



Policy Paper



Making the Case for Community VITA Funding

Prepared for the
**National Community
Tax Coalition**
and its 600 Affiliates

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The Center for Economic Progress is a Chicago-based nonprofit organization that encourages self-sufficiency and promotes economic prosperity among Illinois' and America's working families.

Since 1990, the Center has built a reputation for innovative programs and forward-thinking initiatives, using the tax code to help low-income families achieve financial stability.

Operating at the local, state, and national levels, the agency provides direct services, education, and advocacy to achieve its goals.

The Center leads the National Community Tax Coalition (NCTC), an umbrella organization for 600 organizations in the community-based tax preparation and asset-building fields.

NCTC is working to expand tax credits for working families, monitor and respond to IRS practices and procedures, and achieve greater efficiency, quality, and stability in programming.

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EXECUTIVE SUMMARY

Community VITA: Meeting the Tax Preparation Needs of Low-Income Families

Through free tax preparation services, community Volunteer Income Tax Assistance (VITA) programs served almost one million low-income workers in 2007, bringing them into the tax system, building an understanding of their taxpayer rights and responsibilities, and enabling them to access vital family tax credits, such as the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). VITA programs are centered in low-income communities, providing a safe and trusted alternative to street-corner tax preparers and for-profit preparers that charge exorbitant fees, offer high-interest rate refund anticipation loans (RALs), and push other predatory financial products. By offering an array of financial services in addition to free tax preparation, community VITA programs connect the “unbanked” and the “underbanked” to trustworthy financial institutions, thereby helping them to open up bank accounts and save a portion of their refund to pay for the cost of a car, a home, or a college education. Each year, community VITA brings tens of thousands of low-income families into the financial mainstream and moves them further along the path toward financial self-sufficiency.

Community VITA: Facing Overwhelming Demand and Limited Resources

Despite the vital role that community VITA plays in enhancing taxpayer services and furthering taxpayer compliance, these programs receive no direct funding from the federal government. As a result, community VITA programs reach only a fraction of their target population, forcing them to turn back thousands of taxpayers each year because financial resources are limited. In addition, demand for community VITA services is growing rapidly; community VITA sites nationwide serve 100,000 new taxpayers each year.¹ The contributions of thousands of volunteers and the donations of in-kind support from local and national sources have enabled community VITA programs to provide this free service. However, the downside of limited resources and skeletal budgets is diminished capacity to adequately meet current demand, let alone future demand, which is only expected to grow.

FY 2008 Financial Services Budget: The Current Opportunity

The FY 2008 Senate Financial Services Appropriations bill has earmarked \$10 million that would be made available to community VITA organizations through a matching grant program to be administered by the Internal Revenue Service (IRS) or the Taxpayer Advocate Service. This funding would provide community VITA equal standing with Tax Counseling for the Elderly (TCE) and military VITA programs, both of which already receive direct funding from the federal government. Unfortunately, the House Financial Services and General Government Appropriations bill contains no such provision and the decision of whether or not to include it in the final bill will be made in the coming weeks.

Federal Funding for Community VITA: The Potential Impact

Community VITA programs are spread all across the country. Operating in cities, suburbs, and rural communities, VITA programs are remarkably diverse, reflecting the people and the communities they serve and ranging in size from small efforts with a handful of volunteers to large programs with hundreds of volunteers. What all community VITA programs share is the desire to be advocates for low-income taxpayers, helping them to navigate the complex federal tax code, to access vital family tax credits, and to build financial assets. VITA programs seek to continue playing this important taxpayer service role and reach even more low-income taxpayers, which can only happen through the support of the federal government. Federal funding for community VITA would help the federal government achieve a multitude of goals, including: improved taxpayer services, increased taxpayer compliance, higher accuracy of tax returns, and greater use of e-filing and uptake of the EITC. But more importantly, *a federally-funded community VITA program would make free and comprehensive tax and financial services a mainstay in low-income communities, helping these hard-working families achieve financial stability and real opportunity in their lives.*

AN OVERVIEW OF COMMUNITY VITA

"The Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing (e-filing) directed toward underserved segments of individual taxpayers, including low- to moderate-income, elderly, disabled and limited-English-proficient taxpayers. These taxpayers frequently are involved in complex family situations that make it difficult to correctly understand and apply the tax law."

