



SHAPING THE FUTURE

INNOVATIONS TO IMPROVE ACCESS & BUILD A MORE EQUITABLE TAX SYSTEM

SEPTEMBER 2023





About Us



The Tax Equity Funders Network (formerly the EITC Funders Network) brings together national, regional and local level funders working to improve equity and economic security by reducing the tax burden on lower-income workers and modernizing state and federal tax systems. The Tax Equity Funders Network seeks to use the tools of our tax systems to undo historic race, ethnic, gender and ability discrimination, and provide avenues for low- and moderate-income families and communities to thrive.

As a result of our work, funders are more informed about the inequities of the tax system and tax-linked strategies to reduce poverty and improve equity. They are also able to shape the field according to emerging innovations and best practices. Learn more at taxequityfunders.org



Since 1979, Prosperity Now (formerly CFED) has been a persistent voice championing economic opportunity, innovating outside of and beyond existing systems to build power for all communities. We advance racial and ethnic economic justice by investing in bold new ideas, and we work deeply at both the grassroots and national level to impact the entire ecosystem. By setting goals for our economy and following through with targeted approaches based on need, we are equipped to drive forward and cement big structural solutions. Join Prosperity Now in creating a new, transformed economy that works for all of us. Visit us at www.prosperitynow.org

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A collection of briefs from field experts that outline innovative strategies to improve access and build a more equitable tax system.



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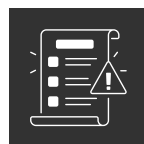
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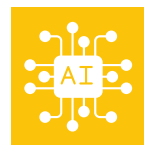
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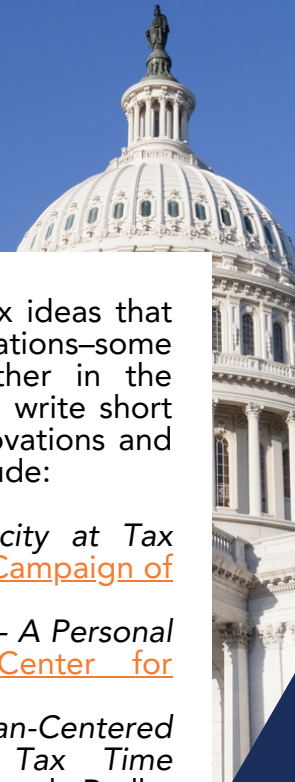
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INTRODUCTION



Completing taxes and getting all the tax benefits you are eligible for can be challenging. As a result, many low- and moderate-income taxpayers turn to helpers (free tax prep sites, paid preparers, DIY (Do It Yourself) software) or just don't complete them at all. Too many have difficulty doing it themselves or getting their taxes done in low-cost, non-predatory settings.

While VITA (Volunteer Income Tax Assistance), AARP Tax-Aide Centers and Low Income Taxpayer Clinics (LITCs) serve hundreds of thousands of families each year, the need far outstrips supply, and likely always will. The challenges faced by taxpayers and flaws in our current systems and structures were made even more apparent during the pandemic when getting help was more difficult and the number and kinds of benefits that could be received through the tax code increased - leaving many families not able to receive the benefits for which they are eligible, relying on predatory systems to receive basic government services and overall being confused and frustrated by government.

Project Overview: The Tax Equity Funders Network and Prosperity Now began to ask the question "what if?" What if big changes to systems could be made to enable more low- and moderate-income families to get their taxes filed with little hassle and at little or no cost? What could it look like?

To help elevate ideas, in the Fall of 2022 the Tax Equity Funders Network and Prosperity Now spoke with field and funder partners to identify a range of innovative, future focused ideas that could be explored.

After robust input, we selected six ideas that provide a mix of potential innovations—some more near term and some farther in the future—and asked field partners to write short briefs about these ideas. The innovations and the authors that share insights include:

- *Innovations to Expand Capacity at Tax Time*, Robin McKinney, [CASH Campaign of Maryland](#)
- *Regulation of Return Preparers- A Personal History*, Nina E. Olson, [Center for Taxpayer Rights](#)
- *Smart Reforms: How Human-Centered Data Can Transform the Tax Time Moment*, by Leigh Phillips and Radha Seshagiri, [SaverLife](#)
- *Scaling Access to Free Tax Assistance Through FSA VITA*, by Bryndan Stueve, [United Way Worldwide](#)
- *Waiving Income Reporting to Improve Access to the Tax System*, Gabriel Zucker, [Code for America](#)
- *Large Language Models will Democratize Tax Advice and Preparation*, Samuel Hammond, [Foundation for American Innovation](#)

To be clear, these briefs are not meant to be a compendium of all the ideas to improve tax systems that funders and the field have ever had. They are meant to raise important questions, get ideas flowing, spark debate and help us work toward an answer to "what if."

Any views, thoughts and opinions expressed by the authors of the briefs are solely those of the authors and do not reflect the views, opinions, policies or position of the Tax Equity Funders Network nor Prosperity Now.





Innovations to Expand Capacity at Tax Time

Robin McKinney, CASH Campaign of Maryland

The VITA program and the VITA Grant both need to be modernized to meet the needs of today's low-income taxpayers and how communities can collaborate and provide services.

Problem Statement

Since its creation in the 1970s, the Volunteer Income Tax Assistance (VITA) grant program has grown to support several thousand tax sites nationwide through partnerships with nonprofit organizations, local municipalities and institutions for higher education. The VITA grant program is an Internal Revenue Service (IRS) initiative designed to provide free tax preparation services for underserved community members (i.e., low-income individuals, persons with disabilities, the elderly and those with limited English proficiency) through various partner organizations. The IRS awards matching funds to these organizations, which offer free tax preparation services during the tax filing season across the country.

The CASH Campaign of Maryland (*Creating Assets, Savings and Hope*) promotes economic advancement and improves economic stability for low-to-moderate income individuals and families in Baltimore and across Maryland. This nonprofit organization is the result of a merger between the CASH Campaigns of Baltimore and Maryland. As long-time partners and allies, these organizations joined forces to create one unified organization in 2017; however, CASH has focused on closing the racial wealth gap since its program work began in 2001, including participating in the IRS VITA grant program.

CASH leads a network of direct service providers that also offer free tax preparation and increase access to reliable and affordable financial services. Across the state, CASH partners with over 50 local organizations to provide free tax preparation. In Baltimore City, CASH has built strategic partnerships with over 150 financial institutions, city agencies and local organizations; which convene twice yearly to gather feedback and share insights. As an active participant in national networks in tax preparation and financial capability, CASH takes advantage of many other similar opportunities to compare results and achievements with peers and learn best practices.

