to pick up the previous year's tax return. At the end of the return the preparer also asked if we wanted the $35 Peace of Mind Guarantee.

While waiting for an associate to help us at the loan office, the preparer came in to tell us that the 2010 return was at the other loan company (at the main H & R branch) and we could pick it up there. The preparer also returned social security cards and birth certificates that had been taken earlier. She was friendly and we thanked her for the follow up.

We didn't wait long at the loan office before being called up by an associate. The taxpayer requested a refund loan and the associate asked if anything had changed from last year's return. TS then told her that she was claiming a third child as a dependent this year as opposed to only two the year before. At this point the associate said we couldn't get a loan until IRS accepted the return because of the change in the number of claimed dependents. The earliest we could probably get a loan would be Monday. We did not want to have to come back to Gallup the next day, so we asked if we could get a smaller loan than the $2,000 loan we had gotten before. The associate replied that the most we could get would be a $500 loan. She laughed and said if we hadn't said anything about the additional dependent we could have gotten a bigger loan. So we agreed to apply for a second loan for $500. She also told us they could not do direct deposit for the refund (because of the new loan) so we would have to come back to pick up a check when the refund came in. The associate also called the other loan office to verify taxpayer had gotten her full refund last year. She then presented a loan document and check that listed an 18.8% *monthly percentage rate* for the new loan. We found out later that New Mexico requires that loan documents list interest in terms of the Annual Percentage Rate (APR) so that loan products can be easily compared to one another. This loan company therefore was not complying with New Mexico state law.

I asked if it would be possible to pay the $204.24 in tax prep fees upfront thus pulling them out of the finance charge calculations (and saving the taxpayer $45.60 in finance charges), but the associate told me the computer automatically rolls them into the loan and they can't be removed to pay separately. The associate also told us that there was no telling when taxpayer would receive her refund because the Power of Attorney that was signed for the holiday loan must be matched by IRS with the actual return.

We drove to the main H&R Location and picked up taxpayer's 2010 return and other copies. Then we drove to T&R pawn to cash the $500 loan check. T&R charged 3% to cash the check.

Update 1:

TS called H&R on 2/10/12 to check on the status of her refund. They informed her that her return had been rejected by IRS, and for her to call back later in the day after they had time to investigate the matter. She called back as instructed but was then told that there was no problem with the return as it had in fact been accepted by IRS (with no explanation provided for the earlier misinformation). The associate on the phone was bright, cheery, and told her she was now more than welcome to come in for another loan at a *monthly interest rate* of 18.8%.

Update 2:

TS called H&R on 2/17/12 to check on the status of her refund, and was told again that it had not come in. We had previously agreed that she should apply for a third loan against her tax refund. She asked how large a loan she could now qualify for if she came in for a third loan, and was told $3,777 (Calculated by subtracting her $632 state refund from her current refund balance of $5,240 and factoring in a 18.8% MPR and a $17.50 finance charge). After recently becoming unemployed, she decided it made sense to take out a third loan and we drove up to Gallup, February 18th.

We arrived at the H&R/SW Loan office in Gallup at 3:45 pm. The loan office was not busy and we left with a loan check in the amount of $2,000 at 4:00 pm. The loan form had all the appropriate boxes where the lender has to post the interest rate and total fees, etc. However, the printer had printed it in such a way that the APR was unreadable. The only other issue worth noting was that the loan office associate (the same one we had dealt with on 1/29) told us that we could go to the other H&R/SW Loan location to cash our check for no fee. *This was a surprise considering we had not been informed of this "no fee option" earlier and had instead gone out of our way to cash one loan check at Wells Fargo and paid a 3% fee at T&R Pawn for the other*.

We drove straight to the north side location and cashed the check without any delays. I asked the associate if they have always cashed checks and she said that they have, provided they have the cash on hand to do so. She added that on busy days they usually run out so customers have to go to the other businesses previously mentioned. She also stated that SW loans will probably discontinue its check cashing policy in the near future due to security concerns.