Treasury Inspector General for Tax Administration Report, August 2007²

Community-based Volunteer Income Tax Assistance (VITA) programs promote financial stability and advance economic opportunity for low-income taxpayers by providing access to high-quality income tax preparation services. During tax year 2007, community VITA sites throughout the country prepared approximately 900,000 federal income tax returns worth over \$1 billion in federal refunds.³ For tax year 2005, the average low-income taxpayer at a VITA site received a refund of \$1,219, an Earned Income Tax Credit (EITC) of \$1,412, and a Child Tax Credit (CTC) of \$872.⁴ These refunds helped families to offset regressive payroll taxes, pay off debt, purchase durable goods and save for a rainy day.

Community VITA has evolved to complement the basic taxpayer services provided by the Internal Revenue Service (IRS) through its Taxpayer Assistance Centers (TAC) and to counter the predatory practices of paid preparers that are too prevalent in poor communities. Community VITA programs are housed in neighborhoods accessible to low-income taxpayers who cannot afford a paid preparer and need face-to-face assistance. Tens of thousands of volunteers across the country provide this free service, helping these families meet their taxpayer responsibilities and access financial opportunities. Despite the importance of free tax preparation services for very low-income taxpayers, community VITA programs receive no federal funding. However, there is currently a push for Congress to establish and fund a federal community VITA program, which would not only provide benefits for underserved taxpayers, it would also enable Congress, the Administration, and the IRS to increase taxpayer compliance in underserved communities.

Legislative Update: Community VITA funding in FY 2008 Senate Financial Services Appropriations bill

- **The Senate bill includes \$10 million in community VITA funding.** In July, the Senate Appropriations Committee passed the Financial Services and General Government bill, which includes the following earmark: "\$10 million to establish and administer a community volunteer income tax assistance matching grant program for tax return preparation assistance."
- **The House bill does not include funds for community VITA.** Unfortunately, federal funding for community VITA was not included in the House Financial Services and General Government Appropriations bill that was passed by the full House in June. If the Senate bill passes, a Conference Committee will decide if \$10 million in community VITA funding is included in the final joint Appropriations bill voted on by Congress.

THE HISTORY OF COMMUNITY VITA

"The IRS should expand the Volunteer Return Preparation Program (VRPP) to provide more efficient and effective services to a larger constituency. To do this, the IRS must reconsider its role and its commitment to VITA. The Taxpayer Advocacy Panel (TAP) is concerned that the IRS has not dedicated sufficient financial and human resources to support VITA... The IRS should also expand the grant program that currently provides financial support to TCE sites to include the VITA program. With additional support from the IRS and strategic partners, VITA would have far greater capacity to prepare returns for its target constituents."

Letter from Chairman Larry T. Combs of the Taxpayer Advocacy Panel to IRS Commissioner, Mark W. Everson, August 2006⁵

Center for Economic Progress Policy Paper. "Making the Case for Community VITA Funding" (Nov. 2007)

Non-profit organizations first provided free tax preparation to underserved taxpayers in 1969, when the Tax Reform Act led the IRS to implement the VITA program.⁶ Originally operating on a small scale at colleges and universities, organizations under the VITA program umbrella served 2.5 million taxpayers in 2007.⁷ Two arms of the VITA program receive federal funding to provide free tax preparation: Tax Counseling for the Elderly (TCE) and military VITA. The third arm of VITA is comprised of community-based tax preparation organizations, which assist low-income taxpayers, but unlike their VITA counterparts, receive no federal funding.