Tax preparation is an increasingly complex procedure, especially with special payments (E.g., Economic Impact Payments, Advance Child Tax Credits, etc.) and for those who are required to renew or apply with an Individual Taxpayer Identification Number (ITIN). With these special payments, deadlines were extended several years in a row; making tax season often longer than January through April. Additionally, those who are not able to get an appointment during the official tax season or have back-tax issues required additional time and support. Low-income taxpayers have complex challenges that are beyond the "transaction" of regular tax preparation. These taxpayers include those who had someone else claim their dependents, federal/state refund offsets, occupational license holds and/or those who have not filed for several years. Free tax preparation programs rely heavily on the recruitment, training and management of volunteers to deliver services to low-income households. Each year CASH recruits, trains and IRS certifies over 500 volunteers in Maryland. Volunteer positions include tax preparers, quality reviewer, greeters, intake coordinators and community resource navigators. Each role requires annual training and certification.

While gradual, there has been a noticeable shift in the availability of skill-based volunteers who are interested in providing in-person support—particularly in college students as they increasingly attend school online. Most significant in rural Maryland, there are also geographic gaps in qualified volunteers' availability. Additionally, VITA sites that serve low-income older adults (ages 65+) must separately apply for Tax Counseling for the Elderly (TCE), which has restricted and limited funding provided to support this specific demographic. Unlike VITA, TCE does not have income qualifications. Like many VITA sites, this is not a fit for what CASH seeks to do—without income requirements, we cannot ensure that we are providing tax preparation to low-to-moderate income individuals. If there is no minimum income requirement in place, there should be a low-income set-aside to offer extra incentive to organizations like CASH who aim to serve communities who have been historically left out of and exploited by financial institutions. The VITA grant structure has not kept up with the changing needs of the program participants in relation to these challenges.



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Innovation Overview

As a leading provider of free tax preparation services in Maryland, the CASH Campaign of Maryland proposes innovations that will both modernize the structure of the VITA grant program to meet taxpayers evolving needs and increase collaboration among partners to simplify delivery and improve efficiency.

Modernize Structure of VITA Program

1. Revise and Expand Scope (based on what taxpayers need now, particularly for entrepreneurs and small businesses). Regardless of where an entrepreneur is in their process, a common challenge is inadequate record keeping and tax compliance, which leads to high tax liabilities for self-employed people and individual financial insecurity. Tax compliance issues can also lead to a freeze on driver's licenses and occupational licenses. These repercussions hinder business growth and have an adverse effect on the entrepreneurs' ability to sustain and grow their business. In addition to tax compliance issues in growing a business, entrepreneurs also face personal financial challenges including poor credit, high personal debt or competing financial priorities.

At our VITA sites, CASH witnesses many start-ups that often have a loss in their first few years of business. Currently, only two types of canceled debt are in scope of the VITA grant program: (1) canceled credit card debt and (2) forgiveness of qualifying principal residence intendedness (see publication 4012, page D-66, and 4012, page 8 for Schedule 1 lines 8a-c). Expanding the scope with a simplified method of a home office deduction, net losses for business owners and cancellation of debt beyond credit cards—particularly auto loans—would be extremely beneficial to our community of entrepreneurs.

2. Update Structure of Grant Program. As a grantee representing coalitions with multiple locations, CASH has identified that a different narrative and reporting structure is needed for organizations like ours. Allowable expenses should be updated to include tax preparation and the Indirect Cost Rate (IDCR) should be 10% for the total grant award. There should also be credit for all taxpayers assisted, not just those who successfully filed a return. Also, there should be more money allocated for VITA sites that serve

individuals with ITINs and for sites that operate year-round. Low-income senior adults could specifically be covered by TCE with adjustments and more flexible funding.

3. Update Software Capabilities. Tax software should have the capability to easily schedule volunteers, track tax returns and communicate with clients. Get Your Refund has been helpful at consolidating some programs; however, to manage it, VITA sites must enter taxpayer information twice, then provide further entries with updates on the status of their return. There is a need for high-quality software to manage volunteers and client appointments. The customer portals used for communication by VITA sites and our taxpayers must also be simplified. It has been difficult for our clients to remotely sign their electronic tax returns using DocuSign and the TaxSlayer customer portal. The current software and systems in place add redundancies that decrease the efficiency, efficacy and accuracy of VITA sites.

At each VITA site, tax software should be able to provide all these services simultaneously. This would not only save time but also reduce the possibility of error by eliminating transference of information by volunteers between multiple software programs. It is challenging and expensive for VITA programs to source client and volunteer management software like this; however, a national entity like the IRS or Tax Opportunity Network may be able to negotiate a lower bulk-cost for these programs and work with companies to customize their services to work with VITA sites. To pull end-of-year reports, CASH currently pulls several reports for each tax site and then merges them into one consolidated report:

- Site Production Detail Report (electronic)
- Site Production Detail Report (paper)
- Site Production State Detailed Report (paper and electronic)
- Demographic Reports

It would be beneficial to tax sites like CASH if these reports were automatically merged into one summary that is available both electronically and printed on TaxSlayer. If they cannot be merged, it would be helpful to make them compatible. For example, the columns for the electronic return reports should match those in the paper reports so they are easier to cut and paste together.



Innovations to Expand Capacity at Tax Time

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The VITA program and the VITA Grant both need to be modernized to meet the needs of today's low-income taxpayers and how communities can collaborate and provide services.

Opportunities to Increase Collaboration and Simplify Delivery

1. Consolidate/ merge IRS Programs and Processes. Many disadvantaged communities have historically been exploited by or left out of the financial mainstream and thus lack trust. Individuals are less likely to take advantage of these free services when there are more complexities, requirements and paperwork. With fewer redundancies to prepare taxes, VITA sites will be able to expand their impact and increase efficiency.

The IRS should consider ways to consolidate VITA and TCE programs into one expanded program for low-income families and individuals; however, senior adults with a high income should receive TCE, not VITA. This consolidation will ensure that low-income families and individuals, regardless of their age, will benefit from free tax preparation services at VITA sites. With the elimination of unnecessary complexity and consolidation of IRS programs, there should be a similar process to simplify and eliminate requirements for use of some forms.

