

**Quality Assurance**  
**and**  
**Best Practices for Community Tax Programs**  
**A Report Prepared**  
**for the**  
**Annie E. Casey Foundation**

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## Table of Contents

Introduction	1
Research Findings	2
Community Tax Programs	2
National Community Tax Coalition	7
Department of the Treasury	7
Internal Revenue Service	8
Tax Practitioner Community	9
NATP & NAEA	
AICPA & NSA	
H&R Block, Inc.	
State Regulatory Agencies	13
Emerging Policy Issues and Concerns	14
Appendix A Areas of Quality Assurance – IRS references	19
Appendix B LITC Standards of Practice	24
Appendix C Practitioner Community Standards	25
Appendix D Persons Contacted	27

## INTRODUCTION

Community Tax Programs, also referred to as Volunteer Income Tax Assistance (VITA), offer free tax preparation assistance to lower income families, generally with volunteer tax preparers. Concerns about the quality of services have grown over the past several years, as the number and size of large community tax programs has increased. There are several reasons for these concerns. First, preparation of income tax returns for lower income families require extensive knowledge of complex tax rules, even when completed with the aid of computer software. For example, filing status is determined by marital status, living arrangement, and presence or absence of dependents. These determinations can be further complicated by extended family households, mobile living arrangements, and use of public benefits, all of which can affect filing status. In addition, tax credits, including the Earned Income Tax Credit, the Child Tax Credit, and the Child and Dependent Care Credit all rely on the presence of “qualifying children” or “qualifying individuals” with different definitions for each credit.

A second source of concern is the skill level of volunteers. Although some volunteers are seasoned tax professionals, most start out with limited experience or no experience at all. Training available to volunteers is often limited to as little as 8-10 hours and rarely exceeds 28 hours, a period far less than what is available – and sometimes required of professional tax preparers. A third source of concern is the history of high error rates for returns filed by taxpayers claiming the Earned Income Tax Credit (EITC). A recent Treasury Department study found error rates by “other paid preparers” as high as 36%, higher than the error rates for self prepared EITC returns (see p 8 *infra*). Although volunteer programs were not included in this category, and there has been no evidence of excessive error rates by VITA programs, concern nevertheless continues. As one community tax program manager noted: “I worry about well-meaning volunteers who may try to prepare a return that is beyond their skills or experience.”

Finally, an erroneous return can be costly to the taxpayer. For example, a return may produce a refund by erroneously claiming a credit, or otherwise incorrectly lowering the tax liability. If the error is caught through post-filing review by the IRS, the taxpayer must repay the refund. In addition, the taxpayer may be subject to interest payments and perhaps a penalty if there are grounds to find that there was a negligent or deliberate misstatement in the return. These events can cause crushing long term debt for lower income families. In the alternative, a return that erroneously fails to claim a credit or other tax benefit can result in the loss of many thousands of dollars to a taxpayer.

In August, 2003 the Annie E. Casey Foundation commissioned research to gather information about quality assurance standards and best practices relevant to community tax programs. The objective of this research is to produce a report that surveys current practices in community tax programs, and also reviews standards and practices of relevant stakeholders. Summarized below are research and findings to date; in addition, the report concludes with a

section listing emerging policy issues. Appendices provide more detailed information collected from certain stakeholders.

The full range of stakeholders consulted for this project include:

- Local Community Tax Programs
- National Community Tax Coalition (NCTC), Quality Assurance Committee
- IRS, including SPEC, Taxpayer Advocate, Privacy Advocate, and Office of Professional Responsibility
- Treasury, (Office of Tax Policy, TIGTA)
- Practitioner community, including
  - National Association of Tax Professionals (NATP)
  - American Institute of CPA's (AICPA)
  - National Accounting Society (NSA)
  - National Association of Enrolled Agents (NAEA)
  - H & R Block
- State Regulatory agencies (California and Oregon)

Appendix D lists the 31 persons contacted in connection with this research project.

## **RESEARCH FINDINGS**

### **Community Tax Programs**

Community tax programs are referred to collectively as non-profit or government sponsored programs that offer free tax preparation assistance through volunteers. The Volunteer Income Tax Assistance (VITA) is the principal program addressed in this report, although Tax Counseling for the Elderly was also reviewed. 16 staff of Community tax programs were interviewed either in person or via telephone. In addition materials from some programs, such as intake sheets and training manuals were reviewed. This report also includes summaries of information contributed by five programs to a survey developed by the Quality Assurance Committee of the National Community Tax Coalition. The information in this section of the report, on quality assurance and best practices of community tax programs, is presented through the 25 categories of quality identified by the NCTC committee, but include information from the broader range of contacts, beyond the five programs that participated in the survey.

### *Information Security and Data Collection*

#### 1. Retaining files & client information

Some programs retain only required information (e.g. form 8453 and W-2 forms) after the filing season. A more common practice is that programs keep electronic return information at a central location to facilitate provision of post filing season assistance. In addition, use of prior year electronic return information greatly expedites preparation of a return for the same taxpayer in subsequent years. Use of prior year electronic data also dramatically reduces errors; one large program reduced its reject rate for electronic returns by 50% the year it began using prior year information in electronic form to prepare current year returns.

#### 2. Privacy & client information/identity Security

Programs generally have policies that require information to be locked in a secure place when not being used. Electronic data is password protected. Many programs also use shredders at each site in order to effectively destroy identifying information in trash.

#### 3. Data collection, compilation and analysis

Most programs use an intake sheet, which collects information used in preparing the tax return, and also collects other information related to demographic data, program operations, and ancillary services. Several programs offer clients an opportunity to opt out of providing additional data, and offer a client a copy of a written privacy policy upon request. Generally, data is compiled from multiple sites, but individual identifying information is not included in the compilation.

### *Site Operations*

#### 4. Operations troubleshooting

Programs use site coordinators to oversee site operations; there is a strong preference for paid site coordinators, but budget constraints cause some programs to use volunteers. Others use in-kind contribution of staff time from the sponsoring organization, and designate a “tax specialist” either staff or experienced volunteer to offer additional technical assistance as needed. Development of site manuals for coordinators is also common.

