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Strengthening VITA to Boost Financial Security at Tax Time & Beyond

At the beginning of every year, the vast majority of American households turn their attention to the ritual of filing their federal and state income tax returns. Some see it as a civic duty, others as a burdensome chore. But for tens of millions of low- and moderate-income families and individuals, tax time represents a springboard to economic opportunity and financial security.

A large body of research and the experience of tax preparers has shown that tax time is one of the most critical moments in the financial lives of low- and moderate-income households.¹ Thanks to refundable tax credits, such as the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), 84% of households earning \$50,000 or less receive a tax refund every year.² For these American workers, their tax refund check can account for 30% or more of their entire annual income.³ When they receive this refund, households are able to pay down debt, pay their bills, make important purchases and save.

However, for many Americans, filing their taxes is an expensive struggle. The complexity of the tax code has led many to seek professional tax preparation assistance. The share of Americans who file their tax returns with a paid tax professional has increased from 46% in 1985 to roughly 60% today.⁴

Key Points

1. Every year, the VITA program helps millions of low- and moderate-income Americans file their taxes for free.
2. The VITA program is driven by thousands of community organizations nationwide, which leverage a modest federal grant matched with significant local investment.
3. VITA tax preparation has the highest accuracy rate of any tax preparation service, and VITA has increased the number of returns filed every year since the program was authorized.
4. There is an overwhelming demand for VITA services, but VITA sites need more flexibility to innovate and respond to local community needs.
5. Congress, the Administration and states should expand VITA and make key reforms to spur local innovation.

For low- and moderate-income taxpayers, the process of identifying and using a paid preparer can be harrowing. Taxpayers often struggle to find quality preparers and avoid outright fraud. With tax preparer regulations absent in 46 out of 50 states, unscrupulous tax preparers often prey on taxpayers' hope for a large—and quick—refund.

Those that find capable tax preparation assistance regularly pay a high price for the service. A 2014 study conducted by the National Society of Accountants (NSA) found that the average cost of professional tax preparation services was \$261 and the cost to file a simple 1040 form was \$152. These fees are especially burdensome for low- and moderate-income households.⁵

Fortunately for these taxpayers, there's an alternative to paid tax preparation. The Volunteer Income Tax Assistance (VITA) program is a safe, effective and free tax preparation service for low- and moderate-income Americans. Created by the Internal Revenue Service (IRS) in 1969, VITA has become an invaluable resource in communities across the country. Using modest public investment to support a system of highly trained community volunteers, the VITA program enables millions of low- and moderate-income taxpayers to file their taxes accurately and for free.

The VITA program has also evolved over the years to become much more than a resource for tax preparation. Many local programs have become hubs for a variety of social services and financial capability programs that help taxpayers build savings, access important government benefits, open bank accounts, receive crucial financial coaching and more.

In 2015, Congress increased funding for VITA—for the first time in six years—by \$3 million. However, in order for the program to meet the growing demand for its services, VITA must be authorized, expanded and modernized. This paper explores how the VITA program has developed over time and how local VITA programs serve their communities. It then highlights the VITA program's present challenges and opportunities for valuable reforms that would enable VITA sites to serve more people.

The combination of tax code complexity and expensive, unregulated paid tax preparation services has a negative impact on both Americans' financial security and the integrity of the tax system.

How VITA Has Developed

VITA has a rich, 50-year history of community-driven service. The tax reform acts of 1964 and 1969, which included dozens of major revisions to the tax code and hundreds of minor and technical changes, gave rise to the development of free tax preparation programs.⁶ As the tax system became more complex, the absence of federal resources to aid tax filers of limited means led to the creation of volunteer tax programs to serve this community.⁷ The VITA program consolidated these programs and has grown into an essential service in hundreds of communities across the country.⁸

VITA is a federally-sponsored, community-based program that serves lower-income Americans at tax time. All told, there are 5,100 VITA sites nationwide that recruit and train thousands of local volunteers to provide free tax preparation services to millions of Americans with low- and moderate-incomes, as well as the elderly and persons with disabilities or limited English proficiency. Eligibility for VITA services is limited to taxpayers with a combined annual household income of \$54,000 or less.⁹

The program is administered by the IRS through its Stakeholder, Partnerships, Education and Communication (SPEC) division, a component of the Wages and Investment Division. Every year SPEC engages in a competitive granting process that distributes the \$12 million (\$15 million as of 2016) in funding to over 200 nonprofits and local governments that run local VITA programs.¹⁰

VITA programs leverage modest federal funding with significant local investment. There are no minimum or maximum VITA grant awards. Last year, VITA grants ranged from \$4,000 to \$900,000 with an average of \$58,000 and a median of \$40,000.¹¹ For every dollar of federal funding, local grantees must obtain at least a dollar of funding from non-federal sources (e.g. local governments, foundations, and corporations). The IRS is anticipating awarding 100% of the \$15 million in 2017 VITA grants.