The Virtual VITA and TCE Consent Form ([14446](#)) can be condensed to a one-page document that taxpayers can quickly read and understand. Additionally, VITA sites should also be exempt from the requirement of Use and Disclosure form (§7216). To account for this adjustment, no-sell information could alternatively be included in the [Quality Site Requirements](#) (Publication 5166) or within program guidelines.

2. Explore the Possibility of Pre-filled Returns. Providing automatic returns for the last three years to those who are eligible to receive the EITC and/or CTC would simplify the process for taxpayers and more efficiently connect them with what is rightfully theirs. Additionally, the tax preparation process would be simplified and more efficient if returns were pre-filled in the current tax year for those who claimed the EITC and/or CTC in the previous year. This would not only benefit taxpayers but also tax preparers and the capacity of all VITA sites. A research project or pilot program should be implemented to explore this possibility for EITC/CTC recipients and all taxpayers.

3. Vet Independent Preparers for Referrals. When individuals or families do not qualify for VITA services, they should receive an alternative rather than be left to figure out another way to prepare their taxes. As a direct service provider, it is our responsibility to connect people to alternative resources that are equally reliable. By vetting tax preparers for referrals, VITA sites will expand their reach to positively impact more community members than would be possible alone. Expanding the network of reliable tax preparers is essential for the economic success of our communities.

CALL TO ACTION

Government

- Create a secure process to quickly access and/or replace the need for a physical Social Security card.
- Create guides with clear standards to help entrepreneurs and small-business owners avoid tax compliance issues and keep accurate records.
- Consolidate and/or merge IRS programs and processes for simplification, specifically with VITA and TCE grant programs.
- Update and enhance software capabilities (includes the exploration of pre-filled tax returns as a possibility).
- Expand the scope of canceled debt for the VITA grant program to support the financial stability of small-business owners.

Field

- Vet independent preparers for referrals when VITA sites cannot meet demand
- Have conversations internally and share strategies when sitting at various "tables of influence."

Funders (private and government)

- Update grant structures (i.e., allowable expenses, narrative and reporting requirements, Indirect Cost Rate, money allocated, etc.) to accommodate organizations like CASH who subgrant awards to partners, operate year-round, and complete complex tax returns (E.g., ITIN filers).



Regulation of Return Preparers - A Personal History

Nina E. Olson, Center for Taxpayer Rights

Congress must grant the Internal Revenue Service the authority to establish minimum competency standards for individuals who prepare income tax returns for a fee and who are not attorneys, certified public accountants, or enrolled agents.

Opportunism, Paid Tax Preparation Services and the Need for Regulation

One spring in 1996 or so, I was driving down a main street in Richmond, VA, when I noticed a neon sign with an arrow pointing toward a used car dealership. The sign read, "File your taxes with the Duck, use your refund for a truck." Now, the Duck was the mascot for the used car dealership. As the founder and Executive Director of The Community Tax Law Project, the first independent low income taxpayer clinic (LITC) in the country, I knew just what kind of problems arose from "drive-by" return preparation— inaccurate returns, inflated refund claims attributable to refundable credits, exorbitant interest charges for refund anticipation loans, inflated fees and cross-selling of products. I sighed. I knew the clinic would hear from many of the Duck's clients, post-filing season, when the Internal Revenue Service (IRS) froze their refunds and even subjected them to audits.

How had things come to this pass? When I entered tax practice in 1975, I started as an unregulated return preparer. In 1975, there was no tax preparation software available on the off-the-shelf market and e-filing was science fiction. I had to study forms, instructions, publications and books in order to prepare returns. But with the advent of e-filing, tax preparation software became widely available and with the expansion of the Earned Income Tax Credit (EITC), a refundable credit for low- and moderate-income working families, many low-income persons who previously were not required to file a tax return were pulled into the tax system in order to receive the credit. To encourage larger tax preparation firms to move to e-filing, the IRS began giving them a debt-indicator—i.e., notifying the preparer that there was an existing tax debt on the taxpayer's account that would be offset against all or part of the taxpayer's expected refund. The debt-indicator enabled tax preparation companies to safely market non-tax products such as refund-anticipation loans, which advanced a portion of the expected refund immediately to the taxpayer, at predatory high interest rates. The debt-indicator also opened the door to non-tax businesses preparing returns, so they could get taxpayers to apply their expected refunds for a down payment on vehicles, rent-to-own furniture, appliances, etc.

Fast-forward to 2002. By then I was appointed the National Taxpayer Advocate at the IRS and had the statutory requirement to submit a report directly to Congress in December of each year, in which I identified 20 of the most serious problems experienced by taxpayers and made administrative and legislative recommendations to mitigate those problems. (See Internal Revenue Code Section 7803(c).) In my 2002 Annual Report to Congress, I made a legislative recommendation proposing a comprehensive regulatory regime for tax return preparers who prepared returns for a fee and who were not attorneys, CPAs, or enrolled agents. (Enrolled agents are authorized to practice before the IRS after they pass an examination and meet the annual continuing education requirement.)¹

The legislative proposal, with a few later refinements, was as follows:

1. Require all individuals who prepare returns for a fee to register with the IRS and obtain a preparer identification number.
2. Require all return preparers who are not attorneys, CPAs, or enrolled agents (i.e., unregulated, non-credentialed preparers) to take an entrance examination designed by the IRS that tests knowledge of fundamental concepts of gross income, adjustments to income, deductions, credits, and taxable income, for individual tax returns, including sole proprietorships. (I also recommended the IRS develop a higher level of exam/certification covering other types of business returns.)
3. Upon passage of the examination, unregulated preparers would be listed as "enrolled preparers" on the IRS website and could advertise themselves as such.
4. To maintain their status, enrolled preparers must complete a certain number of hours of IRS-approved continuing education courses, including mandatory courses covering ethics, the most common errors on the previous year's returns and recent tax law changes.
5. The IRS should conduct a comprehensive public information and education campaign to educate the taxpayer public about the types of preparers who have competency to prepare returns and make available a searchable database of preparers who have obtained preparer tax identification numbers (PTINs) with their current professional designation.



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When I first made this recommendation, not only did the major tax preparation companies, CPA societies, and enrolled agents oppose it, but the Department of the Treasury and the IRS also opposed it. The tax preparation companies saw this as an undue burden. The CPAs and enrolled agents saw an official designation of “enrolled preparer” as competition and diluting their “brand.” And Treasury and the IRS said this was a matter for state regulation, not federal.