#### 5. Review of returns pre-filing and post-filing

All programs promote review of return and supporting documents prior to clients’ departure from the site. In some instances only the preparer makes the review, in others, the site manager is assigned to conduct the review. There is recognition that during the peak of the filing season, some sites are so busy that compliance with the pre-filing review policy may not be 100%. Post filing review of returns is rare.

6. Electronic tax preparation  
Multi-site programs generally provide electronic filing at all their sites.. All programs continued to use Form 8453 last year. Several program managers reported that they considered, but decided against using an option that permits the taxpayer to select a PIN that confirms signature on the electronic return. The taxpayer generated PIN requires use of prior year data that is sometimes not available, and not all taxpayers are eligible to use this procedure. Another option, a preparer assigned PIN for taxpayers, has not been available to VITA programs.
7. Preparation errors & Reject errors  
Most programs do not report a formal process to track error or rejection rates. Staff directly involved in electronically filing the returns deal with rejections as they come in, and spot trends that require corrective action.
8. Refund speed  
Programs report that most clients receive direct deposit in 7-14 days after electronically filing their return. However, programs report that up to 75% of clients do not opt for direct deposit, presumably because they lack a checking or savings account. Multi-site programs that have used central transmitting experienced additional delays of 3-7 days.
9. Speed of service  
Programs accepting clients on a walk-in basis report waits of 1 ½ hours or more, with the heaviest traffic during the first three weeks of the filing season. Several programs reported offering appointments, which reduced waiting times.

#### *Staff Competency*

10. Volunteer/Tax Preparer Training  
Broad range of responses, from use of C-VITA training (six hours) to 5 days of training. Most programs, to the extent that they can attract volunteers with some prior experience, provide training in the range of 8-12 hours. Training typically covers basic tax rules, use of software, and program procedures.
11. Site Coordinator training  
An area with increasing emphasis by programs, site managers generally received 4-12 hours of training, with up to 2 ½ days of training. One program reported mid-filing season training session for site managers. At the lower end, programs report having a “meeting” of site coordinators to review procedures.
12. Recruitment of skilled staffing  
All programs reported a strong interest in recruiting from Banks, accounting firms, and financial divisions of large companies. A boost has been reported for programs that arrange CLE credits for VITA training. Other programs reported success in persuading a

large company to “adopt” a site; in addition, participation by managers of a company as volunteers has a positive effect on participation by employees of the company.

13. Retention of experienced volunteers & staff

An area that all were interested in improving; retention of volunteers estimated to range between 30-65% among programs. Staff retention is a critical issue for program stability, and burnout because of the high stress, time pressured work environment is a grave concern.

*Problem resolution*

14. Year round client/taxpayer assistance

Several programs, primarily those which also operate LITC programs offer year round services. Other programs collapse post-filing season assistance to a single office. Generally seen as an important service by programs not now offering year round assistance, but one that cannot be provided because of funding constraints.

15. Client representation in IRS controversies

Generally representation is limited to programs that operate LITC's. A few programs offer assistance in filing amended returns or in responding to correspondence regarding returns prepared by the program volunteers. Others make referrals to LITC's or legal services programs.

*Customer service*

16. Serving hard to serve constituencies

Programs report efforts to recruit bi-lingual volunteers as tax preparers or interpreters. Also outreach initiatives are targeted on communities and constituencies that may have language or ethnic barriers.

17. Tax Service availability and convenience

Programs seek to establish sites in communities where the demographic profile of residents suggest high rates of EITC eligibility. Operating hours of sites are generally one or two evenings and Saturday during the day. Programs report interest in day time hours at sites but have not expanded to day-time hours because generally volunteers are working during weekday hours. Larger programs that have the capacity to operate high volume sites report success in maintaining day time, evening and Saturday hours.

18. Respect, courtesy and professionalism toward clients

Universally reported as a very high priority. Variously addressed by programs in mission statement and trainings for volunteers and site managers. Reported as a key assignment for site managers.

*Complimentary/Ancillary Services*

19. Asset Development: Bank Accounts, I.D.A.s etc.  
Only one program reported promotion of I.D.A.'s at their tax sites. Most programs reported partnerships with banks or credit unions that allowed, at a limited number of sites, opening accounts on an expedited basis at the time of preparation of the return.
20. Education: Financial Ed., First time home buyer, etc.  
Programs are using information from the intake form to offer referrals and counseling on financial planning, first time home buying. In programs offering access to checking accounts, the offer was sometimes linked to classes on financial literacy.
21. Income Supports: Food Stamps, Heating Assistance, etc.  
This set of ancillary services is an emerging trend. Several programs report offering information about work supports, and a few have had staff from other agencies filling out applications for programs such as LIHEAP. Two programs report plans to pilot RealBenefits in several local sites; RealBenefits is a web-enabled software screening and application preparation tool. Screening for work support benefits generally is provided by staff and volunteers from other social service agencies; these screeners are not involved in tax preparation services. The work support screening generally is conducted after the taxpayer has completed the intake form, and while the taxpayer is waiting to see a volunteer tax preparer.
22. Community Empowerment: Voter Registration, Recruitment for Community Organizations, etc.  
Programs report interest in these functions, but they have not reported any well organized efforts. Activities reported include making voter registration kits available at sites and providing literature about leadership training and other community resources

#### *Sustainability*

23. Annual planning & achievement projections  
Annual planning is reported to be a significant activity, which starts as early as March. The process continues throughout the rest of the year, with each program setting milestones for decisions including number and location of sites, volunteer recruitment targets and strategies, outreach and marketing plans, and fundraising goals.
24. Staffing requirements  
Larger programs have paid staff working year round, with temporary staff hired for the filing season. Most other programs rely heavily on in-kind donations of staff time by sponsoring organizations. Typically, these staff are juggling their regular job and the additional functions of planning and coordinating the organization's VITA program. Often, this arrangement works only because of extraordinary dedication of the staff who are accepting the additional responsibilities.
25. Resource Development & Allocation

Larger programs are typically in urban areas that have a sufficient nexus of foundations and government deep pockets to provide support for program operations. In other urban areas, coalitions of organizations form, with each operating one or more sites. Coordination and sharing of limited funding by multiple partners is a challenge that one program described as a “work in progress.” For many programs, operations are heavily subsidized by in-kind contributions from the sponsoring organization, and from partner organizations who may provide IT expertise, site managers, office supplies, etc.