Free tax preparation services began to flourish during the 1990s, due to the expansion of the EITC and the growing complexity of the tax code. Changes to the EITC, coupled with the introduction of the Child Tax Credit and higher-education tax credits, resulted in substantially higher refunds, and an increasingly complicated tax code, for low-income families, many of whom felt they could no longer complete their own tax returns. The promise of significant tax refunds and the growing need for tax preparation assistance created a window of opportunity for third-party stakeholders who could help families prepare their returns and access the EITC. When the EITC was created in 1975, it provided a modest 10 percent income supplement with a maximum credit of \$400.⁸ In tax year 2006, the EITC provided a maximum refundable credit equal to 40 percent of household income, or \$4,536 for a family with two or more children and an annual income of \$11,300.⁹

Gradually, free tax preparation services became a new and important mechanism for non-profit organizations to improve the financial plight of the working poor. Unfortunately, community-based VITA organizations have never received federal funding for their work with these vulnerable populations, which is mostly done on a volunteer basis. The IRS monitors community VITA programs and provides limited in-kind support, including tax software, training materials, tax forms, and, in certain situations, computers and printers. More specifically, IRS guidelines require that VITA programs comply with minimum operating standards, such as administering an IRS exam to certify all tax preparers, using IRS-approved intake and review forms, and implementing software encryption to ensure taxpayer privacy. These guidelines are checked during site visits and tax return reviews conducted by IRS staff during the tax filing season.

The figures in Table 1 show that community VITA clients have a lower Adjusted Gross Income (AGI) than TCE clients. Federal funding enables the TCE program to prepare more tax returns even though the elderly population is far smaller than the number of low-income workers eligible for the EITC and CTC and in need of assistance from community VITA.

Table 1. A Comparison of VITA Programs Based on Tax Year 2005 Returns						
	Federal Returns			Earned Income Tax Credit		
	Average Adjusted Gross Income	Number of Returns Prepared	Dollar Value of Federal Refunds	Number of Taxpayers Claiming Credit	Dollars Value of Credits Claimed	Federally Funded
Tax Counseling for the Elderly	\$23,469	1,058,580	\$753,451,912	158,677	\$165,663,303	Yes
Military VITA	N/A ^b	295,583	N/A	N/A	N/A	Yes
Community VITA ^a	\$17,872	676,651	\$824,980,184	242,090	\$341,777,976	No
Total	-	2,030,814	\$1,578,432,096	\$400,767	\$507,441,279	-

Source: United States. Treasury Inspector General for Tax Administration. Reference Number: 2007-40-137. "Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed." Aug. 2007.

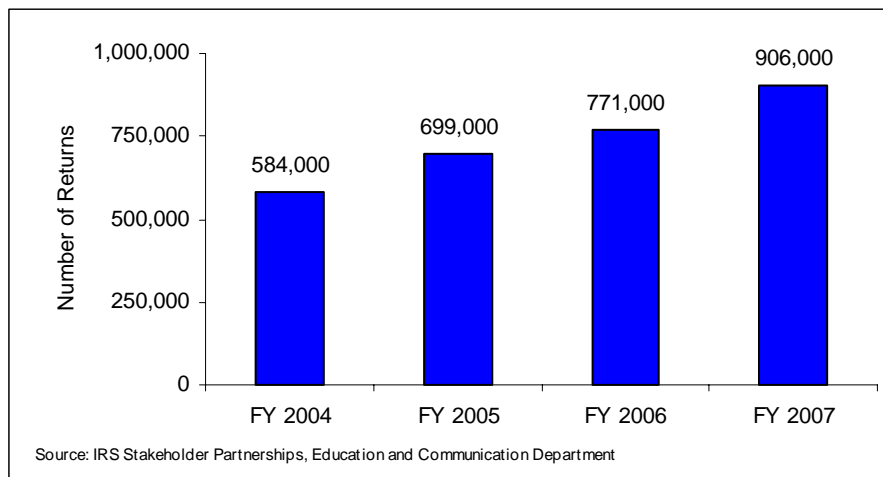
a. Community VITA includes 31,534 sites located in buildings operated by the IRS.

b. N/A = Not Available.

THE IMPACT OF COMMUNITY VITA

1. **Community VITA meets a growing demand for free tax preparation services.** During FY 2007, community VITA sites prepared 55 percent more tax returns than in FY 2004.¹⁰ New programs opened over this period, while existing organizations increased capacity through volunteer recruitment efforts and an emphasis on training, which helped to improve efficiency as well as quality. As community VITA sites became more established in their communities, they were further assisted by in-kind contributions made by local businesses, organizations, and foundations.