Now, this latter point makes no sense. The Internal Revenue Code is a federal tax law. To set up a system in which 52 jurisdictions (50 states, plus the District of Columbia and Puerto Rico) each establish different regulatory schemes for essentially the same service (preparing federal tax returns) is madness. In 2002, two states regulated return preparation (Oregon and California) and their regimes were very different. As more states have added such regulation, the structures continue to vary and the efficacy of taxpayer protections vary from state to state.

Going Undercover to Expose Fraud, Identify Theft and Exploitative Practices

Over time, as refund fraud and identity theft started to proliferate in the tax preparation arena, the tax preparation firms came to realize that a regulatory scheme was a way for them to distinguish themselves from bad actors in the field. CPAs and enrolled agents joined in support of the proposal, especially once a more suitable name for the “mere” preparers was proposed. And finally, around 2005 or so, Treasury and the IRS started to think that the “wild, wild west” of return preparation needed some federal control. Indeed, most IRS employees thought so—they saw the harm rendered by the status quo to taxpayers and the tax system every day.

As early as 2004, the Senate Finance Committee, on a bipartisan basis, passed versions of return preparer regulation.² And in 2006, the full Senate approved the legislation by unanimous consent, only to have it languish in the House of Representatives.³

In April 2006, the Senate Finance Committee held a hearing on Tax Return Options for Taxpayers. I testified before the Committee about the need for regulation of return preparers and about the inadequacies and cross-selling problems with the Free File Alliance products.⁴ The Government Accountability Office (GAO) witness testified about its “shopping” visits to a sample of unregulated return preparation sites; the findings were chilling.⁵ In 17 of the 19 returns, preparers computed the wrong refund amount, often by thousands of dollars. In two cases, taxpayers would have overpaid their tax by more than \$1,500. In five out of ten cases, preparers did not ask the required questions about the taxpayers’ children and thus prepared returns improperly claiming children and the associated credit. (GAO repeated this shopping visit study in 2014 and found much the same (17 of the 19 returns reported the wrong tax liability).⁶ The Treasury Inspector General for Tax Administration—TIGTA—conducted shopping visits in 2008 with similar results and the National Consumer Law Center regularly conducted shopping visits regarding fees and refund anticipation loans throughout the 2000s.)

Then Came *Loving v IRS*

In 2009, IRS Commissioner Doug Shulman determined that the IRS had the authority to regulate non-credentialed preparers; after an extensive series of public hearings and a notice and public comment period, the IRS implemented the program in 2011.⁷ The program, however, was immediately challenged in court, and in 2014 the Court of Appeals for the District of Columbia affirmed the lower court’s ruling that the IRS lacked the statutory authority to regulate tax return preparation, concluding that “mere” return preparation was not “practice” before the IRS. See *Loving v. IRS*, 742 F.3d (D.C. Cir. 2014).





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So where are we today? In response to Loving, the IRS established a voluntary “Annual Filing Season Program,” in which non-credentialed preparers can receive a “Record of Completion” and be listed on the IRS website if they meet certain requirements, including 18 hours of continuing education annually.⁸

And since Loving, members of both houses of Congress have repeatedly introduced legislation to grant the IRS the authority to regulate return preparation, including in 2019 and 2021.⁹ IRS Commissioners under Presidents Bush, Obama, Trump, and Biden have all testified before Congress begging for the authority to regulate return preparation as practice before the IRS.

For taxpayers, the unregulated field has become much more dangerous. In 2010, my Taxpayer Advocate Service employees started seeing cases where fly-by-night return preparers were altering returns after the taxpayers approved them and then pocketing the increased, fraudulent refunds. In other instances, the preparers stole the taxpayers’ refunds completely. It took us four years of intense negotiations and orders to the IRS to get it to develop procedures for making these taxpayers whole; and we still don’t have a complete solution to all the cases that arise. State attorneys general and consumer protection divisions have brought numerous actions against unscrupulous firms preying on taxpayers. Given all this, in 2014 to 2016, I asked the Ad Council to run ads during filing season warning taxpayers to be careful selecting their return preparer. The Ad Council declined.

Recommendations

What do we need to do? There are two components to unregulated return preparation that need to be addressed: competency of preparers and financial products/fees. The issues underlying both of these components are well understood, and yet we still are unable to move legislation forward. I believe we need new data that show the scope and continuing nature of the harm. We need the IRS to update its 2014 study showing that the 2006-2008 EITC returns prepared by non-credentialed preparers who are unaffiliated with large firms had the “highest frequency and percentage of EITC overclaims.” And we need qualitative evidence of the harm to taxpayers. It has been nine years since GAO conducted shopping visits in 2014. The Center for Taxpayer Rights stands ready to organize and conduct these visits, if we are funded to do so. I believe the evidence from the shopping visits will provide the “oomph” to get this legislation passed. We need to make it real to legislators just what is happening to their constituents in the absence of regulation of non-credentialed return preparers.

CALL TO ACTION

Government

- Congress must pass legislation to establish minimum competency standards for non-credentialed individuals who prepare federal tax returns for a fee, by requiring them to register with the IRS, pass an initial examination and complete annual continuing professional education.
- Treasury should update its 2014 study of return preparers who prepare EITC returns to determine scope and extent of EITC overclaims by non-credentialed return preparers vis a vis other types of preparers.

Field

- Advocate for passage of legislation establishing minimum competency standards for non-credentialed individuals who preparer federal tax returns for a fee. Alternatively, advocate for robust regulation of these preparers at the state level.

Funders (private and government)

- Fund a coordinated project of shopping visits during the 2024 filing season to demonstrate the harmful impact of the failure to regulate non-credentialed return preparers on low income and other taxpayer populations, including small businesses and self-employed individuals.



Smart Reforms: How Human-Centered Data Can Transform the Tax Time Moment

Leigh Phillips and Radha Seshagiri, SaverLife

SaverLife recommends advocating for smart, human-centered reforms at the IRS, using data to guide IRS reforms and prioritize household needs and making a real commitment to equity.

Problem Statement

In September 2021, SaverLife member Kimberly was waiting to receive her Child Tax Credit (CTC) payment. Living in Mississippi with her parents and children, Kimberly was working part-time, studying for her degree part-time, caring for her family and spending time she didn't have trying to navigate the IRS's customer service. *"The IRS said they haven't processed my taxes yet, but I've had my taxes done since January 27th. I usually get my refund back in a timely manner. Even last year, I got my refund within a couple of weeks. This year, they didn't even let me know I was missing any documentation. I sat on the phone for two hours waiting for someone."*

Unfortunately, Kimberly's situation was not an isolated incident—in 2021, families across the country reached out to the IRS about their CTC payments. And like Kimberly, these efforts led to frustration, stress, and limited information about when they would receive payments. Some called the IRS multiple times and had little luck reaching a representative, some lost the phone connection, some were hung up on and some were told they would have to wait another 30 days.