### **National Community Tax Coalition**

The National Community Tax Coalition (NCTC) exists to help carry out outreach about the Earned Income Tax Credit, develop and improve free tax preparation programs, and link free tax preparation to asset-building programs. In August, 2003, NCTC organized a Quality Assurance Committee, charged with exploring standards and best practices adopted by member programs to assure high quality services. The committee identified 25 categories of standards and best practices. Five programs provided brief information on current or prospective policies on each of categories. Those responses were used in part in completing the previous section on community tax programs.

The Quality Assurance Committee has also determined that standards should be developed for three categories or levels:

- Minimal or basic;
- professional level – equal to the level of service offered by tax professionals in the community; and
- exceptionally high quality – programs that offer services and assistance beyond what is expected of tax professionals.

The Quality Assurance Committee will continue its work after the 2004 filing season ends.

### **U.S. Department of Treasury**

The Treasury Inspector General for Tax Administration was established in 1999 to provide independent oversight of IRS activities. Of numerous audits and reviews conducted over the past four years, only one directly deals with VITA programs. A report issued in August, 2002 noted that SPEC had not maintained effective inventory controls for computers loaned to VITA programs, and moreover did not have clear policies regarding removal of sensitive

taxpayer information from computer hard drives after the end of the filing season.<sup>1</sup> SPEC has since undertaken corrective actions in response to this report.

Treasury also has sponsored a series of compliance studies to assess error rates in the EITC program. EITC returns prepared by an attorney, CPA or enrolled agent, or nationally recognized tax service had a 25.2% error rate in the 1999 compliance study. EITC returns prepared by other paid preparers has a 36.2% error rate. The error rate for self prepared returns was 37.8 percent, although an unknown portion of those returns were prepared by a paid preparer who did not sign the return.<sup>2</sup> Because the number of tax returns completed by VITA programs is less than 1% of all tax returns, random samples of individual tax returns yield such small numbers of VITA returns that reliable estimates cannot be projected for all VITA returns.

## **Internal Revenue Service**

### *Stakeholder, Partnership, Education and Communication (SPEC)*

The mission of SPEC is to assist taxpayers in satisfying their tax responsibilities by building and maintaining partnerships with key stakeholders to inform, educate, and communicate with their shared customers. One major SPEC function is providing support to Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Prior to the 2000 filing season, some IRS staff were directly involved in recruiting and training volunteers, and in setting up and running local VITA sites. Over the past three years, SPEC has restructured its role to shift more responsibility for direct operations of VITA programs to community partners. SPEC continues to provide training materials, training of trainers, software and computers. SPEC also maintains a toll free hotline for VITA volunteers to obtain technical assistance throughout the filing season. During the 2003 filing season, VITA programs prepared about 850,000 tax returns (including 400,000 on military bases), and TCE prepared 750,000 returns. In connection with this research project, SPEC staff graciously made available extensive amounts of materials concerning the VITA program, including sections of the Internal Revenue Manual, which sets out policies for IRS employees, training materials, VITA Coordinator guides, and Publications related to electronic filing of tax returns. Appendix A contains a summary of references to IRS materials governing VITA that are relevant to concerns about quality services.

### *Office of Privacy Advocate*

The IRS Privacy Advocate promotes privacy programs and awareness throughout the IRS. This office participates in training of trainers for VITA programs, and stresses the following privacy principles:

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<sup>1</sup> Treasury Inspector General for Tax Administration (TIGTA), "Computers used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For,;" No. 2002-40-144 (August, 2002).

<sup>2</sup> Janet Holtzblatt and Janet McCubbin, "Complicated Lives: tax Administrative Issues affecting Low-Income Filers," (January, 2003), at p. 20-21.

- Request only necessary and relevant information in order to prepare returns.
- When there is a need to verify taxpayer information, request only information required to file the return.
- Ask for alternative ways to verify information.

### *Office of Taxpayer Advocate*

The Office of Taxpayer Advocate Service (TAS) is charged with assisting taxpayers in resolving problems with the IRS, identifying areas in which taxpayers have problems, proposing changes in administrative practices or legislative changes that may mitigate taxpayer problems. Nina Olson, the National Taxpayer Advocate, has a strong interest in VITA, and her office will likely administer grant funds for this program if Congress enacts pending legislation. TAS recently assumed administrative responsibility for the Low Income Taxpayer Clinic (LITC) program. Although LITC primarily involves representation of low income taxpayers in controversies with the IRS, there is some overlap between VITA and portions of the ESL component of LITC programs, and so various standards developed for that program are worth considering for VITA as well. Appendix B provides a summary of relevant standards for LITC programs drawn from IRS Publication 3310 (April, 2003).

