



VITA Can Be Vital: How States Can Support Taxpayers Through Volunteer Income Tax Assistance

Picture it – A network of thousands of volunteers who ensure that millions of low-income taxpayers receive billions of dollars in refunds, a network that helps the community meet their civic obligations as taxpayers, and supports them on the path to financial security and opportunity. The Volunteer Income Tax Assistance (VITA) program is just that. In 2014 alone, VITA returned more than **\$2.2 billion** to tax filers across the country. English, IRS-certified volunteers can provide free basic income tax return preparation with electronic filing to qualified individuals. VITA is a crucial asset for people making approximately \$54,000 or less, individuals with disabilities, and those who speak limited English. Created in 1969 to provide free tax preparation for low- to moderate-income individuals and families, VITA has successfully allowed program recipients to maximize their tax credits, avoid unnecessary fees, and increase their financial stability.

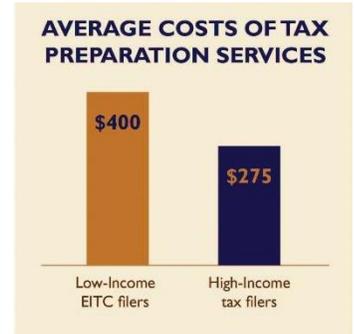
Below is a summary of the following brief, highlighting key points and recommendations for states and advocates.

<i>VITA helps states by <u>bringing in more tax revenue</u> and:</i>	<i>VITA faces the following challenges:</i>	<i>States can support the program by:</i>	<i>Advocates should:</i>
<ul style="list-style-type: none"> ● Increasing tax compliance across the state; ● Promoting accuracy, which means fewer disputes to resolve; ● Saving money for low-income families; and ● Strengthening the local community and civic engagement 	<ul style="list-style-type: none"> ● Filing taxes is increasingly complex and year-long; ● Service providers cannot meet demand without more funding; and ● Organizational capacity is outstretched 	<ul style="list-style-type: none"> ● Building organizational capacity; ● Providing direct funding; ● Facilitating VITA services and trainings; and ● Advertising VITA services in materials distributed to other government program beneficiaries 	<ul style="list-style-type: none"> ● Identify viable funds that offer the most flexibility; ● Be cognizant of potential backlash while pursuing new funding streams; ● Explore low-cost alternatives for state support; and ● Rethink framing to align with state priorities and broaden VITA's tent of supporters

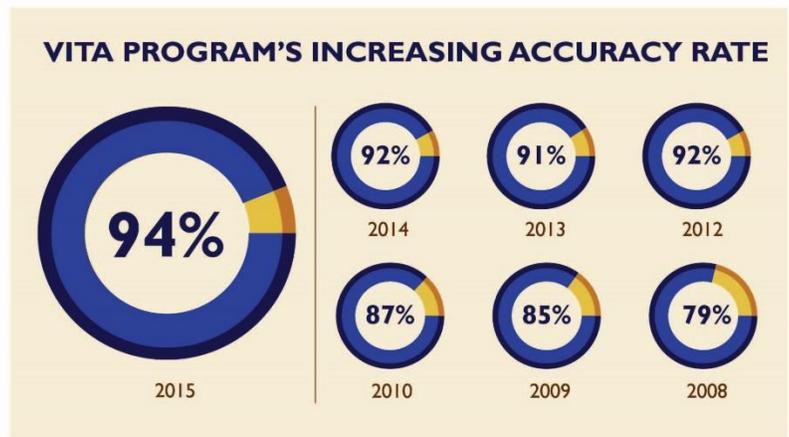
VITA Helps States

States have a vested interest in promoting and strengthening VITA for four key reasons: it increases tax compliance, promotes filing accuracy, saves families money, and contributes to the local economy and promotes civic engagement.

Increasing tax compliance across the state – To begin with, VITA provides tax filers an accessible, affordable path towards federal, and often, state tax compliance. This is especially true for earners who cannot afford traditional tax preparation services and may have opted out of filing taxes altogether were it not been for free services. VITA can also increase compliance for undocumented immigrants who need translation services or assistance filing taxes without a Social Security Number. Tax filers may also be unaware that they owe delinquent back taxes until meeting with a VITA volunteer.



Promoting accuracy, which means fewer disputes to resolve – The accuracy rate for tax returns filed at VITA sites is consistently higher than paid tax preparation alternatives. In fact, accuracy has been steadily increasing over the years, from 85% in 2009 to 94% in 2015, despite stagnant funding and increased demand for VITA services. The 94% accuracy rate is higher than any other category of tax preparation services, including CPAs and major tax preparation services companies. GAO's 2014 limited study of paid tax preparation revealed issues of practitioner competence and a 60% error rate¹. Not only do VITA sites then relieve some of the pressures of local offices that help file tax returns, they also reduce government resources spent on mediating disputes against tax preparers and handling appeals resulting from inaccurate filing.