The federal grant covers program operations and supplies, including computer hardware, software, space, volunteer training, supplies and advertising.¹² VITA sites are managed by a site manager or coordinator, and sometimes a small number of paid staff that oversee the administration, site training and review of the volunteers that provide free tax preparation services.

VITA volunteers are the lifeblood of VITA programs. Volunteers generally fall into three categories:

- Greeters oversee the taxpayer sign-in process and conduct initial intake screenings.
- Tax preparers interview tax filers and gather information, review all tax documents and identification and prepare the tax returns.
- Site coordinators manage the VITA site and volunteers, providing oversight and support and answering questions while providing quality review of tax returns.

Important Dates in VITA History

1968	First AARP Tax Aide site opens
1969	VITA is created in the Tax Reform Act
1975	Congress enacts the EITC
1980	Community tax programs begin widespread growth
1986	IRS launches e-file, allowing tax sites to electronically submit tax returns
2001	Foundations such as the Annie E. Casey and the MacArthur Foundation begin partnering and investing in VITA programs
2007	Congress creates the VITA Grant, appropriating \$7.4 million in funding

VITA 2014 FUNDING VS. RETURNS GENERATED



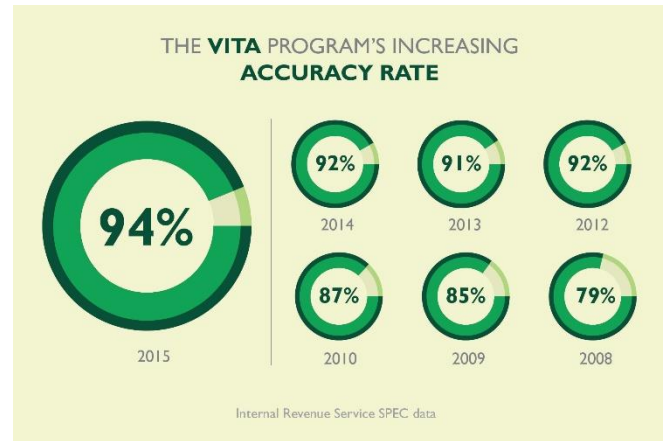
Internal Revenue Service SPEC data



In some cases, additional volunteers are tasked with specific issues such as Affordable Care Act compliance, asset-building programs or financial capability services.

VITA programs must meet strict federal standards to ensure returns are accurately and efficiently prepared.

Unlike paid tax preparers, local VITA programs are held to a national standard for tax preparer training, site administration and quality of tax preparation. Local VITA programs train and prepare volunteers, who must become certified according to strict IRS standards. To prevent identity theft issues, valid federal or state identification is required of all filers. A social security card or Individual Taxpayer Identification Number letter is required for all persons listed on a tax return.



VITA sites now provide some of the highest quality tax preparation available. Every year, VITA sites prepare millions of returns with a high level of accuracy. In fact, this level of 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.¹³

The Impact of VITA

Economic and non-economic benefits for households. VITA's biggest impact is on the families and individuals that the program directly serves every year. In 2015, the program helped more than 2 million low- and moderate-income Americans file their tax returns. VITA sites allow these tax filers to maximize refundable tax credits, such as the EITC, one of the most effective federal anti-poverty programs. The Center on Budget and Policy Priorities found that in 2013 the average EITC claim was \$3,074 for a family with children and the credit lifted approximately 6.2 million people out of poverty, including 3.2 million children.¹⁴

VITA is also more than just a tax preparation service. While it began as a basic program to help with tax preparation, VITA has grown to be much more over the years. Today, many VITA programs now provide a menu of financial capability services and help connect taxpayers to the financial mainstream. VITA services have grown to include credit counseling, small business tax returns, housing counseling, customized financial planning, youth financial programs and public benefit screenings, as well as opening bank accounts and prepaid debit cards, reviewing credit reports and more.

How Local VITA Programs Work

VITA sites operate year-round. Tax season is the busiest time for most local VITA programs and requires significant preparation work both before and after. For this reason, the annual schedule of a typical local VITA program can be split into three phases: pre-tax season, tax season and post-tax season.

PRE-TAX SEASON (OCTOBER TO JANUARY)

Successfully managing the demands of tax season requires advance preparation for both sites and volunteers. Before tax season commences, local program administrators must secure tax preparation sites, train volunteers and coordinate with local partners on the deployment of additional services.