### *Office of Professional Responsibility*

The Office of Professional Responsibility (OPR) oversees enrolled agents and others who are licensed to practice in the tax courts and in administrative proceedings affecting individual taxpayers. There are about 40,000 enrolled agents, and OPR has 40 full time staff to oversee licensing and compliance activities. Although tax preparation services are not covered in Circular 230, the formal IRS policy governing practice before the IRS and the Tax Courts, this office has been involved in reviewing professional conduct of enrolled agents who prepare tax returns. Commissioner Everson has promoted renewed focus on enforcement activities within the IRS, and OPR has undergone significant restructuring and expansion. Brien Downing, the Director of OPR during most of 2003, indicated that OPR would be involved in any effort to regulate preparers, should such a policy decision be made. On December 29, 2003 the IRS announced the appointment of Cono Namaroto as Director of OPR. The IRS press release described this action as part of an agency wide emphasis on professional accountability in the tax practitioner community (IR-2003-148, December 29, 2003),

## **Tax Practitioner Community**

### *NATP & NAEA*

Several national organizations provide professional and technical support to tax practitioners – individuals who prepare tax returns and/or provide tax advice for a fee. Two organizations, the National Association of Tax Professionals (NATP), and the National Association of Enrolled Agents (NAEA) have substantial numbers of members who are active

tax practitioners. NAEA has 10,000 members nationally, and provides extensive training and technical assistance services for its members. The NATP has 16,300 members in 35 local chapters, provides over 200 workshops around the country each year, and responds to over 40,000 inquiries annually to its technical assistance and research unit. NATP and NAEA have codes of ethics for their members, which are summarized in Appendix B. The NATP standards of practice for its members are also summarized in Appendix B. Although professional tax practitioners perform some commercial services that are not relevant to VITA programs, many of the services do substantially overlap, and the respective codes of ethics and standards of practice are relevant in considering needs for development of similar standards for VITA programs.

#### *AICAP & NSA*

Two other organizations, the American Institute of CPA's (AICPA), and the National Society of Accountants (NSA), have substantial numbers of members who are tax practitioners; however, the primary focus of AICPA and NSA are on audit and accounting functions of their membership. AICAP and NSA have developed codes of ethics and standards of practice, but they have little relevance to tax preparation service. However, organizations sponsor peer review programs that use experienced practitioners to review the work product, and in some cases internal operating procedures, of CPA firms. The peer review process results in a written report assessing the firm's compliance with professional standards.

#### *H&R Block, Inc.*

H&R Block, Inc. is an international company that provides tax services, financial advice and accounting services. During the 2003 filing season, H&R Block served more than 23 million taxpayers at approximately 9,300 offices, with over 100,000 employees and franchisees. The company prepares one of seven individual tax returns in the United States, and ¼ of the EITC returns. The following is a brief survey of quality assurance policies and procedures adopted by this company. This section is drawn from a briefing, and supporting materials, provided to the author at H&R Block corporate headquarters in Kansas City, MO on November 17, 2003.

#### Mission Statement and Code of Ethics

The company provides an extensive mission statement and description of core values to its employees. The company's mission is to "help our clients achieve their financial objective by serving as their tax and financial partner." Its ethics code includes a statement of commitments to five key stakeholders: the customer; suppliers; colleagues and co-workers; shareholders; and the community at large. The code includes a statement of values with themes of client focus, excellence, integrity, respect and teamwork.

Certain standards in the code of ethics track those that the IRS applies to its own employees. For example, H&R Block employees must avoid even the appearance of

impropriety in their personal tax affairs. All company representatives must therefore file all tax returns or reports required by law with respect to personal financial affairs. The personal returns must be completely and accurately prepared, and filed in a timely manner.

Employees are obligated to protect privacy of customer information, and the company code references additional legislative obligations for the company and its employees. The Gramm-Leach-Bliley Act prohibits disclosure of non-public personal information about customers to non-affiliated third parties without giving to such customers prior notice of the disclosure and a prior opportunity to opt out of such disclosure. Section 7216 of the Internal Revenue Code prohibits the disclosure or use of information furnished in connection with the preparation or electronic filing of tax returns except as permitted by regulations.

The H&R Block code also bars conflicts of interest in connection with outside activities of associates, relations with customers, competitors and suppliers, relations with co-workers, supervisors and subordinates, and in connection with solicitation of other business. Company policy expressly approves volunteer participation in VITA programs, as long as the program does not charge for services, and the employee does not participate in outreach activities for the VITA program. Violations may result in the following sanctions: a warning; a reprimand; suspension with or without pay; demotion; termination; restitution or reimbursement of losses of damages; institution of civil legal proceedings; referral for criminal prosecution. Failure to report a violation of the code of business ethics by another employee is a violation.

H&R Block promotes compliance by requiring all associates to sign an acknowledgment, upon hiring and annually thereafter, that they have read the code and are in compliance. Any exceptions must be noted on the acknowledgment form and are reviewed. Ethics Directors are designated staff in Human Resource and Legal departments, who may be contacted by H&R Block employees via phone, email or in person. Ethics directors can receive reports of suspected code violations, and they are available to consult on questions regarding interpretation of the code, or its applicability to certain specific circumstances. The overall compliance process is overseen by the H&R Block compliance officer.

### Knowledge Development Department

The Knowledge Development Department has 45 employees charged with providing training and support to headquarter's staff and field associates to assist them in developing the knowledge, skills and confidence to serve clients. To be hired as an associate, an individual must possess certain tax or financial expertise. Enrolled Agents, CPA, and persons with graduate degrees in tax or finance meet these requirements. Others must complete a basic 66 hour course, and demonstrate minimal competence.

Each year, about 120,000 persons take the basic H&R Block tax course, with 66 class hours of instruction. About 20-30,000 of those who pass are accepted as new associates each year. H&R Block also makes a limited number of scholarships for its basic training course

available to VITA programs, to allow volunteers or staff of those programs to take the course without charge. Returning associates from a prior tax filing season must either take a 24 hour refresher course, or document current expertise by taking an exam. H&R Block offers its employees additional training at the beginning of the tax filing season, largely in the form of case studies for TPS (Tax Preparation Software), the company's proprietary tax preparation software program. Mid-season training is provided to all associates during March, and additional updates are provided via newsletters and pop up notices that are triggered when an associate logs on to TPS.

H&R Block has established a certification program that encourages increasing levels of tax competence. By taking six hours in addition to the mandatory 24 hours of continuing education classes each year, associates can rise through the ranks of Tax Specialist, Tax Advisor, and Senior Tax Advisor, and finally Master Tax Advisor.

The company also supports a Tax Research Department that offers direct back up assistance to all tax professionals and financial advisors. The research staff are available by phone, fax and email. In addition to a broad range of research papers, the department produces timely updates via eNews, sent to tax professionals' desks on a daily basis. A weekly newsletter provides more detailed analysis of tax issues.