Saving money for low-income families – The program saves low-income tax filers money on tax preparation fees, which means that they have more to spend in their local communities and consequently, more spent on state sales

¹ *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors* (GAO 14-467T). (Washington, D.C.: Government Accountability Office, 2014).



taxes. For example, low-income EITC filers spend \$400 on average at national tax preparation chains while their higher-wage counterparts spend an average of \$275 for the same service.² Additionally, VITA sites help tax filers actually pay their tax liabilities by connecting them to installment payment plans. Financial referral services protect tax filers from paying late-filing penalties and also ensure that the state government receives the taxes owed in a timely manner.

For many families and individuals tax time may be the most opportune time to consider longer-term financial planning. As such, VITA sites are increasingly providing services in addition to tax preparation such as assistance opening and maintaining savings accounts, financial literacy advising for utilizing tax refunds and avoiding predatory lenders, and checking eligibility for other supportive services. Anecdotally, VITA sites report that merely speaking to clients about savings increases the likelihood that they will save.³

Lastly, by connecting tax filers to all possible tax benefits that they may not be aware of such as the EITC and Child Tax Credit, VITA services help them access federal dollars and increases the state's overall revenue.

Strengthening the local community and civic engagement – VITA's value to volunteers, as well as to beneficiaries, cannot be overstated. Studies about VITA volunteers demonstrate that participation in VITA promotes higher levels of motivation, increased multicultural sensitivity, enhanced communication skills, and deeper understanding of accounting and business theory.⁴⁵ The benefits of VITA participation for accounting students is well-documented, but the advantages of volunteering pertain to all volunteers, not just those with tax-related career interests. Volunteering is an important way for community members to forge new social connections and increase human capital which can lead to more social cohesion and community-wide economic resilience.⁶

² Paul Weinstein Jr. and Bethany Patten. *The Price of Paying Taxes II: How paid tax preparer fees are diminishing the Earned Income Tax Credit (EITC)*. (Washington, DC: Progressive Policy Institute, 2016).

³ The Volunteer Income Tax Preparer's Toolkit. (St. Louis, MO: Center for Social Development, 2015).

⁴ Cynthia Blanthorne and Stuart Westin. "VITA: A Comprehensive Review of the Literature and an Analysis of the Program in Accounting Education in the U.S." *Issues in Accounting Education* Vol. 31, No. 1 (2016): 51-69.

⁵ Deborah E. Hocking and Ralph T. Hocking. "An Answer to the AICPA core competencies challenge." *Journal of Instructional Pedagogies*. (2008): 1-15.

⁶ Kei Kawashima-Ginsberg (CIRCLE), Chaeyoon Lim (University of Wisconsin) and Peter Levine (CIRCLE). *Civic Health and Unemployment II: The Case Builds*. (Washington DC: National Conference on Citizenship, 2012).



The Challenges Facing VITA

As with many great programs, with consistent outcomes, VITA is consistently under-resourced, despite growing demand. Three key issues are facing VITA sites: increasing demand in the number of filers, increasingly complicated returns that require more time and not enough volunteers or organizational capacity.

Filing taxes is increasingly complex and year-long – As federal and state governments face shrinking budgets and are forced to think more creatively about their funding priorities, experimenting with tax refunds has become a viable option to create financial incentives and save funds. Not only are changes to federal laws such as the Affordable Care Act (ACA) impacting the tax code, states also continue to tie new financial incentives and benefits to tax refunds. In other words, one's criminal status, immigration status, student loan debts, and so on can determine whether or not you receive your tax refund. For example, Maryland's Warrant Intercept Program (SB 425, HB 390) allows county officials to request the comptroller to withhold income tax refunds for individuals who have outstanding warrants; the program could impact tens of thousands of individuals in Baltimore alone, many of whom are unaware of their open warrants. In New Mexico, the Taxation and Revenue Department has blocked undocumented immigrants from receiving tax returns – a move at odds with the federal government's policies.⁷ States are also increasingly relying on the Treasury Offset Program (TOP), a debt collection program administered by Treasury, to collect state income tax liabilities by garnishing tax refunds. While the program has been in place for decades, states have expanded this as a tool to collect past-due child support, defaulted student loans, and other debts.⁸