SaverLife is a national fintech nonprofit and advocacy organization committed to helping families of low- and moderate- income with financial stability and opportunity. Our online community provides members with financial content, savings rewards and incentives, community support and opportunities to engage in policy conversations. On average, SaverLife members—600,000 across the country—earn between \$25,000 and \$50,000. And many of them rely on multiple sources of income, including tax credits.

SaverLife members, and millions like them, may receive anywhere from \$590 to \$6935¹ from the Earned Income Tax Credit (EITC) and up to \$2000 from the Child Tax Credit. For those earning \$20,000-\$50,000 per year, the EITC alone represents a significant portion of their annual income. Combined, these credits help SaverLife families afford necessities, such as rent, clothes for school, medical care. They also help replenish their savings accounts, which are central to their financial stability and their future. Additionally, in 2021, tax credits increased significantly and became even more essential as the impacts of the pandemic continued to send shock waves through the economy. Cash infusions like the CTC are transformative for households with low- and moderate- income and families who do not have time to wait.





Smart Reforms: How Human-Centered Data Can Transform the Tax Time Moment

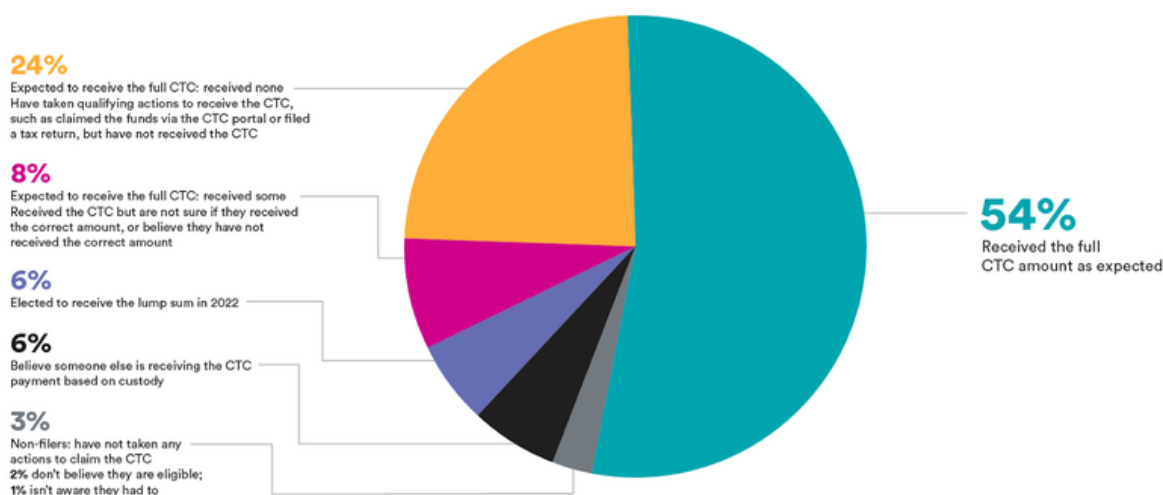
Leigh Phillips and Radha Seshagiri, SaverLife

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As a research and advocacy organization committed to shifting narratives and advancing policy initiatives that will lead to a more equitable America for people living with low- and moderate- incomes, SaverLife conducted interviews and surveys to better understand our members' experiences with the CTC. Through this research, we found that many missed out. Despite the best efforts of the IRS to issue payments, in 2021, only 54% of SaverLife member households received their advanced Child Tax Credit payments in full and on time.

Figure 1: Only 54% of SaverLife member households in 2021 received their advanced Child Tax Credit payments in full and on time

Are families receiving the Child Tax Credit payments?



*Based on a poll of 600 SaverLife members who've indicated they have dependent children under the age of 18. Poll was taken from 8/19 - 8/29

Source: SaverLife

We believe there are several reasons that families across the country did not receive their CTC, including issues related to customer service and an outdated tax code. The design of tax credits and refunds also prevent many from receiving vital support.

Customer Service

Thin staffing of customer service lines was part of the issue: with only 11%² of calls answered by the IRS last year, the burden on vulnerable families was high. They simply do not have the luxury of waiting on the phone or calling back repeatedly. In January 2023, the Taxpayer Advocate³ called for multiple improvements to address the primary concerns of return processing and refund delays, delays in processing taxpayer correspondence and difficulty reaching the IRS on its toll-free telephone lines. One SaverLife member indicated that she filed her taxes, received both her tax refund and stimulus payments, but did not receive the CTC. "I have no idea why I'm not getting it. It still says pending on the IRS website. I've tried calling [the IRS] and I can never get through. Called probably 30 times. The phone just hangs up on me," said Sara in Arizona.

Outdated Tax Code

Tax regulations that may have made sense decades ago have not evolved with the changing structures of our economy or our society. Today, gig work and microentrepreneurship are on the rise,⁴ but people embracing entrepreneurship or relying on side hustles to make ends meet often don't have clear guidance on the tax implications of these streams of income. Reporting online payments, thresholds for 1099K and Venmo business transactions and misclassification of workers as gig workers/self-employed are sources of confusion. In turn, they sometimes miss out on the benefit of tax withholding and deductions.



Smart Reforms: How Human-Centered Data Can Transform the Tax Time Moment

Leigh Phillips and Radha Seshagiri, SaverLife

SaverLife recommends advocating for smart, human-centered reforms at the IRS, using data to guide IRS reforms and prioritize household needs and making a real commitment to equity.

In multiple ways, the tax code places the burden of determining the tax implications of earned income directly on the filer.

Family structures⁵ are also evolving: households today look very different than they did in 1975 when the EITC came into existence. For example, the numbers of unmarried people and children living with an unmarried parent are higher today⁶ than ever before. Parents who are divorced, separated or never married and who share custody of a child with an ex-spouse or ex-partner face complexities when claiming dependents. These variations in household structures have implications on the eligibility and amount of CTC payments.