The volunteer training and certification process is rigorous. Recruitment begins in October and is followed by substantial training in federal and state tax law, tax preparation software, interview skills and local forms and procedures. At a minimum, volunteer preparers must pass three IRS tests: Volunteer Standards of Conduct, Intake/Interview & Quality Review and Basic Tax Preparation. These tests are revised annually and all volunteers must certify each year by passing all relevant tests. Returning volunteers must re-certify every year.

TAX SEASON (JANUARY TO APRIL)

During tax season, VITA sites focus on preparing returns. Many VITA programs provide services for walk-ins on a first come, first served basis, while others schedule appointments in advance. The tax preparation process entails helping clients organize tax documents and complete lengthy intake sheets, explaining the completed tax return and answering taxpayer questions. They also connect clients with additional financial capability services and resources when available. Every tax return prepared by a volunteer must go through a second round of review by a more senior tax reviewer to provide quality assurance.

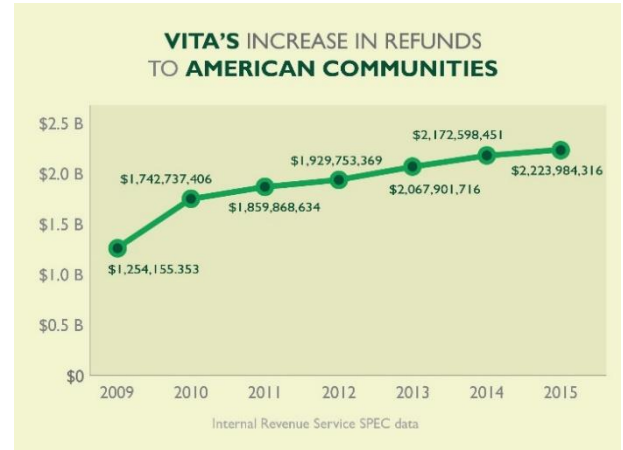
POST TAX SEASON (APRIL TO OCTOBER)

After tax season, VITA programs pivot to next-year program needs. Programs must spend time collecting and reporting data required by the IRS to secure and sustain VITA funding. The IRS's application process for a new or continuing VITA grant begins on May 1 and continues through June 1. Applicants are notified of their grant status by October 1. Programs that receive a single-year grant must apply by the next annual filing deadline in order to receive continued funding. Recipients of multi-year grants receive notification of continued eligibility from the Grant Program Office in late April. Programs also must complete applications and reports for matching funding from non-federal sources during this time.

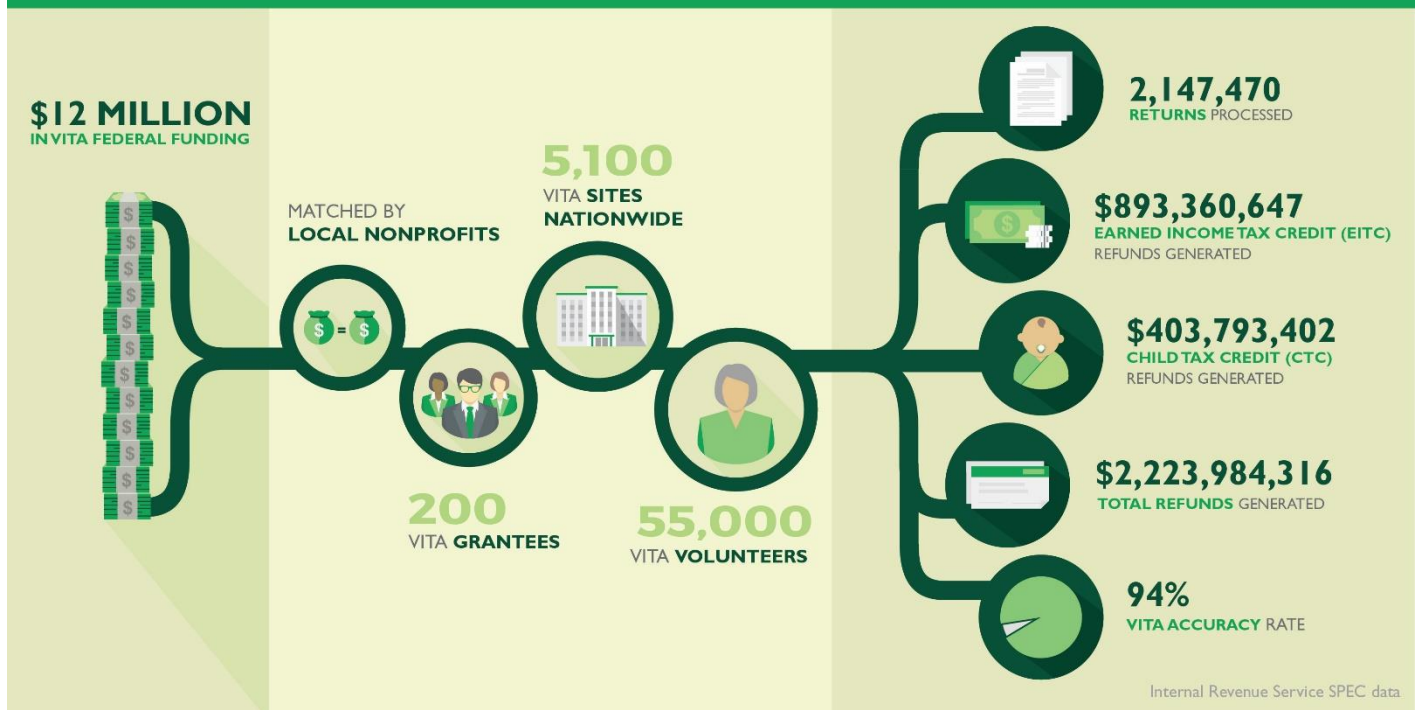
* Information provided by the Internal Revenue Service SPEC division