As a result, now more than ever, taxpayers must ensure that their taxes are accurate and timely to receive their maximum allotted refunds and avoid fees. However, the increasing complexity behind filing taxes is not limited to changes in the tax code. The 'sharing economy' or the 'gig economy' means that for contractual workers, filing taxes requires year-round tracking to ensure not only accurate filing, but to adequately prepare for one's financial future without the security of a bi-weekly paycheck. The line between independent contractors and employees has blurred, forcing many new self-employed workers to track their deductible expenses and familiarize themselves with the requisite tax forms for the first time. Even millennials with traditional careers find themselves switching companies far more often than their older counterparts or juggling multiple jobs at once. As such, the demand for year-round tax services is overwhelming and far outpacing supply. VITA experienced a 220% increase in usage from 2004 to 2012, and sites throughout the country still have hours-long lines and more

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⁷ Daniel C. Vock. "Can New Mexico Refuse Tax Refunds to Immigrants?" (Washington, DC: *Governing*, 2016).

⁸ Aron Macarow. "You Can Lose Your Tax Refund if You Have Student Loans." (Costa Mesa, CA: *Attn: Media, Inc.* 2015).



clients than they can reasonably serve.⁹ University faculty who formerly led VITA programs also listed “burnout” and the vast number of clients compared to volunteers as one of the primary reasons for discontinuing the program.¹⁰

Service providers cannot meet demand without more funding – The challenges to VITA are likely to be exacerbated in the coming years. In response to budget cuts, the IRS has planned to substantially reduce telephone and face-to-face interactions with taxpayers and instead, rely on online software and third parties to handle queries. Millions of taxpayers who either do not have Internet access, do not feel comfortable making financial transactions online, and/or have complex tax-related questions that require face-to-face assistance may heavily lean on VITA services.¹¹ At the same time, since VITA is not a congressionally authorized program, it is not guaranteed funding from year to year. Without the guarantee of funding, VITA site directors are not able to financially plan for long- or even medium-term needs.

Organizational Capacity is Stretched – The availability of VITA volunteers ranges widely from state to state, and even within states. College students are the most likely to volunteer, but in rural areas that do not have nearby colleges, finding and training volunteers can be difficult. As a representative from Iowa State University’s VITA site stated, “The biggest challenge for rural locations is finding volunteers ...who understand tax law and are willing to continue to study and keep current about changes in how returns must be prepared.”¹² In a study of discontinued university VITA programs, at least one respondent claimed that it was challenging to implement in a rural area due to scheduling and transportation issues.¹³ Rural areas also face more difficulties fundraising – though fundraising is a challenge for all VITA programs.

In addition to building a base of volunteers, too often the scope of grants or program funds can only support directly assisting clients rather than the numerous behind-the-scenes costs such as program evaluation, human resources, volunteer management, etc. There is also a false assumption that funds are only necessary January

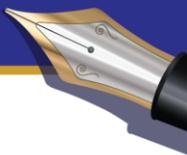
⁹ Ezra Levin and Shervan Sebastian. “Strengthening VITA to Boost Financial Security at Tax Time & Beyond.” (Washington, DC: CFED, 2016).

¹⁰ J. Carr. “Service-learning in accounting: A role for VITA tax programs”. In D. V. Rama (Ed.), *Learning by Doing: Concepts and Models for Service-Learning in Accounting* (pp. 101-116). (Washington, DC: American Association of Higher Education, 1998).

¹¹ Taxpayer Service: The IRS Has Developed a Comprehensive “Future State” Plan That Aims to Transform the Way It Interacts With Taxpayers, But Its Plan May Leave Critical Taxpayer Needs and Preferences Unmet. (Washington, DC: Taxpayer Advocate Service, 2015).

¹² Joyce Lash and Laura Sternweis. “VITA Volunteers Provide Free Tax Preparation in Rural Counties.” (Ames, IA: Iowa State University Extension and Outreach, 2015).

¹³ Cynthia Blanthorne and Stuart Westin. “VITA: A Comprehensive Review of the Literature and an Analysis of the Program in Accounting Education in the U.S.” *Issues in Accounting Education* Vol. 31, No. 1 (2016): 51-69.



through April, when in reality, many VITA sites require planning months in advance and continue to provide assistance to filers well after April.

What States Can Do To Support VITA

States can play a leading role in supporting and expanding VITA services to meet the growing demand. Many state organizations have already had major successes with volunteer recruitment, client outreach, securing partnerships with local organizations and finding unlikely sources of funding. Various state agencies can support organizations providing VITA services through capacity-building support and direct funding.

