

Tax Preparation, Rurality, and the EITC

Where are people getting taxes done?

- **Low-income households use e-filing services.** “Berube et al. also found a concentration of electronic filing originators in low-income neighborhoods, evidence that low-income households were using these services” (Hirasuna & Stinson, 2004).
- **E-filing increases with broadband access.** “By 2013, 38% of tax returns were self-prepared and e-filed on personal computers” (Gunter, 2019).
- **E-filing is being increasingly used by both individuals and tax professionals.** “Statistical information retrieved from the IRS website suggests that for the 2008 and 2009 years e-filing of individual tax returns was at 61% and 69%. Furthermore, approximately one-third of these returns was self-prepared while two-thirds were prepared by tax professionals” (Pippin & Tosun, 2014).
- **Low-income filers are increasingly using paid tax preparers.** Potential reasons for this trend include “finding ways to reduce high marginal tax rates and to protect against noncompliance” (Hirasuna & Stinson, 2004).

Why do people turn to tax preparers?

- **Taxpayers see tax preparers as being tax advocates.** While taxpayers see tax preparers as less aggressive than the preparers see themselves, they still turn to them to advocate on their behalf. (Fleischman & Stephenson, 2012).
- **Taxpayers want to avoid interactions with the IRS, especially if they have had previous IRS experiences.** However, people with overly complicated tax returns are less likely to aim for a “perfect” tax return and are less likely to turn to tax preparers. (Fleischman & Stephenson, 2012).
- **Generally, people trust tax preparers.** 91% of taxpayers trust that tax preparers have the knowledge to help them (Leviner, 2012).

What do we know about tax preparers?

- **EITC returns are disproportionately filed by paid preparers.** 62% of 1998 EITC returns were filed by paid preparers relative to 53% of all returns (Gunter, 2019).
- **Costs of using paid preparers averaged between \$75-\$200 in 2002.** Furthermore, “the compliance costs of filing time and money make up a larger percentage of income for low-income filers” (Hirasuna & Stinson, 2004).
- **Low-income filers are particularly vulnerable to predatory tax preparers.** These preparers often offer rapid refund loans, and their fees and service charges further reduce the impact of EITC and other refundable credits (Lim, Livermore, & Davis, 2011).
- **Increased availability of tax preparation software increases EITC participation.** “More people who are eligible for this particular credit will be able to receive it because the availability of electronic tax preparation programs [through professional preparers or volunteer sites] significantly decreased their cost of filing the required forms” (Pippin & Tosun, 2014).

- **There is a lack of research covering the effects of preparers on filers.** There were no oversight measures or national standards for tax preparers before 2011 when they were forced to begin using Preparer Tax Identification Numbers (Leviner, 2012).

What barriers exist to filing taxes in rural areas?

- **Time and transportation.** “Rural families are likely to face greater time and transportation hassles associated with filing a tax return or locating and visiting a tax preparer” (Gudmundsun et al., 2010; Mammen, Lawrence, & Marie, et al., 2011).
- **Lack of preparers.** There is not adequate EITC-knowledgeable, reputable tax preparer density in many low-income rural areas. This is particularly true for VITA and other free or low-cost tax preparation services (Mammen, Lawrence, & Marie, et al., 2011).
- **Site accessibility.** “Tax preparers from free [urban] tax preparation sites anecdotally suggest that a noticeable proportion of parents walk to their tax preparation sites” (Hirasuna & Stinson, 2004).
- **Limited English language competency.** “Limited English language competency could be a barrier to learning about the EITC or filing taxes among low-income immigrant families” (Gudmundsun et al., 2010; Pippin & Tosun, 2014; Varcoe, Lees, & Lopez, 2004).
- **Lack of broadband access.** “. . . introduction of high-speed Internet in a zip code results in increased use of itemized deductions, higher average values itemized, and lower average tax-to-income ratios” (Gunter, 2019).
- **The tax system is unnecessarily complicated.** Congress has refused to simplify the tax code, which means that most taxpayers will have to turn to professionals for help (*The Economist*, 2012).
- **Lack of knowledge about the tax system.** This includes lack of knowledge about the existence of the EITC, eligibility for the credit, and its potential positive impact on incomes as well as families choosing not to file taxes at all. (Mammen, Lawrence, & Marie, et al., 2011; Mammen & Lawrence, 2006).

How does this impact EITC claims?

- **Limited EITC knowledge in social circles.** “Many low-income families may lack the types of regular social contacts that would lead to awareness of the EITC and its benefits” (Gudmundsun et al., 2010).
- **Accessibility of free tax preparation sites.** “The limited number and accessibility of free tax assistance programs could seriously hinder EITC participation among rural low-income families because many experience difficulties in accessing transportation” (Gudmundsun et al., 2010).
- **Limited positive impacts of EITC on families.** These barriers create a lack of knowledge about the credit and reduction of refund amounts through the costs and fees associated with paid and predatory tax preparers, which limits families’ abilities to financially plan for the year, make necessary purchases, and build their savings and assets. (Mammen & Lawrence, 2006; Hall & Romich, 2016).

What strategies exist in the literature that could increase claims and positive impacts of the EITC?

- Create **multilingual outreach campaigns** that focus on the financial benefits of the EITC to encourage uptake (Mammen & Lawrence, 2006; Mammen, Lawrence, & Marie, et al., 2011; Varcoe, Lees, & Lopez, 2004).
- Connect with **family financial educators** to target eligible individuals who are less likely to claim the EITC (Gudmundsun et al., 2010).
- Create partnerships between **EITC outreach campaigns and local family educators** who have close contact with low-income families already (Gudmundsun et al., 2010).
- Provide accessible free tax preparation services or resources needed to use them
 - Provide **mobile tax services**: ex., volunteer tax preparers could join mobile library services during tax season.
 - Invest in **more VITA sites** in rural areas (Mammen & Lawrence, 2006; Mammen, Lawrence, & Marie, et al., 2011).
 - Provide **free transportation to VITA sites** in nearby towns (Gudmundsun et al., 2010).
- Use **financial planners at VITA sites or inform financial educators in the community** about how to plan for the large, windfall-like nature of the EITC to assist families in better utilizing it for their financial priorities, including saving and asset building (Hall & Romich, 2016).
- Get EITC recipients into the **formal financial system, including setting up bank accounts for refund direct deposit**, to reduce their reliance on predatory Alternative Financial Services (AFS), like rapid refund loans, payday loans, and check cashing establishments, among others (Lim, Livermore, & Davis, 2011).

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