Economic benefits for communities. VITA's impact extends to the communities that these programs serve, which are often low-income and high-need. Recipients of VITA services tend to spend much of their tax refunds in their communities at local businesses, helping to support jobs and investment in the community and leading to further benefits for everyone. ¹⁵

VITA sites also engage in partnerships with local governments and community groups to maximize outreach to local communities. For example, VITA sites work closely with local social service providers to connect clients to relevant resources and with civic organizations that register clients to vote. Sites also partner with workforce organizations to connect clients to job training and transportation, and with financial coaching providers as well to connect clients to bank accounts and other financial products. In short, VITA programs serve as a community hub, bringing together a wide variety of local resources in one place to better serve residents.



2015 VOLUNTEER INCOME TAX ASSISTANCE PROGRAM



Benefits for the Federal Government. The VITA program also plays an important role in educating taxpayers about the need to file income taxes, as well as the specifics of the tax filing process. As the funding for IRS support services has repeatedly failed to adequately meet demand, VITA has become an essential lifeline for ensuring that many low- and moderate-income taxpayers file their returns accurately and in a timely manner.

The IRS has systematically closed Taxpayer Assistance Centers, which provided in-person support for tax filers across the country.¹⁶ These closures hit financially vulnerable households the hardest, and the absence of these centers has driven increased traffic to VITA sites, which provide services in multiple languages, to disadvantaged groups and to those without access to technology. The Treasury Inspector General for Tax Administration described VITA as a program that “plays an important role in achieving the Internal Revenue Service’s goal of improving taxpayer service and facilitating participation in the tax system.”¹⁷

VITA’s Present Challenges

INCREASED CONSUMER DEMAND FOR SERVICES

VITA experienced a 220% increase in usage from 2004-2012—with little increase in federal funding.¹⁸ Current funding is inadequate to meet the surge in demand for tax preparation services that VITA has seen in recent years. Reports from VITA site directors and volunteers has shown that large numbers of low- and moderate-income taxpayers are turned away every single year due to sites operating at capacity.

The IRS requires every organization that receives a VITA grant to increase the number of returns filed each year, without any increase in federal funding. This increase is reflected in the statistics. Between 2009 and 2015, VITA nearly doubled the number of returns filed—from 786,000 to 1.5 million.¹⁹ But despite continuously increasing returns filed, VITA programs turn away thousands of taxpayers every year due to limited capacity.²⁰ With severely reduced IRS capacity and heavily strained VITA capacity, low-wage workers have few options other than unregulated, paid tax preparers.

Despite the growing demand for community tax preparation services, VITA is in danger of elimination. The VITA program lacks congressional authorization and is currently funded on an annual basis. As is the case with the similar Tax Counseling for the Elderly (TCE) program, authorizing the VITA program would make it permanent by codifying the program in federal statute and making it easier to push for a federal appropriation. The precarious status of the federal program makes it difficult for local VITA sites to plan even for medium-term needs, placing further strain on existing resources. With VITA programs unable to make long-term financial decisions, sites are forced to maintain a very narrow scope of focus while addressing a rapidly growing need for both tax preparation services and a wide array of other financial capability services.

