

**Testimony of AccountAbility Minnesota
Regarding Voluntary Income Tax Assistance**

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Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
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Senator Coleman and Committee members, thank you for this opportunity to testify before this committee regarding free tax assistance for low-income Minnesotans. I am Bonnie Esposito, the Executive Director of AccountAbility Minnesota, a nonprofit organization that does pro bono accounting and tax assistance by leveraging volunteer resources. Since 1971 AccountAbility Minnesota has managed a dedicated team of volunteer accountants and tax practitioners to help thousands of low-income individuals navigate the tax reporting system so they may satisfy a tax liability or realize benefits they are due. The Earned Income Tax Credit (EITC) and Minnesota's Working Family Credit (WFC) offer essential financial assistance to thousands of Minnesota's working poor. The sum of all these credits can potentially add 50% to a working family's annual income. To give you a sense of our work, last year AccountAbility Minnesota's volunteers at 40 tax sites statewide helped return \$10.9 million in tax refunds to 9,500 low-income taxpayers.

AccountAbility Minnesota is one of many nonprofit organizations that offer free tax assistance through the IRS Voluntary Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. This year in Minnesota the Minnesota Department of Revenue reports there are 276 VITA and TCE tax sites – displayed on the map behind me and included in the list that was handed out earlier. According to the IRS 38,000 federal returns were filed by free tax sites in 2004, yet over 200,000 low-income families claimed EITC, which means they were eligible for the free service. Thus, only a small fraction of the households eligible for the service take advantage of it.

The tax code, especially the part governing the EITC, is complex. Rather than attempting to complete their taxes themselves, two-thirds of low-income Minnesotans pay to have their taxes prepared and filed. Children's Defense Fund Minnesota estimates that low-income Minnesotans spend more than seven percent (or about \$120) of the average EITC refund just to claim it. In 2003, at least \$18.5 million of the federal EITC funds claimed in Minnesota were spent on tax preparation and filing costs.

Why don't more Low Income families take advantage of free tax assistance? We believe there are a number of reasons:

1. Lack of capacity of the VITA program – VITA tax sites are usually filled to capacity, with long waiting lines for service. People are frequently turned away – especially at this time of year. For example, this week we turned taxpayers away at almost every tax session because we were filled to capacity. Due to funding cuts the IRS has had to cut back services substantially to the VITA program and is no longer able to recruit or train volunteers, or offer technical assistance at VITA tax sites. IRS walk-in centers used to be able to handle the most difficult tax problems, but they are no longer able to do so. Last year in Minnesota the IRS walk-in clinics prepared only 139 federal returns for EITC eligible households. They are now referring many of the taxpayers they used to help to our tax sites.

2. Inconvenient times or locations to receive the service. Of the 276 tax sites displayed on the map behind me, only 15 to 20% are VITA sites. The rest are Tax Counseling for the Elderly (TCE) tax sites. Although many TCE sites also help families, they target their services to seniors and are often located in senior buildings, senior centers, and are open daytime hours which are inconvenient for working low-income people. Also many of the TCE sites serve senior first and help families only if the volunteers have time. In contrast, to make it convenient for working families, VITA tax sites are open evenings and weekends. They also are often located in community-based sites where families are used to going for other types of services. However, VITA tax sites are severely under funded and are unable to serve more than three percent of the eligible households.

3. Lack of advertising dollars -- H&R Block, Jackson Hewitt, and other commercial tax preparers have multi-million dollar budgets to aggressively market their instant refunds. Nonprofit organizations with limited dollars rely on grass roots marketing and networking to advertise our service. Commercial ads lead people to believe they must use a commercial preparer in order to get their refund quickly. The public isn't aware how quickly they can get their money if they file electronically and have their refund direct deposited. AccountAbility Minnesota customers using direct deposit this tax season had their state refund in three days – only 1 day longer than the classic Refund Anticipation Loan and they didn't have to pay over \$120 (plus an additional \$100 for the loan) to get their own money.

Suggestions for improvement:

First, organize and sponsor a major marketing campaign with a public/private partnership among government, Minnesota's largest companies and employers, and major philanthropic partners to advertise not only the EITC, but also free tax assistance. Second, have partners make a commitment to have their employees volunteer, thereby setting an example to spur additional recruitment. Third, have the businesses and philanthropic partners announce their investment in the VITA program through private grants. Fourth, Congress needs to contribute federal funding through such legislation as the Good Government bill, now before you. This type of campaign would help advertise the free service to the people that need the help, it would help recruit volunteers that are needed to expand the service, and it would stimulate private funding to help nonprofits that manage VITA tax sites increase their capacity to offer service. Senator Coleman, I ask that you consider serving as the champion of this campaign for the government sector and I

invite you to volunteer as a tax preparer at an AccountAbility Minnesota tax site this coming tax season.

Senator Coleman, thank you again for this opportunity to testify before your committee regarding the VITA program. According to the study done by CDF MN, low-income families paid over \$23 million dollars for tax preparation and Refund Anticipation Loans, fees and interest in 2003 – much of that going to out-of-state banks. Please help us keep more of those dollars in the pockets of the working poor by expanding free tax assistance throughout the state of Minnesota.

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