In other cases, identity verification can lead to further delays, compounding the burden of proof on the family. SaverLife member Kristin, who lives in Texas, shared that *“identity theft is holding up my CTC and stimulus check payments. The IRS has held my payments for the last eight months. I haven’t received either the last stimulus check or the last few CTC payments. The IRS is still investigating my report despite it being eight months late. I’ve talked to multiple people at this point. I filed that report in February and it’s now September.”*

Exclusionary Design

The design of tax credits also impacts their receipt. The Inflation Reduction Act of 2022, for instance, aims to lower energy costs for households while preparing our communities for climate change. Yet low- and moderate- income households face barriers to accessing these benefits, including lack of capital for upfront costs and a high likelihood of being renters, limiting their access to incentives for home improvements. Similarly, the Child and Dependent Care Tax Credit benefits only a few: those who have the funds to pay upfront for child care throughout the year and obtain receipts so that they can collect benefits when filing their taxes. Those who rely on family members for child care or do not have extra cash to wait for a year-end offset for child care costs, cannot use this benefit. Only 26%⁷ of SaverLife members report frequently using paid child care in a formal setting and only 24% of SaverLife members report claiming the Child and Dependent Care Tax Credit despite 53% of members having a child in their household.

As an agency that delivers public benefits, the IRS must keep pace with the required customer service levels, the changing nature of work, family structures, child and dependent care needs and more, while also ensuring delivery of benefits in a timely and effective manner.

Recommendations

SaverLife offers the following recommendations to those who are looking to support and uplift households with critical resources for financial stability and upward mobility. SaverLife’s recommendations are based directly on the experience of our members and by understanding their struggles and closely monitoring their experiences.

Advocate for smart, human-centered reforms at the IRS

The tax benefits of the Inflation Reduction Act, the Child and Dependent Care Tax Credit and other programs that have the potential to uplift American households sometimes have the inadvertent effect of leaving households of low-to-moderate income behind. Expanding access begins with human-centered design, which is already in use across the federal government and can play a pivotal role at the IRS.

This begins by creating a Family and Worker Benefits Unit (FAWBU)⁸. It could serve as a dedicated unit, responsible for all aspects of delivering tax benefits related to families and workers. It would also be a better reflection of the role the IRS plays in delivering critical benefits to households.

Feedback loops with trusted community partners can play a central role: by working closely with the FAWBU, and the IRS more broadly, we can provide vital insights on the design and desired outcomes of tax policies—ones that are intended for economic mobility but do not always reach households.



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Use data to guide IRS reforms and prioritize household needs

Trusted partners and organizations can monitor the receipt of refunds and report rapidly on delays or other issues from our direct connection to households and through the surveys and interviews we conduct regularly. Data gathered from these partnerships will inform advocacy efforts and allow the IRS to more quickly identify and resolve errors, as well as provide information to filers who have delayed payments. This feedback can also be published in a publicly available report to build transparency.

SaverLife applauds the IRS for its efforts to engage in listening sessions, committing to Stakeholder Partnerships, Education & Communication (SPEC), Taxpayer Advocate Service, Stakeholder Liaisons and other programs. The continued commitment to these stakeholders will be vital—and ensuring that communities are at the center of the agency’s efforts—to rebuild trust. Yet more can be done. By committing to building relationships with partners, the IRS can combine nationally informed approaches with locally grounded input and expertise to drive change and respond in an agile manner.

Identify appropriate, trusted messengers to deliver messages

Many consumers have a lack of trust in government institutions, especially those from low income or from Black, Indigenous and People of Color (BIPOC) communities, who have long experienced ongoing and systemic racist practices of extraction and exclusion. Building trust with our BIPOC communities and those of low-to-moderate income means that we must forge relationships and understand their needs directly from their feedback and ideas.

Trusted messengers and community organizations also play a pivotal role in ensuring our country’s diverse communities have timely information about key provisions in the tax code. They can help distill complex information in a relevant and culturally appropriate manner. At SaverLife, our tax outreach efforts are extremely popular. Through our platform, over 9,000 members have taken our pledge to save part of their tax refund this year. *“I found out about the CTC through SaverLife... I didn’t know the amount [of the CTC in 2021] had gone up until I read it on your website,”* said SaverLife member Marci C. in Arizona.

Commit to equity

Recent data shows that the IRS is 5.5 times⁹ more likely to audit a low-income earner receiving the EITC than anyone else. And it can’t go unnoticed that those who are audited are far more likely to be Black,¹⁰ despite the race-blind nature of the agency. To truly center equity so that the credits reduce, not exacerbate disparities in access to opportunity, income and wealth, the IRS must adopt a more equitable system that centers the circumstances of all people.

This can be done by evaluating the distribution of tax credits and tax refunds against those criteria, especially as we consider the role tax credits play in helping to build security and wealth for millions. Ultimately, this means ensuring equity by defining the desired measurable outcomes, as they provide a framework and basis for the necessary follow-up actions and committing to feedback loops with trusted partners and organizations for insights at the household level.





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Moving Forward

Tax credits represent a promise of much-needed investment in American families. Well before the pandemic, households of low- and moderate-income were waging an uphill battle against poverty and inequality—especially BIPOC families who have historically been overlooked and underserved.

At SaverLife, we pride ourselves on our commitment to listening to our members and to advocating with them and for them. As such, we believe these recommendations will better serve our members and the millions of households like them with low- and moderate- income. Investing in their voices is an investment in the voices of households and their needs. Together, we can chart a brighter future for all families across the country.

CALL TO ACTION

Government

- The IRS is playing an increasingly critical role in providing access to benefits and supports that are essential to the financial stability and economic mobility of families in America. Investing in the infrastructure to meet the needs of families and ensure the equitable disbursement of these resources is necessary and urgent. Decades of underfunding have choked the IRS and limited its capacity to fulfill its growing mandate; the taxpayer service, in particular, has been decimated. With the recent infusion of funding to the IRS, the agency must devote resources to ensuring equitable outcomes for the millions of families that rely on tax credits and refunds to make ends meet. The IRS must devote these resources to include feedback loops with trusted community partners, who provide vital insights on the design and desired outcomes of tax policies—ones that are intended for economic mobility but do not always reach households due to inefficient design.