Update 3:

I checked "Where's My Refund" on the IRS website on 2/21/12. According to the statement, the *refund was deposited on 2/14/12, So why did SW Loans tell the taxpayer on February 17th that her refund had not come in yet, and then proceed to give her a RAL?*

We called the SW loan office on 2/22 to find out, but no answer. When we called H&R the associate told us the refund had still not come in. *We asked why the refund is listed as deposited on the IRS website, and she replied that they have no record as such*. I asked how this discrepancy between IRS records and their records could exist. She became defensive saying she did not know, and we would just have to keep calling until SW loans received the refund. I then asked if SW loans will be able to provide a statement showing when they receive the deposit from IRS, and she said "no". She concluded by telling us we are more than welcome to print the IRS statement (showing the deposit date) for our records, and then abruptly hung up.

Update 4:

On 2/25 TS called me to let me know she had called SW loans and had been informed that her refund check was available to be picked up. TS and I drove to Gallup two days later. The SW Loan office was not busy and we were able to meet with an associate (the same one we've been dealing with all along) in less than 15 minutes. When we went up to the counter, TS asked again why IRS was showing her refund deposited on 2/14 but she was only now receiving her refund check. *The associate now stated that the refund was in fact deposited in the SW Account on the 14th; however, they only have one person who processes checks and it had taken this long to cut TS' check*. "Over ten days to process a check?" I asked. "*Why in the world did you give us a loan when you already had our check*?" The associate responded that it just takes them that long.

Update 5:

TS filed a complaint with the New Mexico Attorney General's office. TS felt she shouldn't have been given a third refund loan if SW Tax Loans already had the refund from the IRS, and was just processing it internally. The AG office sent a total of three letters to SW Tax Loans, and finally received a response after the third letter. An attorney representing SW Tax Loans sent a letter to the AG office as well as TS, and refunded TS for all interest and fees associated with the third loan against the tax refund, but did not admit to any wrongdoing. The Attorney General's office considers this complaint resolved and has closed the file.

Summary of "Mystery Shopper 2" Visit to Liberty Tax

January 21, 2012

Mystery Shopper: DH
Occupation: Construction Worker
Total Income: $11,128
Qualifies for: Earned Income Tax Credit, Child Tax Credit

Store: Liberty Tax, 1711 Llano Street, Santa Fe, NM 87505

Total Charges: $179.60 Tax Preparation Fees (not itemized)
$29.95 Tax Refund Administration Fee to Republic Bank
$20.00 Transmitter Fee
$45.00 Credit Investigation Fee
$16.22 Finance Charge
$7.50 Cash Checking Fee

Summary of Visit:

We visited Liberty Tax on January 21, 2012. We asked the tax preparer about her experience. Preparer stated she had taken an 8 week tax preparation class offered by Liberty Tax. I asked if she had to take any type of test through IRS and she replied that she had and the test is very hard. She also stated, pessimistically, that next year the test will be even harder because it won't be open book (like it is this year) and you'll have to actually go to IRS to take it rather than at your own convenience online.

Preparer was friendly and fairly professional. She did a decent job of asking intake questions such as dependency status, income sources, renting or homeowner, and childcare expenses. Although *almost immediately she had DH sign a "Use of Tax" Republic Bank consent form and "Consent of Disclosure to IRS" form*. She explained the purpose of the Use of Tax form (to allow them to use information on the return to determine if DH qualified for a refund product); however, preparer did not inform DH that she was *not required to sign either form (as was clearly stated on the forms) and did not provide DH with copies of the forms.*

Preparer was reasonably thorough when asking due diligence questions for EITC qualification. She also explained the reasons for the questions. The return was very simple and when completed the preparer went through the whole 1040 with DH and did a thorough job of explaining such items as: exemptions, EITC, and Additional Child Tax Credit.

Unfortunately, the preparer *never asked DH if she was Native American or the location of her employer to check if DH qualified for New Mexico State income exemption for certain qualifying Native Americans*. This was a pretty major oversight because DH lives on a nearby Pueblo, works for a Native American business situated on a reservation, and had $571 of state withholding. It turns out DH did not qualify because her employer is situated on a different reservation than her own.

