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ALABAMA INDIVIDUAL TAX PREPARERS ACT

Summary of Bill

- Provides for the oversight of the commercial tax preparation industry through a state agency (excluding Certified Public Accountants, Enrolled Agents, and lawyers already required to obtain licenses);
- Requires individual tax preparers and refund anticipation loan facilitators to apply for an annually renewable license, fulfill an annual continuing education requirement, and pay an annual fee to the State;
- Requires refund anticipation loan facilitators to provide written disclosures to clients when preparing refund loans;
- Utilizes portion of licensing fees to provide grant support to IRS-certified Volunteer Income Tax Assistance (VITA) nonprofit sites throughout state;
- Expands informational outreach efforts to individuals eligible for the Earned Income Tax Credit.

Need for Legislation

The federal Earned Income Tax Credit (EITC), the federal government's largest antipoverty program, was established by Congress in 1975 for low-wage, working individuals and families as a refundable tax credit designed to "make work pay." Many low-income households are eligible for the EITC and other tax credits, but are unaware of their existence and thus do not apply for the annual refunds. Moreover, many who do not have the resources or knowledge to file their own taxes instead rely on costly commercial tax preparers.

In 2005, more than 492,000 working families in Alabama claimed an estimated \$1 billion through the federal EITC. However, **with more than 75% of EITC recipients in Alabama paying a commercial preparer to complete their taxes, Alabama families lost more than \$78 million to tax preparation and refund anticipation loan costs – a figure which places us 48th in the nation.** That extra \$78 million could have made a tremendous contribution to helping lower-income families secure health insurance, pay down debts or put food on the table.

Additionally, many consumers are convinced to take out a Refund Anticipation Loan (RAL)—a predatory one-to-two week loan secured by and repaid directly from the proceeds of a consumer's tax refund, offered at exorbitantly high interest rates, ranging from about 50% to over 800% APR. **Because RAL facilitators rarely provide clear disclosures as to the nature of their products, many consumers are unaware that they are paying to borrow their own money at exorbitant interest rates and that they could receive their refunds in as little as one week without a RAL.**

To be a hairdresser in Alabama, an individual must have certain training, obtain a license, and pay a fee to the state. To prepare taxes in Alabama, an individual must do none of these things.

There are currently **no educational qualifications, no training standards, and no licensing requirements that must be met to become a paid tax preparer in Alabama.** Anyone who can rent a storefront can set up shop as a tax preparer. The work quality of paid preparers can often be poor and many preparers are more interested in pushing needless products that inflate their businesses' profits (e.g., refund anticipation loans, investment schemes) than in serving the best interests of their clients. The average fee charged to families for tax preparation services, often requiring less than an hour of work, is approximately \$250.

Legislative Solution

The Alabama Individual Tax Preparers Act addresses these important issues faced by Alabama's working families. The purposes of the Act are as follows:

- to provide oversight authority to a state agency which shall oversee the commercial tax preparation industry (excluding Certified Public Accountants, Enrolled Agents, and lawyers already required to obtain licenses);
- to require individual tax preparers and refund anticipation loan/check (RAL/RAC) facilitators to annually register and pay a fee to the State;
- to establish certain educational standards for individual tax preparers (including annual continuing education requirements);
- to require refund anticipation loan facilitators to provide written disclosures to clients when preparing refund loans (including specified language and minimum size of written type);
- to utilize portion of licensing fees to provide financial support to IRS-certified Volunteer Income Tax Assistance (VITA) sites throughout the state in order to expand the number of nonprofit organizations and other agencies providing free tax preparation services;
- to expand informational outreach efforts to individuals eligible for the Earned Income Tax Credit in order to increase the number of families who claim it as well as provide information about free tax preparation sites.

In anticipation of the 2009 legislative session, a statewide coalition of college and law students from more than ten campuses statewide are working together to raise awareness and gain the support of the Alabama Legislature and Governor to pass the groundbreaking Alabama Individual Tax Preparers Act. This type of grassroots mobilization of students to achieve such a significant improvement in the lives of working Alabamians is unprecedented in our state. The students will be organized by **Impact Alabama: A Student Service Initiative, the state's first nonprofit organization dedicated to developing and implementing substantive service-learning projects in coordination with colleges and universities throughout Alabama.**

Impact Alabama has been directly involved in the development of the Alabama Individual Tax Preparers Act. Impact Alabama's **SaveFirst Initiative trains college, graduate, and law students to offer free tax preparation services and opportunities for economic improvement to low-income, working families—especially targeting those eligible for the Earned Income Tax Credit.** In just its second year, SaveFirst trained over 260 students from twelve campuses who prepared tax returns for over 1,400 working families—helping them to secure \$2.4 million in tax refunds and saving them \$290,000 in commercial tax preparation fees.