Figure 1. Number of Federal Returns Filed at Community VITA Sites^a



a. FY 2007 includes returns prepared through August 1, 2007.

2. **Community VITA serves the hardest-to-serve taxpayers.** Community VITA programs and their legions of volunteers are viewed as familiar and trusted members of low-income communities. Volunteers dedicated to the financial well-being of their clients are uniquely positioned to reach the following underserved, low-income taxpayers who might otherwise choose not to file and/or receive the federal tax credits for which they are eligible:
 - **EITC-eligible families.** An estimated 20-25 percent of the EITC-eligible population does not receive the credit.¹¹ VITA sites increase EITC uptake among low-income taxpayers by raising awareness through targeted outreach efforts. VITA sites rely on community networks and non-profit organizations to conduct mailing campaigns, canvass neighborhoods, and produce radio spots and public service announcements, encouraging low-income workers and families to file tax returns and claim the EITC.
 - **Limited-English Proficient (LEP) taxpayers.** A National Taxpayer Advocate report shows that LEP communities face severe barriers to gaining access to the IRS and require increased levels of assistance with tax preparation.¹² Many free tax preparation providers reach out to LEP communities by conducting outreach in multiple languages and utilizing multilingual volunteers at their free tax preparation sites.
 - **Independent contractors.** Free tax preparation sites also serve an increasing number of self-employed taxpayers due to a trend among employers in the construction, landscaping, and domestic services industries in particular to misclassify employees as independent contractors. Because these workers often hold multiple jobs and do not receive W-2s, they are responsible for withholding the correct amount of payroll and income taxes each pay period, which usually results in them having a significant federal tax liability. Community VITA sites offer a valuable service by instructing independent contractors on how to administer the necessary payroll deductions, complete their tax return, and if necessary, develop a payment plan, often by referring them to a local Low-Income Taxpayer Clinic (LITC).

- **Low-wage, single workers.** Many childless, low-income workers who do not qualify for the EITC choose not to file or only occasionally file a tax return. Often these taxpayers are directed to VITA sites by paid preparers after an initial examination shows that the cost of tax preparation will exceed their refund amount. VITA sites play an important role by assisting these taxpayers in filing returns on a regular basis.
- **ITIN holders.** Although EITC-eligible households are the largest taxpayer demographic served by community VITA sites, many low-income taxpayers ineligible for the EITC utilize free tax preparation services. For example, immigrants without a valid Social Security Number (SSN) may obtain an Individual Taxpayer Identification Number (ITIN), which is often used at VITA sites in order to comply with tax laws and meet banking identification requirements.

Taxpayer Example: Before learning about the Center for Economic Progress's free VITA sites four years ago, the Lopez family always prepared their own taxes. With little tax knowledge, the Lopezes often missed valuable credits for which they were eligible and ended up owing money every year. "By the time [my husband] and I get the money together [to file,] we're already late and we get behind because of the penalties," says mom, Ariceli. Now that the Lopez family knows about the Center's free tax preparation services, they have access to all the tax credits they earned and are making an important investment in their family's future. The money they saved by using the Center's VITA program enabled Ariceli to enroll in a local community college where she is close to earning her degree in Criminal Justice.

- 3. Community VITA increases EITC uptake and helps to boost the incomes of low-income, working families.** Nearly one in two taxpayers served by community VITA organizations is eligible to receive the refundable EITC.¹³ The EITC amount received by individuals and families is a function of marriage status, number of children, and income. For instance, a single worker with no children and earnings of \$10,000 received \$161, whereas a married couple with two children and earnings of \$22,500 received \$3,332 (13 percent of the family's income), for tax year 2006.
- 4. Community VITA increases taxpayer compliance by helping low-income taxpayers navigate the complex federal tax code.** In addition to ensuring that taxpayers receive the correct refund, VITA sites also aid in tax collection by helping taxpayers with complex returns to file correctly, which helps to increase compliance rates. In a presentation to the President's Advisory Panel on Federal Tax Reform, National Taxpayer Advocate, Nina E. Olson, highlighted the EITC's 52-page instruction manual, written at a 12th grade reading level, as evidence of the tax code's complexity. With the federal government's increased reliance on electronic filing, limited Internet access and computer illiteracy create significant obstacles for many low-income taxpayers who often turn to local tax preparation sites for help. The face-to-face interaction a community VITA volunteer has with a client remains central to preparing an accurate return that results in the proper refund and credits.