Field

- The financial security and economic mobility field has room to grow and evolve. To ensure that we are solving the right problems, we must invest in well-designed research directly with tax filers to ensure our understanding of how households access and use tax credits is based on data not assumptions. Much philanthropic investment is focused on outreach: encouraging and helping households to file taxes, maximize their credits and receive their refunds in a timely manner. However, we can work together more effectively by truly understanding the problems that households face. We know that many families that file taxes still face problems receiving their refunds or that tax credits are designed in ways that put them out of reach for significant numbers of eligible families. Understanding the bottlenecks and other issues can help shed light on the appropriate solutions. Truly understanding the nature of the problems that households face requires better information—disaggregated at the household level. We can work more collectively and holistically at capturing both quantitative and qualitative data that accounts for all Americans, so that together we can push for more effective and responsible policies that can improve the lives of the American people.

Funders (private and government)

- Philanthropy can be a powerful catalyst by resourcing and uplifting organizations that work directly with households to guide and inform the IRS. Community-based organizations and consumer-facing institutions play a critical role in the infrastructure of tax credits and refunds, since they have direct access to families. They help quickly identify payment errors and trends, understand bottlenecks or other constraints. This can provide the agency with critical and timely information from which to design and implement appropriate solutions. Well-resourced community-based organizations allow the IRS to more quickly identify and resolve errors as well as provide trusted and timely information to families. Multi-year, unrestricted funds to community-based organizations can truly have an impact: they help build economic security and mobility for millions.



Scaling Access to Free Tax Assistance Through FSA VITA

Bryndan Stueve, United Way Worldwide

This brief will discuss FSA VITA best practices and advocacy items that VITA funders, practitioners and other stakeholders can implement to help double the impact of VITA and TCE by serving 2+ million more low- and moderate-income Americans

Problem Statement

The IRS is the nation's largest administrator of anti-poverty benefits for workers and families with children¹. In 2021, the IRS paid more than \$700 billion in benefits to Americans through the Earned Income Tax Credit (EITC), Child Tax Credit (CTC) and economic impact payments. Only the Social Security Administration distributes more benefits to U.S. households annually. However, unlike with Social Security benefits, most Americans pay annually, in the form of tax preparation fees, to receive the benefits they are owed from the IRS – eroding the value of these resources and disincentivizing people from obtaining them. The IRS provides multiple free tax filing options for filers who wish to avoid paying expensive filing fees, but these services are unevenly distributed and underused.

Since the 1960s, the IRS has been supporting Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, which rely on volunteers to provide free, reliable tax filing services for millions of Americans annually. Because they are time-intensive services that are reliant on volunteers, VITA and TCE service models are only able to serve 3% of the 100 million eligible filers annually. Further, the COVID-19 pandemic accelerated a trend of declining VITA and TCE production. Between 2015 and 2022, the number of VITA and TCE volunteers declined 37%, the number of sites declined 48% and returns declined 42%.²

In an effort to increase the number of individuals that had access to online filing tools, the IRS also offers "IRS Free File." However, this program is significantly underused. Of filers who were eligible to use the IRS Free File program, nearly 40% paid to use the software they were eligible to use for free.³ Of those who used the Free File version, many were charged fees to file state returns, which creates mistrust as the service is not really free.

A modern, efficient and scalable VITA and TCE service model is needed to ensure everyone who wants and is eligible for free tax assistance can access these services.

Innovating VITA

Scaling VITA by Aligning Services with Filing Behavior

Nearly half of U.S. households regularly use online software to file their taxes, but this filing style is not widely adopted in VITA and TCE. In 2021, 44.5% of all returns were e-filed by individuals that completed their own returns using online software, whereas in 2022 only 5% of VITA filers completed their own returns using online software via a method the IRS calls Facilitated Self Assistance (FSA) VITA.⁴ With suitable investment, FSA VITA can double the impact of VITA and TCE to serve 2+ million more low- and moderate-income Americans.

Background on VITA Service Models

VITA and TCE provides low- and moderate-income (LMI) filers with access to a variety of in-person and remote free tax preparation services. VITA service delivery models include:

- Traditional in-person volunteer return preparation, also called **Traditional VITA**, where volunteers prepare and file tax returns for filers.
- Virtual VITA volunteer return preparation, also called **Virtual VITA**, where filers upload/hand over their documents and volunteers prepare and file their taxes remotely.
- Taxpayer self-assisted return preparation, also called **Facilitated Self Assistance (FSA) VITA**, where filers prepare their own taxes with on-demand volunteer support.

The **Facilitated Self Assistance (FSA) VITA** model allows filers to prepare their own taxes using online software with assistance provided by IRS-trained support specialists that answer questions and ensure filers submit accurate returns, typically via phone, email or web chat.⁵



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There are two variations of FSA

- **Remote Facilitated Self Assistance (FSA)**, also called FSA Remote, where filers prepare their own taxes online using their own digital device with on-demand support
- **Co-located/standalone FSA**, where filers prepare their taxes at designated locations staffed by volunteers, such as computer labs and libraries.

Scaling VITA Through FSA

FSA VITA can dramatically scale access to VITA services by increasing accessibility, eligibility, efficiency and convenience, providing millions more LMI Americans with free tax assistance.

Accessibility

FSA Remote VITA services are available to anyone with an internet connection and co-located/standalone FSA can fill the gap for filers without regular access to a digital device. In 2022, one FSA VITA program, MyFreeTaxes, served clients spanning more than 8,000 U.S. cities.

Eligibility

FSA VITA services expand VITA eligibility to millions of LMI Americans who are currently excluded from Traditional and Virtual VITA services. Since FSA filers complete their own returns with assistance when needed, they may include forms and situations in their FSA VITA return that prevent them from accessing Traditional or Virtual VITA—such as self-employment income. While 28% of U.S. households (44 million) have some self-employment income and 17% (26 million) report self-employment income on their taxes annually, only 6% of VITA and TCE filers include self-employment on their taxes.⁶ LMI entrepreneurs are currently underserved by VITA's free and safe tax filing services, but FSA VITA can help close that gap.

Efficiency

FSA VITA uses limited volunteer resources to deliver maximum impact. Traditional and Virtual VITA typically require one or more hours of volunteer time to produce each VITA return, since volunteers are preparing returns start to finish. However, returns prepared through FSA VITA only require VITA volunteer support when filers actually need assistance and most volunteer support interactions require less than 15 minutes of volunteer time. Typically, new FSA VITA filers may only need assistance on one or two sections of their return that they may find confusing and returning FSA VITA filers only need assistance on a specific section if their tax situation changes.