INCREASED IRS DEMAND FOR TAXPAYER SUPPORT

Tax preparation is only getting more complex. Increasing tax return complexity is making it more difficult for Americans to file on their own. According to the National Taxpayers Union, it now takes 85 pages of instructions to explain the filing requirements for the 1040A, a form that is meant to be the simplest to file.²¹

Many policies have contributed to this complexity, including the recently enacted Affordable Care Act (ACA). The ACA was very beneficial to low-wage workers, expanding access to healthcare and providing critical financial support to families that need it. But the ACA has also significantly increased the information needed on tax returns, adding new forms to the tax filing process. From coverage exceptions to exemptions, advance payment paybacks to Individual Shared Responsibility Payments, the ACA has led numerous tax filers to seek out assistance from VITA. The added complexity also places additional burdens on VITA sites, which must train thousands of volunteers every year on the new developments in tax policy.

The IRS has reduced capacity to manage this complexity. The IRS has struggled through several years of decreased federal funding, including a 14% staffing reduction since 2011 and a \$1.2 billion budget cut since 2010. Coupled with the implementation of ACA and the Foreign Account Tax Compliance Act (FATCA), the IRS also faces difficulties responding to the volume of concerns from tax filers.²² In fact, over 60% of the approximately 100 million telephone callers seeking tax assistance from the IRS were unable to speak to a federal tax assistor in 2015.²³ As the IRS becomes increasingly overwhelmed and under-funded, tax filers will continue to lean on VITA to provide essential support.

INCREASED LOCAL DEMAND FOR FLEXIBILITY & INNOVATION

VITA sites innovate to meet local needs, but federal restrictions limit the scope of that innovation. VITA began with a very limited purpose—the free preparation of tax returns for low-wage filers. And the original federal support of VITA was built with that narrow purpose in mind. But in the four decades since the program was started, the VITA mission has expanded to provide more comprehensive tax and financial capability support for low- and moderate-income communities. VITA sites need new flexibility to develop and provide specialized services for addressing a variety of financial challenges that clients face. These challenges and the appropriate solutions can vary in different local communities.

Existing federal restrictions directly limit VITA sites' flexibility to respond to local needs.²⁴ The IRS' SPEC division currently sets one definition of scope of work for VITA nationally and does not allow programs to innovate to meet local needs. For example, in North Dakota and West Texas, oil exploration and development have spawned hundreds and thousands of low- and moderate-income small businesses and independent contractors, all in need of services that address oil-specific tax concerns. These concerns are relevant only to a handful of VITA sites in these states, but greater flexibility at the local level would have a huge impact on their work and the clients they serve.

However, IRS SPEC determines which issues can be addressed at VITA sites, and that scope is the same for all VITA sites nationwide. Expanding VITA's scope to allow for specialization, such as additional training for volunteers on oil-related tax issues, is presently not allowed. Programs that process returns with out-of-scope issues risk losing funding, tax preparation software and other IRS supports.²⁵

Greater flexibility for local VITA sites would allow programs to address a host of other issues, many of which affect some communities more than others. This includes allowing for more complex Schedule C (small business) filings, Schedule E (rental income) in tourism-driven regions and 1040NR (nonresident alien) in communities with a high concentration of immigrants.

VITA Reforms

Below are a set of recommendations that would build off the VITA program's strengths, sufficiently address the current challenges it faces and position the program for long-term success and growth in the service of low- and moderate-income families and individuals. The recommendations are divided into those focused on statutory changes and administrative changes. There are also a several recommendations for improving state-level policy for the VITA program.

RECOMMENDATIONS FOR CONGRESS

Authorize VITA through legislation to allow local VITA programs to plan for the long-term. The largest and most immediate challenge facing the VITA program is Congressional authorization, as the program is currently funded on a year-by-year basis. Authorizing VITA in statute will allow VITA sites to maximize efficiency by planning strategically for the long term. Both Sen. Sherrod Brown (D-OH) and Rep. Michael Honda (D-CA) have introduced legislation that would authorize the VITA program, increase funding to \$30 million annually and make several additional reforms to the program. Sen. Ben Cardin (D-MD) and Rep. Xavier Becerra (D-CA) have introduced similar legislation as well. The process of authorizing the program also presents an opportunity to improve VITA even further and address some of its shortcomings. Below are a handful of additional reforms that ideally should be included in current or future legislation to authorize the VITA program.

Increase funding to keep up with growing demand for VITA services. At the end of 2015, Congress authorized an additional \$3 million for VITA in 2016, raising its annual appropriation to \$15 million. This was the first increase in funding for VITA in six years and enables the program to serve approximately 550,000 more taxpayers. However, demand for VITA services continues to far outstrip supply. VITA experienced a 220% increase in usage from 2004 to 2012, and sites throughout the country still have hours-long lines and often have to turn taxpayers away due to limited capacity.²⁶ Increasing VITA funding to \$30 million annually would help meet this demand and would enable VITA programs to serve over 2.7 million additional low- and moderate-income taxpayers, along with making needed improvements in technology, trainings, partnerships, outreach and facilities.