Direct support of company tax professionals is provided via a supervisor in every office. Company policy limits the number of preparers in any one office, which assures that each preparer has access to a supervisor. In addition, the company conducts background checks for all employees.

#### Tax Preparation Software (TPS)

TPS is the proprietary software used throughout the HR Block system. According to staff reports from H&R Block Headquarters, the software contains extensive system logic that suggests opportunities for tax savings and benefits. TPS also provides a severe diagnostic assessment and review procedure designed to minimize errors, and the system has limited capacity to override flagged errors. TPS is being expanded to provide a report, along with the tax return, listing public benefit programs that a customer may be eligible to receive (see Block Advantage, below).

#### Monitoring of Preparer Performance

H&R Block associates are deemed tax professionals who have responsibility for each return they prepare. Accordingly, there is no systematic review of returns by a supervisor. However, each local Block office has a supervisor who is available to provide assistance, and who is charged with randomly monitoring and screening work of associates. Routine audits of returns for errors are not done, even on a random basis. Customers who receive correspondence from the IRS or with other concerns can call the local office, and also call a

central 800 number to receive assistance. H&R Block provides a “standard guarantee” on each return which promises to correct errors made by the preparer without additional charge. An additional product, “Peace of Mind” is available for \$27; this provides a guarantee that H&R Block will correct any error, and pay taxes, penalties and interest up to \$5,000. Headquarters staff report that the processing of claims under the “Peace of Mind” guarantee has provided some insight into sources of problems in quality.

### Block Advantage

Because such a large number of H&R Block customers are low or moderate income, (half of H&R Block customers have adjusted gross income (AGI) under \$30,000 annually) the company has established the “Block Advantage” which is aimed at helping low and moderate income customers access government benefit programs for which they may qualify. In addition to traditional tax preparation services which seeks to help customers receive all tax benefits which they are entitled to receive, including the Earned Income Tax Credit and the Child Tax Credit, this initiative also flags government benefit programs including children’s health insurance, food stamps, nutrition aid for women, children and infants (WIC), school breakfast and lunches, low-income energy assistance, and pre-school HeadStart. The benefits alert is tailored to the circumstances of each customer, and is delivered as a customized print-out with the tax return. The company makes no additional charge for this advice.

### **State Regulatory Agencies**

California and Oregon are the only states that regulate income tax preparers.

#### *California Tax Education Council (CTEC)*

In California, a non-profit organization, the California Tax Education Council (CTEC), administers the registration of paid preparers, and maintains a list of approved training entities. In California all paid preparers must meet minimum training requirements, must register with CTEC, and must maintain a bond worth \$5,000. In practical terms, the bond is an insurance policy that can hold harmless any taxpayer who suffers from negligent tax preparation service. Preparers must complete 60 hours of education, and complete at least 20 hours of continuing education thereafter on an annual basis. CPA’s, attorneys, and enrolled agents are exempt from the registration requirement. Volunteer tax preparers are not considered paid preparers, and also are not subject to registration requirements. The California Business and Professions Code provides that a person who prepares a return for a fee without registration may be fined up to \$1,000 for each return. As of June 30, 2002, there were 29,943 registered tax preparers in California.

The Oregon State Board of Tax Practitioners regulates all persons in Oregon who prepare, advise or assist in the preparation of personal income tax returns for a fee. Paid tax

preparers must take 80 hours of training in tax courses offered by approved institutions, and they must pass an exam administered by the licensing agency. Last year only 52% of 609 persons who took the tax preparer exam passed. Oregon charges \$60 for the initial exam, and \$40 for a one year license. Thereafter license renewal is \$65 per year. Renewal of the license also requires documentation of 30 hours of continuing education from an approved provider.

Oregon issues two types of licenses. The Licensed Tax Preparer is an apprenticeship license that enables a person to lawfully prepare personal income tax returns in Oregon under the supervision of a Tax Consultant. The Licensed Tax Consultant is a higher competency license obtained through testing and experience. A Tax Consultant may prepare tax returns as a self-employed, independent or supervising tax practitioner. Licensing operations are funded entirely from fees derived from the licensees and other miscellaneous services. CPA's and attorneys are exempt from tax practitioner licensing requirements in Oregon.

## **EMERGING ISSUES AND THEMES**

This section of the report offers analysis of emerging themes and issues that should be addressed in future discussions on quality assurance standards for VITA programs.

### **Organizational Capacity and Commitment**

A myriad of organizational arrangements exist among multi-site VITA programs. Some large programs are operated by a single organization, which locates and recruits community groups that host a site that is operated by the sponsoring organization. Other programs consist of a coalition of multiple agencies, each operating from one to a dozen sites. Whatever the organizational arrangement, start up and continued operations require certain levels of organizational commitment to ensure a successful program. Among these are the following:

- Board of directors – formally endorses creation and continuation of program; receives regular reports from management;
- Agency management has clear responsibility for overall management of the program;
- Sponsoring agency should develop a written plan with projected goals, staffing/volunteer needs, marketing and outreach targets, and monitoring and evaluation procedures;
- Staff or volunteers have clear assignments and responsibilities for program operations, which should be reflected in job descriptions, even for volunteers;
- Program should have effective process for monitoring activities, documenting accomplishments, and ensuring compliance with program procedures;

- Where a program is operated through a collaboration of multiple agencies, there should be an interagency agreement listing the respective roles and responsibilities; and
- Where a program sponsor uses space at another community organization to operate a VITA site, there should be a written agreement setting out terms of use, including security for program files and equipment left on the site and liability insurance coverage.

Research for this report focused on multi-site programs in urban areas. There are likely to be many operational issues affecting quality services in rural and small town areas that have not been identified in this report. In addition, free standing single site programs without paid staff have unique issues wherever they exist. Development of standards of practice should take into account these types of programs, which make up the majority of existing VITA programs.