The preparer began explaining the different options available for receiving a refund. Preparer also showed us a fee breakdown on her computer screen which showed the difference in price between Electronic Refund Check (ERC) and RAL. The difference was $61.22 which included a $45 credit investigation fee and a $16.22 finance charge. She went on to say that the $61.22 is not charged if the taxpayer applies for a RAL and is denied; however a *$29.95 Tax Refund Admin fee is charged either way. This concerned me because the Tax Refund Admin fee is usually only applied when tax prep fees are deducted from the refund. Therefore, I did not see why this was relevant.*

She didn't explain why, but upon reviewing copies of forms later I discovered that if a loan is denied and Republic Bank receives the refund, then the taxpayer is required to receive their refund in the form of an ERC/ERD (RAC) and incurs the $29.95 fee. Taxpayer therefore forfeits the right to pay upfront, choose a non-bank product refund option, and avoid the $29.95 fee (as the preparer stated). This really hurts the taxpayer. Applying for a $1500 RAL does not necessarily mean a person is not able to pay upfront for the cost of their return… When reviewing the loan terms the preparer did not offer a direct deposit option, and stated that taxpayer had to pick up checks for both the loan and refund balance at the store. So there is an assumption that the taxpayer is unbanked but it seems like some options should be given. DH chose to apply for a $1500 RAL (the maximum amount). When reviewing the loan terms the preparer did not offer a direct deposit option, and stated that DH had to pick up checks for both the loan and refund balance at the store. I knew DH was unbanked so a check would be the only option, but I asked about direct deposit anyway. The preparer said we couldn't get direct deposit and even if she attempted it for us the bank would put a hold on the funds (*upon later review of the copy shown above it clearly states that direct deposit is an option for a RAL…*). So I then asked: "What about the refund balance, can we have that direct deposited?" She said she would check and went into a menu on the computer. The menu made whichever option you chose for the loan (direct deposit or bank check) the default for the balance check as well). At this point I should have caught the RAL direct deposit option that she earlier said was not available, but I didn't. She did say we could receive the state refund by mail though.

Preparer then explained that loan approval usually takes about 24 hours and DH would receive a call as soon as a response is received. She said Wal-Mart will cash the check for a small fee. I asked if there was a local bank that would cash for no charge, and she said Wells Fargo would.

Upon wrapping up DH received a coupon for a free pizza from a local pizza chain. I reviewed the copies DH was given and saw that there *was no copy of the actual 1040A statement*. I asked for one and *preparer said DH wouldn't get one until she picked up her second and final check for the refund balance. I asked why and she said because we didn't pay upfront*. Later when I was making copies of the forms I also noticed that DH's *W-2 was missing*. DH called the office to ask where it was and they said the same thing: she would get it back when she picked up her second check.

An interesting side note: upon reviewing the copies there is some pretty strong wording explaining that a RAL can be really expensive in relation to other forms of credit and a taxpayer should carefully consider whether or not it is in their best interest. *Too bad they don't explain this in person*.

DH was notified of her loan approval on Monday (2 days later). She took her check to Wells Fargo as advised and had to wait 20 minutes for the teller to get authorization to cash the check. DH was then charged $7.50 to cash the check, *so Wells Fargo was not free after all*. She plans to use her loan funds and refund to pay down existing debts for the purpose of buying a home in the next couple of years.