Taxpayer Example: A mother, her two adult daughters, and four younger children all arrived at a free tax site in Kamak, Illinois in 2006. The three adults each earned approximately \$12,000 that year, which enabled the family to get by while living three to a room in a small mobile home. Upon their arrival, the three adults each began to work with a separate VITA volunteer. The family's complicated living situation made it difficult to determine their dependency structure, but after a series of in-depth interviews, the volunteers began to untangle the complex relationships. Due to their persistence and patience, the volunteers were able to correctly apply the tax law, which resulted in a \$10,000 refund for the family. It is unlikely that the family would have been able to complete the tax forms without assistance, but by visiting a free tax preparation site they were able to keep 100 percent of their refund.

- 5. Community VITA brings benefits back to poor communities.** Community VITA sites enable the clients they serve to receive the credits and refunds they deserve. In turn, because low-wage earners typically spend their tax refunds locally, communities with a local VITA program benefit from a multiplier effect where additional spending helps to support local businesses and spur economic development.¹⁴ For instance, the city of San Antonio estimates that each additional EITC dollar creates \$1.58 in local economic activity, whereas a similar study in the city of Baltimore found that the EITC generated nearly \$600,000 in additional

local income and property tax revenues.¹⁵ Both San Antonio and Baltimore have well-developed VITA programs that serve thousands of taxpayers annually.

- 6. Community VITA connects low-income, working families to banking and other financial services, enabling them to pay down debt and build up assets.** In addition to providing free tax preparation, VITA programs also conduct financial education and consumer awareness campaigns to inform clients about high-interest rate refund anticipation loans (RALs) and other predatory lending products. Many community-based, non-profit organizations partner with reputable, banks and credit unions to introduce sound financial products such as checking and savings accounts, as well as savings bonds. Several sites also promote individual development accounts (IDAs) and other asset-building opportunities that help to direct tax refund dollars toward long-term investments such as a house or a college education.

The Quality Issue: Providing Some Context

In order to gauge the quality of tax preparation, the government and private foundations conduct periodic audits of returns prepared by VITA sites, commercial preparers and IRS centers.

- **Returns prepared by community VITA:** Each year, the Annie E. Casey Foundation commissions a study on the quality of free tax preparation programs. In 2007, the study found a 65 percent accuracy rate among 200 audited returns. Only 23 percent of the returns contained mistakes that would lead to an incorrect refund amount, with an average overpayment of \$67.¹⁶ Furthermore, a recently released TIGTA audit of only 39 returns prepared by VITA and TCE sites¹ found a 56 percent accuracy rate (a 17 percentage point increase from last year), and only 18 percent of the returns audited would have resulted in an incorrect refund paid out to the taxpayer.
- **Returns prepared by commercial preparers:** In 2006, the Annie E. Casey Foundation commissioned a comparison study on a small sample of commercial returns prepared for taxpayers representing a similar demographic to clients utilizing free tax sites. The study found a 27 percent accuracy rate, where 67 percent of the returns contained an error leading to an incorrect payment. The average over-claimed refund was \$144 per return.¹⁷ Similarly, in a 2001 qualitative audit of 19 commercial returns, the Government Accountability Office (GAO) found a 0 percent accuracy rate.¹⁸
- **Returns prepared by IRS Taxpayer Assistance Centers:** A 2003 TIGTA “secret shopper” audit of the IRS’s own Taxpayer Assistance Centers (TAC) discovered an alarming accuracy rate of 17 percent.¹⁹ Fortunately, the TAC Centers drastically increased their accuracy rate to 79 percent in 2005.