### **Code of Ethics and Standards of Practice**

Two national organizations, the National Association of Tax Professionals and the National Association of Enrolled Agents have published codes of ethics and standards of practice for their members. H&R Block also has an extensive statement of ethics that all employees must review and sign. The VITA community should have formal ethical standards as well.

### **Privacy and confidentiality**

Discussions of this topic with program managers inevitably led to concerns about the need to strengthen training on this topic for volunteers and site managers. Training time is a very limited commodity, but it is important to look for ways to reinforce the message about obligations to respect and protect confidential information. Programs may also consider asking volunteers and staff to sign a statement of ethics that could include the following items:

- all clients to be treated with respect and courtesy
- maintain privacy and confidentiality of taxpayer information
- no fees can be accepted for services
- referral to other tax preparation services must be made in accordance with program procedures
- decline to take on tax preparation tasks that exceed experience or training

This is not intended as an exhaustive list, but rather an example of the range of standards that volunteers and staff should be committed to upholding.

## **Screening volunteers**

Although quite rare, some instances of criminal conduct by VITA volunteers have occurred.<sup>3</sup> In a time of increasing concerns about identity theft, many program managers questioned what reasonable steps could be taken to better screen volunteers. This issue calls for carefully weighing costs and benefits of alternatives. For example, criminal background checks are one option, but the costs, ranging from \$35-75 each would be prohibitive for financially strapped VITA programs. Moreover, the results would often not arrive until after the filing season had ended. An alternative option may be to collect additional information from prospective volunteers, such as employment history and residence.

## **Liability Issues**

The IRS has excluded staff and volunteers of VITA programs from the definition of “income tax preparer” a category of individuals subject to various civil penalties for negligent or willful failures in the preparation of tax returns. In addition, federal and state Good Samaritan statutes provide further protection for good faith efforts by volunteers that end up causing harm. Despite these protections, liability risks do exist for programs from willful misconduct or gross negligence by volunteers. The IRS has taken the position that it will not generally indemnify local VITA programs, nor will it provide for insurance costs. Insurance coverage is available to protect sponsors from virtually all liability risks, but the availability and cost of that insurance is not well known. This topic should be addressed in future research.

## **Collecting Information**

Programs generally use an intake sheet that is typically filled in by the taxpayer upon arrival at the VITA site. The information is used by the preparer to begin preparation of the return. Additional information is collected by interviewing the taxpayer. Two areas in this data collection process were identified in the research project as deserving attention in future discussions about setting quality standards.

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<sup>3</sup> For example, research uncovered two private letter rulings issued by the IRS after taxpayers went to two different VITA programs (one on a military base) where they had their returns electronically filed with direct deposit. After the taxpayer left the VITA site, the bank account number was changed, and the refund went to a third party’s account. Ltr.Rul. 200038005 6/6/2000 and 200236025 6/3/2002.

Intake forms of some programs have been developed in a way that may limit the collection of essential information. For example, one program's intake sheet asked taxpayers to list "dependents." This approach asks the taxpayer to make a judgment about who among the household members of the prior year are relevant for the tax return. A better tactic would be to ask the taxpayer to list all members of the household during the prior year. Intake forms can also contribute indirectly possible errors in data entry. One program discovered that its intake form, while laid out intuitively to collect information, did not correspond to the sequence of data entry screens in Tax Wise. Therefore, the preparer was required to hunt for information in different parts of the intake form, increasing the risk of making a data entry error. The program has amended its intake form so that the data fields correspond to the sequence of data fields in TaxWise.

Interviewing techniques are also critical in the collection of information relevant to a tax return. Training of volunteers does not universally address effective interviewing, such as asking open ended questions, or asking follow up questions (i.e., have you listed every individual who was in your household at any time last year?), and looking for inconsistencies (e.g. a person listed on a return for the prior year who does not appear on the current intake sheet). IRS training currently addresses interviewing techniques, but focuses on tactics to make a person feel comfortable, rather than on techniques for extracting relevant information. (See Pub. 678 at pp. 7-8)

## **SPEC**

SPEC has begun to address privacy concerns and issues, especially related to maintenance of records after the filing season. A draft proposed policy has been informally circulated to the NCTC community, with generally favorable response. However, because the draft policy has not yet been released as a formal document, no further comments are offered in this report.

SPEC provided several sections of the Internal Revenue Manual (IRM) which set out IRS policies and procedures concerning VITA programs. The IRM is an internal guide for IRS staff that is not generally available to the public, or to VITA program staff. Although the IRM is posted on the IRS web site (<http://www.irs.gov/irm/index.html>) its existence and availability are not well know among managers of community tax programs. In view of SPEC's role supporting local VITA programs, all IRS policies governing VITA should be readily available to all current and prospective VITA sponsors.

In a few areas, the IRM that was in effect during the 2003 filing season stated policy that was inconsistent with then current policy and practice of the IRS. For example, IRM Section 22.30.1.6.12.1 provided for use of a form 6522 that collects information on number of volunteers and number of taxpayers assisted, yet Pub. 1084, at pp. 26-7, and Document 11750 at p. 49 note that effective 10-1-02 volunteers no longer fill out Form 6522. These inconsistencies between Revenue Manual and IRS publications were corrected with IRM amendments published on 10/1/03.

A “Report of Verification of IMF (Individual Master File) Returns for VITA” provides data on the number of returns and type of return preparer by respective VITA programs. The report also produces a breakdown of mathematical and procedural errors on the returns. IRM Section 22.30.1.4.15. This report was requested as part of the research project, but it was not available. When available, the data should be offered to respective VITA programs as a way to monitor efficiency and effectiveness.

SPEC should explore authorizing an extension of a policy that allows tax practitioners to issue PIN numbers for taxpayers filing electronic returns. The PIN number supplants the paper Form 8453, which obtains a signature of the taxpayer confirming information provided on the electronic return. Presently the practitioner issued PIN procedure is not available to VITA programs. The practitioner issued PIN would help VITA programs minimize paper work and postage costs by avoiding reliance on the Form 8453, which requires an original signed copy be sent to the IRS, and a second original signed copy by retained by the preparer for one year.

