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Students' work influences new IRS rules

By Brian Reynolds
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After nearly three weeks of undercover work last January, students from the University of Alabama hoped their efforts would result in legislation regulating commercial tax preparers in the state.

That legislation died in the House of Representatives last spring, but new federal rules, announced by the IRS on Monday, will make the group's work come to fruition on a national stage.

The UA students found that some seasonal tax preparation businesses overcharged low-income residents, persuaded them to take instant loans against future refunds at huge interest rates and even committed fraud by urging tax filers to claim dependents they did not have.

"One of our staff members delivered a report on our undercover work to the commissioner of the IRS in October, and we were incredibly excited at the news," said Stephen Foster Black, director of the university's Center for Ethics and Social Responsibility. "In one swoop, the IRS will be protecting literally millions of families across the country from predatory practices of many negligent and sometimes fraudulent commercial tax preparers who purposely target low-income families.

"I would like to think we were a part of a growing national recognition of this problem. There was an article in BusinessWeek that was written about our efforts," he said. "We definitely are part of a story."

The new IRS regulations, which will be put into effect next tax season, are actually stronger than what Black and his students sought for Alabama, he said. They will not contain a grandfather clause for some preparers, which was part of their initial negotiations.

"This federal regulatory change mirrors the state laws in effect in Oregon, and we know from Oregon's filing season, it professionalizes the industry of commercial tax preparation. It reduces the amount of fraud and negligence that damage low-income families," Black said. "Everyone who's charging families money to prepare their taxes will have to apply for a license and pass a basic competency test, which is exactly the way it should be."

IRS Commissioner Doug Shulman said tax preparers will be held to higher standards in future years as the IRS steps up its oversight to help reduce fraud and errors.

"As tax season begins, most Americans will turn to tax return preparers to help with one of their biggest financial transactions of the year," Shulman said. The new regulations "will help ensure

taxpayers receive competent, ethical service from qualified professionals and strengthen the integrity of the nation's tax system.”

More than 80 percent of taxpayers use a paid tax preparer or tax software to complete their yearly returns. However, paid tax preparers are unregulated in many states, unless they are also lawyers, certified public accountants or enrolled agents who represent taxpayers before the IRS.

Shulman estimated there are between 900,000 and 1.4 million people who accept money to prepare tax returns for others. He said the agency will have a better handle on the number once they have to register.

In Alabama, almost 75 percent of lower-income residents pay a commercial tax preparer, while the state's residents receive the second-most rapid refund loans of any state in the country, Black said. These high-interest loans immediately give taxpayers their refunds, which would normally be received little more than a week later.

Nearly 400 students worked with the Center for Ethics and Social Responsibility's SaveFirst program, which prepared taxes for families receiving the Earned Income Tax Credit — the credit applies to families making less than \$49,000 a year with children or \$20,000 a year without children — but the legislative efforts were spearheaded by five students, including UA senior and Paul Bryant High School graduate Kendra Key.

The students were initially disappointed that the legislation was shot down in the House, but remained hopeful their work could still have an impact, Key said. The IRS began looking at their work after an April 13 article in *BusinessWeek* magazine, which highlighted their undercover investigation.

“Even if it's not (started) on the state level, it's something that's going to be implemented on the state level, and that's really what we were working towards,” she said.

“I was very excited to hear the news that the IRS was going to take measures to implement rules on a national level,” said Key, who worked with the program as a tax preparer and a site leader before working on the political front. “We were disappointed to see that we couldn't get the legislation passed on a state level, [but] it was still uplifting to see that Alabama could be a torch bearer in bringing about regulation for this particular industry.”

Save First will begin preparing taxes for residents who qualify for the Earned Income Tax Credit on Jan. 18.

Material from The Associated Press was used in this report.