The accuracy rates reported by these studies reflect the complexity of the federal tax code. While all tax return preparers make errors, community VITA has demonstrated a continued increase in quality, which would only be enhanced by federal funding, permitting programs to hire quality reviewers, a method that has proven to be one of the most effective means of improving quality at VITA sites.²⁰

COMMUNITY VITA: AN ALTERNATIVE TO PAID PREPARERS AND A COMPLEMENT TO IRS SERVICES

Over the past five years, community VITA has solidified its integral role in providing trusted, quality and free tax and financial assistance to low-income families throughout the country. ***Commercial preparers and IRS offices provide services to low-income taxpayers as well, but VITA is unique in its client focus on very low-income taxpayers (both single workers and larger families); community presence (with sites run out of recognized and respected local community-based, non-profit organizations); and comprehensive approach (beyond tax preparation to asset building, acting as a point-of-entry to mainstream financial products and services).*** Certainly commercial preparers and local IRS offices meet the tax assistance needs for many low-income taxpayers, but the role of community VITA in tax preparation is now well established and these programs should begin receiving an appropriate level of financial support from the federal government.

¹ The results were not broken out by community VITA and TCE.

- ❖ **Community VITA offers a low-cost alternative to paid preparers and high-cost RALs.** Unlike commercial tax preparers who charge an average of \$160 per return,ⁱⁱ free tax preparation centers maximize financial resources by allowing clients to keep the entire amount of their refunds. Furthermore, VITA sites shield low-income clients from unsavory commercial providers that use aggressive marketing and high visibility to tout financial products such as high interest rate RALs,ⁱⁱⁱ which are typically targeted at families eligible to receive a sizeable EITC refund. In 2005, RALs cost consumers over \$1 billion in fees, \$600 million of which came from EITC recipients.²¹ These types of services and products divert low-income families and individuals away from the financial mainstream and contribute to the increasing insolvency of America's working poor. The tax code is now so complicated that 70 percent²² of EITC recipients hire a paid preparer, while an estimated 57 percent²³ of all taxpayers seek professional advice. The disproportionate number of low-income taxpayers who rely on paid preparers is indicative of the negative financial impact the complex federal tax code has on this vulnerable population.

Taxpayer Example: A recent Business Week article relayed the story of a woman who paid \$453 to file a tax return through a commercial preparer. This amount included a high interest loan at 10.4 percent that gave her immediate access to the refund amount without having to wait for the return to be processed. At the time, she was unaware of community-based VITA, but after learning about the service she remarked, "Why should I pay somebody else, some big company, when I could go to the free service?"²⁴

- ❖ **Community VITA offers a cost-effective compliment to IRS taxpayer services.** The IRS provides limited tax preparation assistance for low-income taxpayers at its 400 Taxpayer Assistance Centers (TACs). Community VITA adds to the services provided at TAC Centers by preparing state tax returns and a large number of tax returns for taxpayers who are seeking or holding Individual Taxpayer Identification Numbers (ITINs), and self-employed workers (requiring a Schedule C tax form). Working in partnership with the IRS Stakeholder Partnership, Education and Communication (SPEC) Office, community VITA has significantly increased the number and dramatically raised the quality of the returns it prepares each year. While the goals of VITA and SPEC are similar, the extent of in-person trainings and in-kind contributions provided by regional SPEC offices for local VITA programs is limited due to staff and budget constraints (and varies considerably by region of the country). Additionally, in recent years, the IRS has spent an increasing share of its resources on enforcement initiatives to the detriment of taxpayer services. However, community VITA has filled that gap by providing high quality tax preparation services for thousands of low-income families across the country.

FEDERAL FUNDING TO INCREASE CAPACITY, EXPAND COVERAGE, AND IMPROVE QUALITY OF COMMUNITY VITA

"IRS resources to support EITC outreach and free tax assistance have changed drastically over the years. Our local IRS used to be able to provide training and technical assistance for our program and volunteers and loaned laptops and printers for free tax sites. The amount of equipment has been dramatically cut back and IRS staff no longer has the time to support volunteer training or technical assistance for new program development. With the cutbacks at the IRS walk-in sites, more taxpayers than ever are being referred to free tax assistance sites such as AccountAbility Minnesota for assistance they used to receive from the IRS."