BUILD ORGANIZATIONAL CAPACITY

States can support VITA by providing more volunteers, easing paperwork and promoting VITA services. For example, many states have State Service Commissions entrusted to manage federal national service grants and the Commissions can ensure that free tax assistance is included when determining social needs and program priorities.

Example 1: Maryland CASH Campaign has expanded capacity by partnering with Volunteer Maryland to establish a one-year AmeriCorps position focused on volunteer recruitment, volunteer training, and developing community partnerships. The position is renewable for up to 3 years.

States can also engage postsecondary institutions in facilitating student VITA programs, especially for graduate accounting students and business clubs. State governments can work with their respective state education assistance authorities to create a student loan forgiveness program for student VITA volunteers. The program could provide debt relief to committed volunteers, increase the capacity of local VITA programs, and serve as an incentive for new volunteers. If loan forgiveness is too lofty, postsecondary institutions could at least provide students with service-learning credits for their participation.

PROVIDE DIRECT FUNDING

Of course, one of the most significant forms of support that states can provide to VITA is direct funding. VITA services should be an allowable use of block grant dollars, specifically through the Community Development Block Grant Program (CDBG), the Community Services Block Grant (CSBG), and the Temporary Assistance for Needy Families (TANF) block grant. A number of states have successfully utilized federal block grants to fund VITA initiatives. Pennsylvania used TANF funds to help Philadelphia's Campaign for Working Families pilot mobile tax sites. Louisiana has used TANF funds to enlist community partners to host state-employed income tax assistance



volunteers in rural areas without a VITA presence.¹⁴ Many VITA sites rely on federal block grants for partial funding, but block grants provide broad flexibility by design. Such broad flexibility is helpful in allowing states to tailor funding for their unique needs but also puts specific programs at risk if it is the only funding source.

While most VITA sites rely on a blended funding stream of federal grant dollars and private contributions, adding VITA to the state's general appropriations bill can help ensure that the necessary funds are narrowly tailored to VITA sites. Allocating dollars to VITA sites may be a legislative or an administrative decision, depending on the state and the Department of Revenue's authorities. States can fund VITA sites directly as a budget line item or by creating a line item for community grants at the county level. Some localities have chosen to do both. For example, in Maryland, the Montgomery County Council created a line item specifically for VITA. The Council also accepts funding requests from nonprofit organizations including VITA sites to provide services to county residents and grants them based on recommendations from a community Grants Advisory Group.

Four states require paid tax preparers to be licensed and have a combination of other requirements like bonding, taking continuing education courses, or paying an annual registration fee.¹⁵ Typically these registration fees cover the cost of administering and enforcing a licensing program, but increasing these fees could mean a dedicated source of funding for VITA programs as well. This has drawbacks in that increasing registration fees for paid tax preparers runs the risk of increasing costs that may be passed on to consumers and could create adversaries of the paid tax preparers. Even so, this is an option worth consideration.

FACILITATE VITA SERVICES & TRAININGS

States can support VITA through lower-cost measures such as training volunteers to complete state tax returns, ensuring that any changes to electronic tax forms are completed as early as possible, and creating a direct line of contact between VITA sites and state tax commissions.¹⁶ Several state departments of revenue already provide tax preparation software vendors with instruction on changes to the state tax code, so that the vendors can use the information to create the electronic tax forms. Departments of Revenue can use these existing instruction materials to create more extensive trainings for VITA volunteers. Currently, the VITA site has to train themselves for state returns, which requires far more energy than it would for the Departments of Revenue to conduct the trainings. The United Way of Northern New Jersey's Income Impact Area Director suggested that the Department of Revenue staff

¹⁴ State Efforts to Support Low-Income Families and Communities Through the Earned Income Tax Credit. (Washington, DC: NGA Center for Best Practices, 2008).

¹⁵ Elaine S Povich. "Most States Have No Rules for Independent Tax Preparers." (Washington, DC: The Pew Charitable Trusts, 2014).

¹⁶ Depending on the state, this organization can be the State Franchise Tax Board, the Department of Taxation, Office of State Tax, or any other organization responsible for collecting state personal income tax.



familiarize themselves with the tax software used by VITA sites prior to the trainings so that the trainers could provide specific guidance about completing the returns and answer any questions.

Another low-cost option for supporting VITA sites is for the state to complete the yearly state tax return forms and provide them to tax preparation software programmers by early November so that the software vendors can, in turn, create the electronic forms as soon as possible. Many clients use the VITA sites for assistance on both federal and state taxes and it does not make sense for them to make two separate visits, so delays in the availability of state tax forms could create a backlog of federal taxes as well. Therefore, making the state electronic tax forms available earlier in the year would remedy potential inefficiencies and backlogs at the sites and give VITA volunteers more time to anticipate common questions and prepare for the tax season.