## **Appendix A**

### **National Community Tax Coalition Quality Assurance Work Group Draft Areas of Quality Assurance**

Note: Material in Appendix A consists of references in IRS publications and other sources of policy that are relevant to VITA operations. The outline corresponds to 25 areas of quality assurance developed by the National Community Tax Coalition. IRM refers to Internal Revenue Manual.

#### **Information Security and Data Collection**

1. Retaining files & client information
  - a) IRM 22.30.1.6.8 provides that all volunteer prepared returns should be marked VITA or TCE and list the site code
  - b) IRM 22.30.1.6.7(5)(o) provides that volunteers may not keep copies of returns and names of taxpayers served at their site, unless the site offers electronic filing.
  - c) Document 11750, Volunteer Site Manager's Guide, provides that volunteers may "never keep paper copies of anyone's tax return."
2. Privacy & client information/identity Security
  - a) Pub 1184, Volunteer Coordinator Guide, p. 28 provides that volunteers must be instructed on the confidential nature of all information provided by taxpayers; also encourages efforts to prevent other taxpayers from overhearing information being given to a volunteer.
  - b) Document 11750 at p. 3 provides that volunteers must respect the confidentiality of the information on all returns.
  - c) Pub 678 at p. 6 provides that volunteers may not disclose any personal tax information.
3. Data collection, compilation and analysis
  - a) IRM 22.30.14.15 provides that volunteers are monitored by
    - i) use of Form 13206, Volunteer Summary Assistance Report.
    - ii) an IRS report of verification of IMF returns (this report is drawn from the IRS master data base, and lists all VITA returns, and also shows errors in processing) See also IRM 22.30.1.2.15.7.

### Site Operations

4. Operations troubleshooting
  - a) IRM 22.30.1.6.7 provides that all sites should have a site coordinator who should be present whenever site is open. Responsibilities include maintaining roster and schedule of volunteers; ensuring site opens as scheduled and is adequately staffed; set up on-site quality review system, oversee all site activities.
  - b) IRM 22.30.1.6.10 encourages volunteers to use Document 6656 EITC Job Aid and Table; preferential toll-free number for volunteers; calculator; Publication 1977 Quick Reference Guide.
  - c) Pub 1084, coordinator handbook, p 22 provides a 16 point checklist
5. Review of returns pre-filing and post-filing
  - a) RM Sec 22.3.1.6.10: recommends that experienced volunteer review all returns; in the alternative, volunteers review each other's returns;
  - b) an optional Territory Quality Review is available, IRM 22.30.1.15.
  - c) Publication 1977, Volunteer Quick Reference Guide has a quality review checklist on the back cover.
  - d) Publication 1084 at p. 29 provides that program must have a quality review system; sample checklist.
  - e) Publication 1345 requires a manual or electronic quality review system is required to review each e-filed return.
6. Electronic tax preparation
  - a) strongly encouraged in VITA programs, Pub 1084 at 31 and IRM Sec. 22.30.1.8
  - b) IRM 22.30.1.6.7 (5)(r) requires timely transmission of e-filed returns, and timely correction of rejects.
  - c) Publication 1345, p. 53 requires that only returns and accompanying forms and schedules that are included in VITA or TCE training may be accepted for e-filing by a VITA or TCE sponsor.
  - d) Territories are encouraged to recruit local approved e-filers who would be willing to transmit VITA returns either without charge or at a reduced rate. IRM 22.30.1.6.4(8).

7. Preparation errors & Reject errors (tracking?)

- a) IRM Sec 22.3.1.6.10: QA system essential; recommends that experienced volunteer review all returns; in the alternative, volunteers review each other's returns
- b) IRM 22.30.1.6(4) requires that assistance be limited to scope of training or professional experience of volunteer.

8. Refund speed

9. Speed of service

**Staff Competency**

10. Volunteer/Tax Preparer Training

- a) IRM 22.30.1.6.5.2(2) provides that volunteers attend a basic course which consists of 3-5 days, or 24-40 hours of training.
- b) IRM 22.30.1.6.5.4 allows training as a self-instruction course.
- c) IRM 22.30.1.6.5.5 requires all volunteer assistors to pass a test (Form 6744).
- d) IRM 22.30.1.6.5.6 provides an exception to the test requirement for tax professionals.
- e) IRM 22.30.1.6.5.3 provides that accommodation in training must be provided for hearing/visually impaired volunteers and instructors

11. Site Coordinator training

- a) IRM 22.30.1.3 staff development for SPEC

12. Recruitment of skilled staffing

- a) IRM Sec. 22.30.1.6.4 encourages recruitment of volunteers from professional organizations, such as AICPA, NAEA, etc.
- b) Document 11750, Site Manager's Guide, at pp. 10-26 provides job descriptions for 9 positions, including from screener, assistor, interpreter, and e-filing transmission specialist.
- c) Document 11750, Site Manager's Guide at p.9 has a checklist for interviewing prospective volunteers.

13. Retention of experienced volunteers & staff

- a) Doc. 11750 Site manager's Guide offers a list of recognition activities
- b) Pub 11084 at p 24 offers 23 volunteer management tips

**Problem resolution**

14. Year round client/taxpayer assistance  
All documents assume operations only during filing season
15. Client representation in IRS controversies  
No references found

### **Customer service**

16. Serving hard to serve constituencies
- a) IRM 22.30.1.6, Objectives of VITA, targets low to limited income taxpayers, persons with disabilities, non-English speaking, elderly, and other taxpayers with special needs.
  - b)
17. Tax Service availability and convenience
- a) IRM 22.30.1.6.7 and Pub 1084 at p 15 urge that VITA sites offer adequate parking, accessibility by public transportation, and privacy for return preparation
  - b)
18. Respect, courtesy and professionalism toward clients
- a) Pub. 1084, Volunteer Coordinator's Handbook, lists at p. 22, among other administrative duties: "observing that volunteers greet taxpayers courteously and provide efficient service."