Bonnie Esposito, Executive Director, AccountAbility Minnesota²⁵

ⁱⁱ The average tax preparation fee is an estimate provided by H&R Block, Inc.

ⁱⁱⁱ RALs are high-cost, high-risk, short-term advances against a taxpayer's anticipated income tax refund.

With limited direct federal assistance, community VITA organizations have grown significantly in number and dramatically expanded the scope of their services. With the help of thousands of tax preparation volunteers, as well as space and technology donations from local businesses, organizations, and foundations, VITA programs miraculously manage to expand while keeping expenses low. For example, in 2006, the Center for Economic Progress in Chicago relied on 1,100 volunteers to prepare nearly 30,000 returns at tax preparation sites throughout the state. The Center currently benefits from partnerships with local community organizations, like Wabansia Community College in Chicago, which donated both office space and computer facilities this past tax season.

While organizations such as the Center for Economic Progress, FoodChange in New York City, Earn It! Keep It! Save It! in Oakland, the Community Action Project in Tulsa, and TaxHelp New Mexico in Albuquerque excel at mobilizing volunteers and leveraging community resources, these organizations must turn away thousands of low-income taxpayers each filing season due to overwhelming demand and insufficient resources. When coupled with the prevalence of paid preparers, these limitations prevent community VITA sites from reaching more than a small fraction of their target population. To provide some sense of the market potential, during the 2005 tax season, the Center for Economic Progress served approximately 13,000 taxpayers in Chicago, but over ten times as many of the city's taxpayers accepted RALs that year.^{iv} While some of those taxpayers who received RALs needed immediate access to their refunds, it is likely that many others would have chosen to use a free tax preparation service if it was readily available.

Federal funding would enable community VITA organizations to better serve their low-income clients by:

1. **Increasing the capacity at existing sites.** A survey of the Center for Economic Progress's clients confirmed that taxpayers frequently experience long wait times, which discourages them from using the free tax preparation service. Federal funding would enable existing community VITA sites to increase capacity and improve efficiency and better serve clients by:
 - **Paying site managers.** A well-trained site manager is essential to ensure common practices, accountability and productivity at a community VITA site. Many of the larger programs have begun to pay their best site managers at their larger tax sites, sometimes called "super sites." Through these super sites, community VITA programs are able to achieve economies of scale, which enable them to prepare more returns at a much faster rate, while still maintaining a high level of quality.
 - **Enlisting more volunteers.** Volunteers allow low-budget community VITA sites to reach thousands of taxpayers; a single volunteer may complete as many as ten tax returns per night. Because VITA programs depend on volunteer participation, a significant portion of their budgets are devoted to recruiting, training, and retaining volunteers. The ability to recruit additional volunteers would help tax preparation sites to handle more returns and to accept complex returns that take additional time to prepare.
 - **Leasing larger sites and buying better computers.** Adequate IT resources and tax preparation facilities also improve efficiency, while helping to maintain volunteer and client satisfaction. VITA sites could use federal funds to access larger facilities that would enable volunteers to work more efficiently. Furthermore, additional computers are needed to more quickly process returns. Because the IRS is phasing-out its computer donation program, many community VITA sites will need to purchase or lease additional computer equipment during future filing seasons.
 - **Offering more advanced tax training for volunteer preparers.** The field also recognizes the need for more advanced training because as the tax code continues to become more complex, volunteers will spend an increasing amount of time with each client. One way to assist volunteers is to provide advanced training that goes beyond the basic IRS requirements. Ideally this training would allow volunteers to file several practice returns using the e-filing software before dealing with actual clients. The training might also cover new topics such as Schedule C tax forms.

^{iv} The information on RALs is from the Brookings Interactive EITC database, which is available at <http://www.brookings.edu/es/urban/eitc.htm>.