States can also optimize VITA services by creating a general assistance hotline that allows VITA volunteers to directly contact the state department responsible for collecting taxes. This could be especially helpful for VITA volunteers working with undocumented workers who often face delays or complications in filing taxes. Having a direct line of communication could help volunteers quickly verify receipt of taxes, determine any outstanding debts, or follow-up with any other inquiries. Given the demand for services, the direct line could provide invaluable time savings for VITA volunteers.

USE EXISTING RESOURCES TO ADVERTISE VITA SERVICES

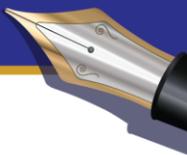
Lastly, state agencies that administer EITC, Medicaid and/or SNAP programs could easily promote VITA services to their program recipients. Low-cost options include adding blanket language about the availability of VITA services in benefit application forms, mailings that accompany Electronic Benefit Transfer cards, or program materials that describe Medicaid coverage options. For example, SNAP and Medicare participants in San Francisco received a mailer advertising VITA services. Simply adding the nearest VITA site's phone number or website URL can help attract new clients. States that are implementing a state EITC can also make sure to include VITA promotion as part of the state's media coverage. During California's inaugural use of a state EITC, the state provided specific outreach that directed clients towards VITA sites. Pairing VITA outreach with the promotion of a state EITC can help bring publicity to both programs.

Recommendations for Advocates

Advocates should pursue strategies that ensure the highest amounts of flexible funds while minimizing cuts to other programs that serve low-income people.

RECOMMENDATION #1: IDENTIFY VIABLE FUNDS THAT OFFER THE MOST FLEXIBILITY

VITA sites require flexible funds to provide a range of services, from free tax preparation to referrals for other service providers, financial coaching, and checking eligibility for federal tax credits. The source of the funds will



vary from region to region. As examples, Taxpayer Opportunity Network (TON) partners have found success with Department of Economic Opportunity funds in Florida, Promise Neighborhood grants in California and Department of Human Services funding in Illinois.

RECOMMENDATION #2: BE COGNIZANT OF POTENTIAL BACKLASH

VITA advocates need to be aware of potential allies and adversaries when pursuing new funding streams or increased support. For example, including VITA or EITC outreach as an allowable use for TANF Maintenance of Effort (MOE) dollars could help expand VITA services to communities in need, but it may also reduce funding for existing TANF-funded programs that benefit the same populations. Programs that may be in competition for TANF MOE resources include home visiting programs, medical services for low-income at-risk youth, domestic violence programs, and Community Action Agencies. Potential backlash may also stem from paid tax preparers who may be staunchly opposed to regulation or increasing licensing fees.

RECOMMENDATION #3: EXPLORE LOW-COST ALTERNATIVES FOR STATE SUPPORT

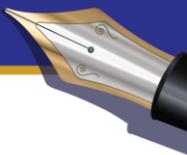
Consider advocating for alternative methods to support VITA. For instance, since many VITA clients have state tax filing needs in addition to their federal taxes, states should consider providing trainings for VITA volunteers about how to complete state returns.

RECOMMENDATION #4: RETHINK FRAMING TO ALIGN WITH STATE PRIORITIES AND BROADEN TENT OF SUPPORTERS

In states with dedicated offices to coordinate volunteers, this can be another source for promoting VITA and encouraging more volunteers for sites. In recent years, many states have been shifting dollars to things like emergency preparedness programs, but advocates should consider how to reframe VITA as a service for addressing financial emergencies and promoting financial recovery. Since VITA helps clients access so many different services and tax credits, advocates can tie the program to a number of other issue areas that appeal to federal agencies and private donors alike. One could argue that VITA deserves the support of state-supported economic development agencies, rural community development grants, community health partnerships (due to emerging ties between financial and physical health), and so on.

RECOMMENDATION #5: TAKE THE LONG VIEW

Creating sustainable VITA programs, especially in the absence of congressional appropriation, is a long-term process. Building state support requires allies at all levels of government, from high-level leadership to on-the-ground champions who will continue to support the program even as administrations change. Advocates also need to consider the costs and benefit of each approach – even if a particular proposal could introduce extra funds to VITA programs, it may not be worthwhile if it requires significant administrative resources or creates contentious relationships. Ultimately, advocates should strive to identify viable changes both including and outside of funding



increases that offer the most flexibility and the least resistance – knowing, all the while, that the best strategy may change over time.

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