Create a VITA federal student loan assistance program and support volunteers with student loan debt. Another barrier to broader growth and sustainability for VITA is the number of quality volunteers that it can attract and retain over the long-term. VITA is built on volunteers, many of whom are current or former students with significant student loan debt. A VITA student loan program could provide partial student loan repayment to volunteers who are current or former undergraduate or graduate students with existing federal student loan obligations. Providing debt relief to these volunteers in exchange for VITA service would increase

the capacity of local VITA programs, promote civic responsibility and community service and help these volunteers manage their debt loads.

As an alternative, this benefit could also be offered through a partnership with the Corporation for National and Community Service (CNCS), which runs a variety of volunteer service programs, such as AmeriCorps. AmeriCorps has a long history of working with public and private sector partners on service projects with goals similar to those of the VITA program. For example, the AmeriCorps VISTA program secures a year-long, full-time commitment from participants, who are then partnered on a specific project with a local nonprofit organization or public agency. The AmeriCorps education awards range from \$1,222 in student loan forgiveness for part-time volunteers to \$5,775 for full-time volunteers performing a minimum of 1,700 hours of volunteer work.²⁷ The CNCS could create a similar program that would recruit longer-term and full-time volunteers for VITA sites across the country.

Beyond student loan support and a focus on college and graduate students, the VITA program should also be allowed to expand the way it leverages the support of civic-minded high school students. Currently, the IRS operates a volunteer program at 117 high schools across the country.²⁸ Expanding this program would provide opportunities for additional students to learn practical skills, such as tax return preparation, while simultaneously increasing the capacity of VITA sites and serving their local communities.

Establish a national center to provide technical assistance and research support for the VITA field. The VITA community is large and diverse. With this in mind, previous VITA authorization bills have proposed a national center to support the field, such as the National Center to Promote Quality, Excellence and Evaluation in Rep. Honda's VITA Act. A national center would help identify and disseminate best practices, support communication between VITA sites and increase the efficiency and effectiveness of the entire VITA field. By identifying and disseminating best practices for tax site management and volunteer training improvement, the center would provide capacity building support to tax sites, as well as technical assistance to program managers.

Establish a VITA Innovation Fund to develop, test and scale up best practices. Local VITA programs have been developing and testing innovative ideas since the beginning of the program. However, the current rules governing the VITA program make it difficult to thoroughly and efficiently test the effectiveness of innovations and share best practices across the community tax field. A dedicated VITA Innovation Fund would provide the infrastructure, resources and platform to address these limitations and maximize the impact of best practices in the VITA field.

These innovations range from small administrative changes to local partnerships offering high-impact financial capability services. Below are a few examples of innovations that could be—and in some cases have been—deployed and tested at VITA sites across the country:

Online Filing Options: Free File, a free, online federal income tax preparation and electronic filing service, is available nationwide for eligible taxpayers earning less than \$62,000 annually. This service became available in 2002 as the IRS sought to develop free tax filing options in concert with tax software providers. The Free File Alliance was formed, and the service was made available through a public-private partnership agreement between the IRS and several software providers, including Intuit, H&R Block, TaxSlayer, Jackson Hewitt and others. Free file provides low- and moderate-income tax filers with a fast, secure and cost-free alternative to paid preparers. Preparers only need a copy of their tax forms and access to a computer with Internet access to complete and file their returns electronically.

Millions of VITA tax filers would forego traveling to a local tax site if they had the confidence and resources to file their tax returns from home. Facilitated Self Assistance (FSA) allows taxpayers to prepare their own tax returns using Free File, usually with the opportunity for assistance in-person or by phone if necessary. Filers using this system are able to submit both federal and state returns cost-free, just as if the return were prepared by a volunteer. While FSA take-up at VITA sites is still low, there has been a steady focus on increasing the use of FSA for the large number of VITA sites experiencing capacity issues.²⁹

FSA alleviates scheduling pressure on VITA sites. It also allows volunteers to focus on filers with more complicated returns or limited online access, and creates another free filing option for taxpayers who are comfortable with or prefer to file their taxes online. While some programs offer no assistance to FSA filers, several VITA programs delve much further into FSA, using the experience as an opportunity to help taxpayers gain a deeper understanding of their financial health. Best practices for both implementing, scaling and marketing FSA services are still being developed.