2. **Expanding the number of sites nationwide.** Beyond affirming the important role that community VITA plays in service to very low-income taxpayers, federal funding would allow large programs to extend their reach and small programs to start up in hard-to-reach areas. Federal funding could help VITA programs reach more underserved communities by defraying some of the expenses associated with opening new sites, which would require additional computers, facilities, and training. Despite the prevalence of community VITA sites nationwide, only a fraction of EITC-eligible taxpayers use free tax preparation services.^{vi}
- **Urban taxpayers.** Existing VITA sites are predominately located in urban areas where the number of VITA sites increased by 1.7 percentage points from 2000 to 2004.²⁶ The population density in urban areas enables community VITA programs to reach a large number of taxpayers. Many urban taxpayers are located near a free tax preparation site and become aware of the services through word-of-mouth. However, it remains difficult to establish sites in those urban communities where volunteer recruitment remains low or it is problematic to find adequate facilities, neither of which are significant issues for commercial preparers.
 - **Rural taxpayers.** Community VITA coverage remains low in rural areas where fewer VITA programs exist and potential clients are spread over greater distances.²⁷ The highest concentration of EITC-eligible filers is located in the South, where several counties had over 40 percent of their residents claim the credit.²⁸ While there are successful VITA programs located in the rural South, an opportunity exists to help these organizations open additional sites and expand their outreach efforts so that more EITC-eligible workers can receive tax preparation assistance and ultimately claim the credit.
3. **Increasing compliance and improving accuracy.** Ensuring the accuracy of returns when they are first prepared reduces overall IRS compliance costs while helping taxpayers to avoid audits and unnecessary penalties. As previously discussed, accuracy is an issue for all tax preparers. While VITA sites compare favorably to their commercial counterparts, there is still room for improvement. VITA sites could further improve accuracy by providing the type of advanced training discussed above and ensuring that volunteers use up-to-date technology. Furthermore, additional funding would enable community VITA sites to hire specialty support staff such as Certified Public Accountants (CPAs) and attorneys to conduct quality review audits and to assist volunteers in preparing more complex returns. Quality reviewers have proven to be the most effective means of improving quality at VITA sites. So, ***a federal grant could not only be used to pay a site manager, it could also be used to pay a quality reviewer, simultaneously serving to expand the number and accuracy of the returns prepared by community VITA sites.***

Designed as a competitive, matching grants program, and modeled after the current Low-Income Taxpayer Clinic (LITC) program, a federally-funded community VITA program would leverage additional local dollars, support qualified programs, and ultimately extend the federal government's support from free tax representation to free tax preparation for low-income taxpayers. The result would be more underserved low-income taxpayers gaining access to the tax system, vital family tax credits, and the financial mainstream. Additionally, IRS compliance costs would be reduced as the number and accuracy of returns filed by low-income taxpayers increases. Community VITA is universally recognized as a key actor in reaching and serving a greater share of the low-income taxpayer market; now, it seeks the financial support of the federal government to enhance and expand that important work.

^v According to the Brookings Institution, 70 percent of EITC eligible taxpayers visit a paid preparer, while 2.4 percent of urban EITC eligible taxpayers and 1.2 percent of suburban EITC eligible taxpayers use free tax preparation services.

^{vi} To ensure that community VITA organizations continue to serve EITC eligible, low-income taxpayers, it is important that programs are allowed to establish income thresholds at or below 250 percent of poverty.

ENDNOTES

1. United States, Internal Revenue Service Stakeholder Partnership, Education and Communication Office, "2007 VITA Program Results," Internal Spreadsheet, May 2007.
2. United States, Department of the Treasury, Reference Number 2007-40-137, "Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed," Aug. 2007, 4 Oct. 2007 <<http://www.treas.gov/tigta/auditreports/2007reports/200740137fr.pdf>>.
3. IRS, "2007 VITA Program Results," Internal Spreadsheet.
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5. Larry T. Combs, Letter to Mark W. Everson, 18 August 2006, Taxpayer Advocacy Panel, Washington D.C., 26 Sept. 2007 <<http://www.govexec.com/pdfs/EversonLetter.doc>>.
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