### **Complimentary/Ancillary Services**

19. Asset Development: Bank Accounts, I.D.A.s etc.
- a) Document 11750, Volunteer Site Manager's Guide at pp. 7-8, lists asset building, IDA's and savings/checking account programs as potential links to free tax preparation programs.
20. Education: Financial Ed., First time home buyer, etc.
- a) Document 11750, Volunteer Site Manager's Guide at pp. 7-8, lists financial literacy and homeownership programs as potential links to free tax preparation programs.
21. Income Supports: Food Stamps, Heating Assistance, etc.
- Pub 678, at p. 9, information about the Child Health Insurance Program may be available, but volunteers are not expected to answer questions, just provide flyers or phone numbers for more information
22. Community Empowerment: Voter Registration, Recruitment for Community Organizations, etc. No references found

### **Sustainability**

23. Annual planning & achievement projections
- a) Document 11750, Volunteer Site Manager's Guide at pp 4-5 sets out a timeline of activities from October through May

24. Staffing requirements

- a) Document 11750, Volunteer Site Manager's Guide at pp 10-27 sets out job descriptions for 9 positions, ranging from screener to tax assistor to electronic filing transmission specialist

25. Resource Development & Allocation

- a) Document 11750, Volunteer Site Manager's Guide at pp 6-8 encourages development of partnerships with other agencies in the community

## **Appendix B**

### Low Income Taxpayer Clinics - Standards of Practice

Source: IRS Publication 3319 (April, 2003)

- I. Civil Rights (Title VI, Title IX, Sec. 504
  - A. grantees must report certain data including pending law suits, complaints and compliance reviews;
  - B. additional data may be requested for assessing compliance, to the extent reasonably available on racial, ethnic and gender profiles of
    - i) population served
    - ii) employees
    - iii) advisory committees
  
- II. Grantee must develop a written program plan that includes
  - A. types of services offered
  - B. program goals
  - C. steps to insure compliance with grant conditions
  - D. fundraising plan for matching funds
  - E. geographic area served
  - F. dates and hours of operation
  - G. internal procedures for monitoring and evaluation of clinic activities
  - H. description of actions to ensure staff and volunteers provide quality services
  - I. description of referral procedures
  
- III. Confidentiality
  - A. Program must assure that access to taxpayer information is restricted to only those who are working on the case;
  - B. Records must be maintained in a secure location
  - C. Redact taxpayer information used in training or outreach
  
- IV. Ethics
  - A. Program must make referral only to pro bono programs or bar referral programs
  - B. No one associated with a clinic may undertake representation of a former client on a fee basis.

## Appendix C

### Practitioner Community – Standards

#### I. Codes of Ethics

- A. National Association of Tax Professionals (NATP) members must
  - 1) keep informed of State and Federal laws that apply to field of practice
  - 2) apply these laws to best of members ability for the protection of clients
  - 3) recognize individual needs of each and every client
  - 4) observe client's right to privacy and confidentiality
  - 5) adhere to Standards of Professional Conduct
  
- B. National Society of Accountants (NSA) members
  - 1) must respect confidential relationship with clients and former clients
  - 2) may not accept contingent fees
  - 3) may not undertake professional work in which they have a conflict of interest
  - 4) shall be diligent, thorough and completely candid in their professional work
  - 5) may not receive a commission for recommendations or referrals
  - 6) may not engage in false or misleading advertising
  - 7) may not use a misleading firm name

#### II. Standards of Professional Conduct

- A. NATP
  - 1) member must be mindful of the nature of representation needed, and recommend referral to an attorney or other person licensed to practice before Tax Court when appropriate;
  - 2) a member should have a clear understanding with each client whether responsibility ends with preparation of return, or continues after return is filed;
  - 3) where law is unsettled or unclear, member obligated to explain various alternatives to taxpayer, who must make final decision;
  - 4) member must not permit client to take a position which has no reasonable basis in law or fact; if client insists on such a position, member should withdraw;

- 5) if client will not provide sufficient information to calculate tax due, member should withdraw;
- 6) member should resolve all doubts in favor of client, providing there is a reasonable basis in law and fact for the position;
- 7) member should avoid the appearance of an unduly close business relationship with representatives of the IRS;
- 8) member has no obligation to communicate with the IRS with respect to a person the member suspects has been grossly negligent or who may have committed fraud against the government;
- 9) members must refrain from disclosing confidential information except when authorized or legally obligated to do so. Member has responsibility to inform subordinates regarding confidentiality of information, and to monitor their activities to ensure maintenance of confidentiality;
- 10) members may not engage in false or misleading advertising;
- 11) member must comply with tax laws and regulations. If a member is convicted of an offense under the revenue laws of the United States, membership is terminated.

## **Appendix D Persons Interviewed**

The following persons were contacted, either in person or by phone, and provided information in connection with this research project:

### Community Tax Programs

Boston – Codman Health Center  
Doreen Treacy

Chicago – Center for Economic Progress (includes staff of Tax Counseling Project and National Community Tax Coalition):

J.C. Craig  
Barbara DelBene  
Julie Kruse  
David Marzahl  
Ellen Mitchell

Detroit – Tax Assistance Program  
Marshall Hunt

Philadelphia – Campaign for Working Families  
Jean Hunt  
Khadijah Jones  
Yvonne McCoy  
Steve Rockwell  
Amy Anderson

San Antonio – Department of Community Initiatives  
John Scarfo

Washington, D.C. AARP – Tax Aide  
Fran Brenneman  
Bonnie Speedy

U.S. Department of the Treasury  
Pam Olson  
Janet McCubbin

Internal Revenue Service

SPEC – Mark Pursley, Don Dill and Ron Smith

Taxpayer Advocate – Nina Olson

Privacy Advocate – Maya Bernstein

Office of Professional Responsibility – Brien Downing

Practitioner Community

NATP – Kathy Stanek

NAEA – Susan Zuber

H&R Block, Inc. –

Robert Weinberger

Martha Gershun

Kathy Burlison

Karen Yeager

Joe Parker

Maggie Doedtman