Financial Capability and Asset Building: As mentioned above, many VITA sites have transformed over the years into hubs of services and resources for low- and moderate-income tax filers. Integrating financial capability services during tax time is critical, as it is during this period of the year when tax paying Americans assess their finances and adjust their budgets accordingly. Through strategic partnerships with local nonprofits, social service agencies, faith-based organizations and local governments, many VITA sites have helped tax filers to open bank accounts, access financial coaching services, save for emergencies and retirement, rebuild and manage their credit, access crucial government benefits and services and much more.

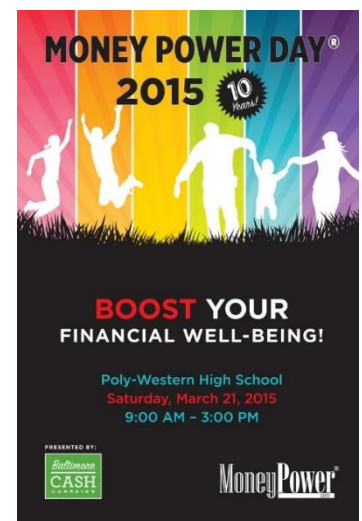
One recent example of this type of work is a pilot program announced in the fall of 2014 by the Consumer Financial Protection Bureau (CFPB). The Saving Tax Time Pilot is a research project aimed at assessing strategies for increasing VITA participants' savings at tax time. Through this program, the CFPB provides educational materials for tax filers to highlight programs that aid tax time savings, and produces training materials for volunteers and staff that focus on implementing best practices for encouraging savings at tax sites. The pilot focuses on the needs of 25 VITA programs, such as helping filers buy U.S. Savings Bonds or divert portions of their tax refunds into other savings vehicles.³⁰

Fee-for-Service: Some VITA sites have evaluated the idea of offering a limited set of paid, but low-cost, ancillary services in order to provide a wider variety of services at scale and diversify the programs' overall revenue stream. Fee-for-service offerings are presently not allowed; VITA sites are barred from accepting payments, soliciting donations or accepting refunds as payments from tax filers.

Fee-for-service models would provide low- and moderate-income tax filers with services that are outside the range of a typical VITA program, such as small business tax issues. The revenue raised from these services could then be used to offset the costs of the additional time, volunteer training and preparation requirements necessary to provide these services. There is often a need and demand for some of these specialized services at different VITA sites, but it can be difficult to offer anything beyond core services due to funding and administrative constraints.

Employer Engagement: Employers are another important partner in reaching low- and moderate-income tax filers. New York City, for instance, has launched an innovative new program to provide tax preparation support to employees at work. The NYC Free Tax Prep at Work program allows employees to have their tax returns prepared while they are at work, through the VITA and TCE programs, at no cost to employers.³¹ With the goal of increasing access to income support resources for low- and moderate-income workers, NYC Free Tax Prep at Work is a promising and potentially replicable model for cities and states across the country. This program offers the added benefit of enabling more people to access quality, free tax preparation and the convenience of filing at work, all while relieving capacity issues at local VITA sites.

Targeted Outreach Activities: Making low- and moderate-income tax filers aware of the services available to them at VITA sites is another challenge that has long faced the community tax field. VITA programs have tested and tried a wide variety of different strategies to reach out to their target population. For example, VITA sites in Baltimore, Detroit and Chicago run large-scale, single-day events that provide multiple services in one setting. These sites select one day during or after tax season to offer tax preparation or comprehensive asset-building services needed by the community and market the event to targeted community groups. The events often draw in many new tax filers who were not previously aware of VITA programs or the services that they provide.



RECOMMENDATIONS FOR THE ADMINISTRATION

Improve IRS volunteer training systems for VITA. VITA sites need more and better training support for their managers and volunteers. The IRS should act on the recommendations outlined below to make reforms to the overall training process.

Streamline the volunteer training/certification process. The IRS should develop one basic training and testing system, ideally through a learning management system, for the issues that are most frequently encountered at VITA sites. This would help to better standardize training requirements across the country and free up local VITA sites to focus on other issues specific to their communities.

Provide training on a broader array of topics. Furthermore, the IRS should build on their basic training and testing system to create optional stand-alone training and certification modules on advanced tax preparation topics, such as education benefits, cancellation of debt, capital gains and losses, Schedule C and more. This would make it easier for VITA sites to train volunteers on the advanced topics that are relevant to their specific clients and communities.

Expand the types of programs and services that VITA can provide. In addition to volunteer training improvements, the IRS should make several reforms to create more flexibility and support for VITA programs to provide additional and customized programs and services in their communities.

