

**Statement Of**  
**PAT ECKELBERRY**  
before the  
**U. S. Senate Permanent Subcommittee on Investigations**  
**St. Paul, Minnesota Field Hearing**  
**Hearing On**  
***Tax Related Financial Products Can Be Costly***

**April 15, 2005**

Good afternoon Senator Coleman. My name is Pat Eckelberry. I presently have my own tax preparation business and am an Enrolled Agent with the Internal Revenue Service. Tax preparation is actually my second career. In my first career, I was an electrical engineer for Honeywell. As I neared retirement with Honeywell, I began doing income tax preparation as a volunteer with a VITA affiliate – AccountAbility Minnesota – which I have continued to do. I have also worked for H&R Block, a local firm – Tax Shop and a CPA firm, Brunberg, Thorson & Diaby. Following my career with Honeywell, I first worked as a seasonal employee for H & R Block from December 12, 1996 until January 22, 2001

I found there were a number of positive aspects in working for H & R Block. For example, Block had an excellent tax education system. As an employee, I was able to take many courses offered by them covering most aspects of taxation and the specifics of preparing many different types of tax returns. I also found that many of H&R Block's tax preparers were conscientious and made a sincere effort to do the best job possible for their clients. It was evident that many preparers had developed a good working relationship with their clients, who returned year after year and specifically requested those preparers.

Throughout my tax preparation career, I have found that there is an extremely strong trust relationship between the preparer and his or her client. It is my opinion that a tax preparer has a clear ethical obligation to ensure that their clients claim every legitimate credit and deduction to which they are entitled, that the preparer ensure that their clients pay only the tax they are legally obligated to pay, and that the preparer offers advice on the refund method that best serves their client's needs. However, this preparer – client trust relationship can present opportunities for abuse. While I was at H&R Block, management pushed very hard to require preparers to use the client - preparer trust relationship to sell such products as Refund Anticipation Loans (RALs), Refund Anticipation Checks (RACs), and Peace of Mind (POM) guarantees.

The RALs were particularly troubling to me because of their extremely high cost. We were strongly directed by Block District Management to push them, especially if clients were going to have difficulty paying their tax preparation fee. The sales emphasis was on refund speed rather than client cost. In presenting RALs to clients, we were directed to point out that the client would receive their refund in days, rather than weeks, and that they could have the preparation costs subtracted from their refund, thus having their taxes filed without having to come up with any money out of pocket.

While the paperwork disclosure of the fees and finance charges was thorough, it came after the verbal sales presentation. The client had to sign a form indicating their willingness to obtain a RAL, and indicate that they understood it was a loan. The most negative aspect was that this product was often used by the type of client who least could afford it, who usually did not understand that they were applying for a loan, and who certainly, despite the written disclosures, did not understand the true cost of that loan. Most clients desperately needed every dollar of the refund they were entitled to and I personally made every effort to fully disclose the true cost to the client. I would also suggest other less costly refund options such as e-filing with direct deposit, which can take as little as 8 days and costs nothing.

I was not always successful in talking my clients out of taking a RAL. For example, one of my clients – a mother with ten children – wanted the refund as soon as possible in order to take advantage of clothing sales that were taking place at that time.

Another product that I felt was a disservice to the client was called Peace of Mind. It was similar to selling a service contract with the purchase of a television or washer and dryer. Its stated purpose was to cover additional tax that the IRS would require if the IRS found an error committed by an H&R Block tax preparer or by the software program. As part of its tax preparation, Block provided coverage for interest and penalties for a Block-induced error at no additional cost. Because preparers typically do everything they can to prevent errors, the probability of the client needing additional insurance is extremely low.

I have provided the Subcommittee with a copy of a Block memo sent to me and to all tax preparers outlining the Peace of Mind sales procedure and stating that we were to “PERSONALLY endorse this OUTSTANDING product”. We were next pitched this same message by the District Manager at a mid-season meeting for all tax preparers. During the four years I was with Block, the level of intensity to push the Peace of Mind guarantee was very high and increased significantly each year. Initially, clients had to sign a release indicating they had been offered the product and had declined to accept it. Subsequently, Block included the Peace of Mind guarantee in the tax return preparation package – at a cost of about \$20 – and only removed it if the client specifically noticed it and refused to accept it.

H&R Block also encouraged its employees to sell its financial products through financial incentives and its tax preparer performance evaluations. Tax preparers received 15 percent of the system administration fee that was paid to H&R Block for completing the bank-related paperwork for a RAL. In addition, the number of RALs, RACs etc. sold was a part of our performance reviews. I have also provided a copy of my performance evaluation to the Subcommittee, which included a category for financial products such as RALs and RACs. As you can see, the evaluation reflects that my sales of financial products was not one of my crowning achievements with H&R Block.

In contrast to H&R Block’s practices, my next employer, a local firm called Tax Shop, offered RALs and RACs, but only because of the competitive pressures of those products being offered by other tax preparation firms. The client base was very similar to the client base at Block. If a client wanted to utilize a RAL or a RAC, we had it available to avoid losing that client. The products were not pushed, and there was no financial incentive to the tax preparer for selling them. A limited number of the firm’s

clients did request financial products, and one of the other preparers who was familiar with the paperwork process usually worked with those clients. I subsequently worked for a CPA firm that did not offer its clients any financial products.

For the last two years I have concentrated on my private practice. Because I believe they are a disservice to the client, I do not offer RALs, RACs or other financial products, even though they are available to me through the professional tax software I purchase.

Mr. Chairman, thank you for this opportunity to testify. I am prepared to answer any questions you may have.

#