Appendix B: Issues Found with Paid Tax Return Preparers

	Federal Refund	State Refund Amount	Total Refund Amount	Total fees - tax prep, bank product, etc.	% of total refund	Qualified for EITC?	Applied for a loan against a tax refund?	Provided Copy of Tax Return	Issues
1	$625	$164	$789	$250	32%	Yes	Yes, Holiday Loan	No	Loan forms not adequately explained, questionable collateral items for loan (birth certificate, Social Security card); no refund or payment options explained to taxpayer; loan stacking; borrower not provided copies of all documents and forms; taxpayer furnished with incorrect statement of charges.
2	$8,015	$632	$8,647	$1,318	15%	Yes	Yes, holiday loan and RAL	No	TP informed that refund check came in on the 14th but check was not available until one week later; miscommunication between store branches caused delays, inconvenience, re-signing of critical personal data documents, and extra trips for taxpayer to resolve; Birth certificates and social security cards of dependents held for collateral, preventing taxpayer from qualifying for certain benefits during holiday season; Loan stacking and rolling; Taxpayer not allowed to pay prep fees upfront and must incur an additional $45.60 in finance charges as a result; Three loans totaling $4500 have combined fees and finance charges of $1,318.47 (15% of total refund); Direct deposit not allowed, causing inconvenience for taxpayer to pick up refund check; Taxpayer not initially informed that POA can cause delays with refund.
3	$4,910	$571	$5,481	$291	5%	Yes	Yes, RAL	No	TP asked to sign Republic Bank "Use of Taxpayer Information" form and "Consent to Disclosure to IRS" form that she is not required by law to sign; preparer did not check to see if TP qualified for State of NM income exemption for certain Native Americans; TP missed refundable state low income comprehensive rebate; preparer push marketed $29.95 Tax Refund Admin fee without giving TP option to pay for return up front and choose a non-bank product for her refund; TP told she could not have her refund direct deposited when loan documents clearly stated otherwise; 1040 statement and W-2 "held hostage" until refund received; high cost of RAL not verbally explained, only written in loan documents.
4	$5,627	$673	$6,300	$444	7%	Yes	Yes, didn't receive	Yes	Documents presented for signature without explanation; not enough due diligence for tax preparation; preparer incorrectly entered DOB for dependent children causing delay in IRS acceptance of return and inconvenience to filer; TP not informed of status of loan; TP wrongly told that he would have to wait longer if a state refund were mailed to his home as opposed to Jackson Hewitt office.
5	$2,410	$891	$3,301	$130	4%	No	No	No	Document presented for signature without explanation; inexperienced preparer needed assistance in completing return.
6	$4,629	$528	$5,157	$331	6%	Yes	No	No	Return completed and totaled by different employee than the one who actually signed the return; preparer submitted return without verifying dependent's social security card; preparer provided no review or explanation of the completed return to taxpayer; push marketing of bank product; taxpayer told he could not e-file and pay prep fees upfront; taxpayer not provided with copies of return at time of file.
7	$3,128	$427	$3,555	$172	5%	No	Yes, didn't receive	Yes	Aggressive marketing of RAL; no written notice of loan denial; preparer had to be reminded to make copies of return; handwritten receipt provided with no detailed breakdown of fees; high fee for form 8379.
8	$2,083	$352	$2,435	$261	11%	No	No	No	Preparer would not provide copies of completed return until after IRS acceptance; otherwise high quality service.
9	-	$70	$70	$55	79%	No	No	Yes	Preparer failed to list taxpayer's daughter as a dependent and listed taxpayer's filing status as "single" rather than "head of household"; preparer recommended that taxpayer not file a state return even though a refund was due; taxpayer was required to sign a RAC consent form for a paper return and refund by mail; preparer failed to list $105 in public benefits income; preparer did not include copies of all schedules with return; preparer made no effort to screen taxpayer for possible credits; preparer was unfamiliar with procedures for completing State of New Mexico paper return.
10	$3,189	$415	$3,605	$74	2%	No	No	Yes	Preparer reinserted previous year's state medical care expense deduction without verifying new amount; Preparer made minimal effort to screen for potential deductions and instead just relied on the previous year's return for information.

Appendix C: Disclosure of Tax Fees

	EITC	Total return, Fed and State	Total tax prep fees	% of total refund	General verbal estimate given?	Wall Sign Indicating Fee Breakdown?	Itemized Receipt Given?	Fees Paid Matched Verbal Estimate?	Fee Paid for 1040?	Fee Paid for EITC
1	Yes	$789	$250	32%	Yes	No	No	No	No detailed breakdown of fees acquired	No detailed breakdown of fees acquired
2	Yes	$8,647	$1,318	15%	No	Yes	No	No	No detailed breakdown of fees acquired	No detailed breakdown of fees acquired
3	Yes	$5,481	$291	5%	Yes	No	No	No	No detailed breakdown of fees acquired	No detailed breakdown of fees acquired
4	Yes	$6,300	$444	7%	No	No	No	No	No detailed breakdown of fees acquired	No detailed breakdown of fees acquired
5	No	$3,301	$130	4%	Yes	No	No	No	No detailed breakdown of fees acquired	No detailed breakdown of fees acquired
6	Yes	$5,157	$331	6%	Yes	Yes	No	No	No detailed breakdown of fees acquired	NA
7	No	$3,555	$172	5%	Yes	No	No	No	No detailed breakdown of fees acquired	NA
8	No	$2,435	$261	11%	Yes	Yes	No	No	No detailed breakdown of fees acquired	NA
9	No	$70	$55	79%	Yes	No	No	Yes	No detailed breakdown of fees acquired	NA
10	No	$3,605	$74	2%	Yes	Yes	No	Yes	No detailed breakdown of fees acquired	NA

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