Implement best practices from the VITA Schedule C Pilot to support more entrepreneurs. In 2010, the IRS launched the Schedule C Pilot program to meet a growing demand from low- and moderate-income small business owners for tax preparation assistance. Under the pilot, which recently concluded, a limited number of VITA sites were temporarily allowed to prepare more complex Schedule C returns. Now that the pilot has concluded, the IRS should implement the best practices discovered through the pilot, removing restrictions that prevent local VITA sites from meeting the tax preparation needs of these lower-income entrepreneurs.

Allow VITA sites to customize some of their services to meet local needs. The IRS currently sets one national definition of the scope of work that VITA sites are allowed to do and does not allow programs to deviate to meet local needs. The IRS should allow VITA programs to expand their scope based on the specific financial and tax challenges facing their local communities. The IRS should ensure competency by reviewing the training materials developed to support local issues. For example, a tax program in a large urban area that has a large number of taxicab drivers could develop tax and financial assistance programs that cater specifically to those workers.

Expand VITA support for taxpayer savings programs. The IRS should work with the relevant offices in the U.S. Department of Treasury to explore options for enabling and encouraging low- and moderate-income tax filers to utilize savings tools and products such as myRA accounts during the tax filing process.

Recommendations For States

STATE FUNDING FOR VITA

All VITA programs receive a mix of federal and local matching funds, but a handful of states also provide funding for their local programs. Some of these states include Minnesota, which provided \$400,000 in 2017³² and Virginia, which provided \$185,000 in 2015 for state free tax preparation services.³³

That state support has multiple benefits. State funding expands VITA sites and services, increasing the number of low- and moderate-income tax filers in the state who can receive free tax preparation and other services that VITA programs provide. It can also bring additional federal dollars into the state in the form of federal tax credits for low-wage workers, like the Earned Income Tax Credit (EITC), that might otherwise not have been claimed. The funds from these credits are typically spent locally, helping to spur economic growth and benefits for disadvantaged communities and the state at-large. State funding can be more flexible than federal funding as well, allowing VITA sites to tailor services for the specific local needs that can have the greatest impact.

TAX CHECKOFF ON STATE TAX FORM

Many state income tax forms allow for individual taxpayers to donate all or a portion of their state tax refunds to a wide range of state-based public initiatives. For example, last year Wisconsin had 10 initiatives that state taxpayers could contribute to through check-off boxes on the tax form, including the Green Bay Packers football stadium. These funds were allocated to help offset costs for stadium expansion and redevelopment.

Creating a checkoff option on a state tax form requires the action of state legislatures. If enacted, the option to support VITA on state tax forms in a similar manner would provide individual taxpayers with an easy way to financially support VITA and provide an additional revenue source to bolster VITA programs. This is certainly not a substitute for federal and state government funding, due to the unreliability and inconsistency of the funding source. But it can provide an opportunity for some additional funding and, as importantly, another avenue for citizens to directly support the VITA program beyond volunteering.

EMPLOYER REFUNDABLE TAX CREDIT ALERT SYSTEM

Nationwide, one out of every five tax filers who are eligible for the EITC fail to claim it. States have a role to play in ensuring that all EITC-eligible taxpayers are aware that they qualify for the credit. For example, Maryland law now requires employers to notify employees of their EITC status. Enacted in December 2015, Maryland's Tax Alert 15-10 program requires employers to send their employees electronic or written notices to ensure that those who are income-eligible are informed and able to receive their refundable tax credits.

Conclusion

Tax time is a time of opportunity—to pay down debts, build up savings and consider long-term investments. Filing accurate, on-time tax returns is critical for every tax filer’s financial health. Yet too many Americans do not have a safe, effective and affordable tax preparation option available to them.

The VITA program addresses this need by providing high-quality free tax preparation and financial capability services to over two million taxpayers every year. Its positive impact can be seen in the individuals and families it serves and in the communities across the country that it enriches. VITA does all this with only a modest amount of government support and the strong commitment and dedication of a nationwide corps of volunteers.

As VITA approaches its 50th anniversary, it is time to reflect on lessons learned and make improvements to ensure that the program remains sustainable and effective well into the future. While VITA is highly efficient and effective, the program needs an infusion of financial support and innovation to pave the way for continued growth and improvement. VITA experts, lawmakers, taxpayers and community leaders need to engage in a dialogue about the needs of the VITA program going forward and thoughtfully explore strategies to make free tax preparation and financial capability services more accessible for American families.

Congress and the Administration should work to increase VITA’s scale, improve its effectiveness and invest in improvements guided by best practices and local expertise. These reforms will help to ensure that VITA remains a vibrant community effort with large-scale impact on the lives of millions of low- and moderate-income Americans for the next 50 years and beyond.

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