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February 4, 2016

To: Members of the Appropriations Committee

From: Julia Tse, Policy Associate

**Re: Department of Revenue – Funding for VITA Sites**

Tax filing season can be a challenging and complicated time for any family. Especially for lower income families, it can be financially inaccessible, although many may ultimately benefit from proper tax preparation. **The Earned Income Tax Credit (EITC) is often considered one of the most effective anti-poverty policies that encourages and rewards work.** The EITC is a refundable credit and is received from the first dollar earned until a family reaches their maximum income level, and phases out as income increases. It is intended to reduce the tax burden on low-income working families, supplement wages, and help families make ends meet. Beyond individual families, **the EITC has been shown to promote community revitalization because families often utilize their credits to pay off debt, invest in education, and secure housing.**<sup>1</sup>

Accessing the EITC, however, requires proper tax filing—in 2014, the average cost for tax preparation in the Midwest region was \$198.<sup>2</sup> **In addition to cost barriers, even the process of selecting a preparer can be difficult. Nebraska is one of many states that does not require any minimum educational, training, or competency standards, which often allows unqualified preparers to enter the market and unfair practices to occur.**<sup>3</sup> This includes allowing consumers to access refund dollars earlier through a high-cost loan product with fees ranging from \$35 to \$75 and add-on fees that have been shown to be a large source of profit for many preparers.<sup>4</sup>

For nearly 45 years, **Volunteer Income Tax Assistance (VITA) sites across the country have provided free tax preparation services to populations eligible for the EITC with the purpose of preserving the intended benefits of the EITC for individuals and the community.** After receiving extensive training, **certified volunteers provide honest tax preparation services and encourage taxpayers to invest their returns in asset-building opportunities.**

VITA sites have served as a supplement to the free return preparation services provided by the IRS through its local Taxpayer Assistance Centers (TACs). The IRS ceased funding TACs in 2014, and referred taxpayers to Free File, which is a free tax preparation software. Utilizing new technology may be a part of the solution for some, but because it requires some level of financial and technological savvy, free software may not be the most accessible option for all families.

<sup>1</sup> “The Earned Income Tax Credit and the Volunteer Income Tax Assistance Program,” National Community Tax Coalition and the Hatcher Group, 2010, 6-7.

<sup>2</sup> “Income & Fees of Accountants and Tax Preparers in Public Practice Study,” National Society of Accountants.

<sup>3</sup> Chi Chi Wu, “Taxpayer Beware: Unregulated Tax Preparers and Tax-time Financial Products Put Taxpayers at Risk,” National Consumer Law Center, March 2015, 12.

<sup>4</sup> *Ibid*, 9.

**Federal funding is still available for VITA sites, but the change has exacerbated a long-standing issue of insufficient and inconsistent funding for many VITA sites. Additionally, access to these important services is sparse outside of our urban centers in Lincoln and Omaha.** The consequence has been that many sites have begun to back away from the program.

In 2012, **2,200 returns were prepared at VITA sites outside of Omaha and Lincoln, and in 2015, that number decreased to only 1,800.** The volume in the urban sites have either increased or remained steady, although federal funding has not increased. Nevertheless, looking at family poverty and EITC-eligible populations across the state, we know that the need for trustworthy and free tax preparation has likely remained unchanged.

Federal funding for VITA sites requires a dollar-for-dollar match, and many other states have leveraged this opportunity to fund VITA sites that can continue to protect how the EITC serves families and local economies. Our neighbors in Iowa, for example, have consistently provided state funding for EITC outreach campaigns and free tax preparation services since 2001, and recently appropriated \$293,517 to that end.<sup>5</sup>

**It is estimated by the IRS that 21% of eligible workers do not claim EITC, which can amount to a fairly significant loss of stimulus to the local and state economies. With the continued loss of already sparse VITA sites outside of Lincoln and Omaha, we can expect that unclaimed EITC benefits will likely affect many rural communities disproportionately.** Furthermore, with the vacuum of free tax preparation sites, **we can also expect lower income families to turn to the most visible tax preparation chains that are not concerned with helping families and communities, but rather gaining profits from sometimes exploitative practices.**

Voices for Children in Nebraska respectfully urges this committee to consider the vital service that VITA sites provide to our families and communities and provide state support for VITA sites. We recommend an annual appropriation of \$100,000 to the Department of Revenue to be granted to organizations providing to VITA sites across our state.

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<sup>5</sup> "Earned Income Tax Credit Enactments: 2009-2015," National Conference of State Legislatures, 2015.