Convenience

FSA Remote VITA is available on-demand from the convenience of a filer's digital device and is routinely the fastest VITA filing method available to filers. Most FSA filers complete their returns in less than an hour. Conversely, Traditional and Virtual VITA may require a one-to-two week lead time if the site requires an appointment and then filers must spend one to two or more hours to travel to the site, wait to be seen and then have their return completed. Transportation barriers, volunteers calling out or filers forgetting to bring physical copies of sensitive tax documents may all increase the time investment for filers accessing Traditional and Virtual VITA.

FSA VITA extends the availability of VITA services to all LMI Americans who have the digital connectivity and interest in filing their own returns online.



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Insights on FSA VITA Implementation

User and practitioner research completed last year by New America's New Practice Lab and United Way Worldwide identified a set of best practices for implementing FSA VITA at scale. Broad adoption of these recommendations will help grow VITA and increase the share of VITA returns completed via FSA.

Understand Filer Fit: Filers who can successfully file via FSA VITA are diverse, but generally have the skills to be comfortable using digital devices and communicating via email and the confidence and ability to follow software prompts and instructions. Nearly 45% of U.S. households currently prepare their own returns using online software, and there is no reason to think LMI filers should be any different.

Center Choice and Present Options Upfront: The majority of VITA practitioners we spoke with tried to deploy FSA VITA as a means to relieve demand from Traditional VITA sites with long wait times. This strategy saw relatively low filer interest since the filer had already invested time and effort in accessing higher-touch Traditional VITA services, but still successfully helped many filers complete their returns via FSA. A more efficient and scalable approach redefines VITA services to explicitly include both Traditional and FSA VITA, centers both VITA models in outreach efforts and presents VITA-eligible communities with the option of choosing between Traditional and FSA VITA services to access the service model that is the best fit for them.

Source The Right Volunteers: Ideal VITA volunteers supporting FSA filers are tech-savvy self-starters who enjoy the flexibility of remote work and the opportunity of helping filers resolve tax and technology questions via various modalities, including phone, email, SMS, live chat, video chat and virtual office hours. Volunteers will need to achieve IRS VITA Certification, either through self-certification or virtual training provided by a VITA practitioner. Proficiency with email, Microsoft Teams and Zoom preferred but not required.

Conduct Outreach and Promotion of FSA VITA at All Levels of Government: The "free" tax filing landscape is fraught with misleading claims, leading many LMI filers to mistakenly believe truly free tax filing does not exist or does not exist outside Traditional VITA.

Promotion of FSA VITA services by federal, state and local government agencies is a low-cost, high-impact activity that will increase awareness of FSA VITA services and validate for filers that these services are actually free. Outreach and promotion by government agencies is one of the primary means by which filers learn about United Way's FSA Remote VITA program, MyFreeTaxes, but only a few states (e.g., DC, HA, OR, VT,) and cities (e.g., Philadelphia, Louisville) promote FSA VITA services to their constituents. The IRS itself does not yet conduct outreach around or promote the availability of FSA Remote VITA services and instead only promotes Traditional in-person VITA services. VITA practitioners and funders should engage government agencies at all levels to widely promote the availability and legitimacy of FSA Remote VITA services.

Redefine the VITA Target Population: VITA programs are proficient at reaching the communities they target with their services. Due to capacity limitations, most Traditional VITA programs target specific sub-communities within the larger population of VITA-eligible LMI Americans. VITA practitioners that are most effective at reaching filers at scale with FSA services tend to define their target population to include all VITA-eligible filers. Adopting this perspective informs outreach strategies and partnership development to ensure that LMI filers who would prefer FSA VITA learn about the availability of this service alongside communities who prefer higher-touch, Traditional VITA.

Some practitioners even define their target population as all filers who are interested in filing their taxes online for free and then triage program participants to refer VITA-eligible filers (those who earn less than \$73k) to FSA and non-VITA eligible filers to other free solutions, thereby implementing a no-wrong-door program model that simplifies outreach and maximizes word of mouth referrals.



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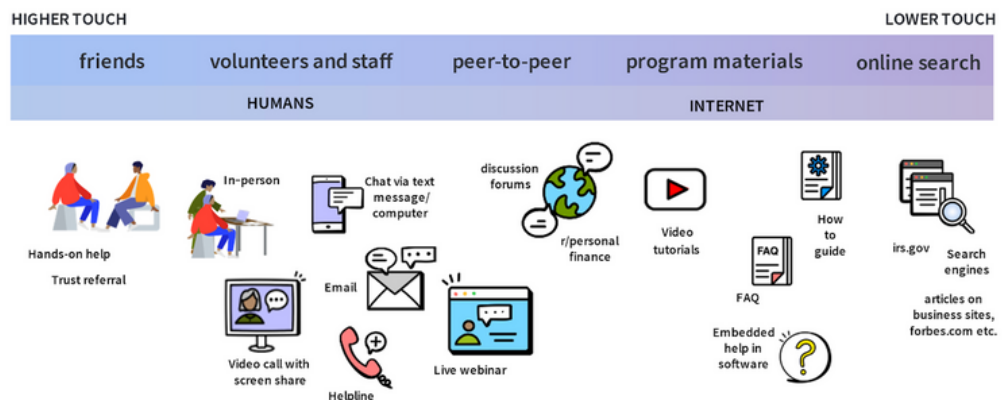
This brief will discuss FSA VITA best practices and advocacy items that VITA funders, practitioners and other stakeholders can implement to help double the impact of VITA and TCE by serving 2+ million more low- and moderate-income Americans

Redefine Success: Most VITA stakeholders measure success in terms of returns completed via Traditional VITA. This makes intuitive sense, since practitioners are typically asked to report on the direct impacts achieved by their programs, such as the number of returns filed by their volunteers. However, this approach fails to recognize the substantive impacts of returns completed via FSA VITA. The VITA network must broaden our definition of success to focus on the total number of filers who access free and safe tax filing services through VITA. This definition focuses on impacts at the community, regional, national and network level, and enables VITA practitioners to communicate the full scope of their impact, to include returns completed via Traditional and Virtual VITA, returns completed via FSA VITA while accessing assistance from the VITA practitioner directly and returns completed via FSA VITA while accessing assistance from a third-party VITA partner.

Provide Right-Sized Assistance:

The IRS encourages FSA VITA practitioners to provide one or more of phone, email or web chat assistance to filers. Filer and practitioner interviews reveal the ideal FSA VITA program provides filers with a range of assistance resources encompassing a variety of higher- and lower-touch services. However, some FSA providers have found success serving thousands of filers with a more limited suite of support styles, such as phone or email only assistance paired with a How-to guide and other tutorials.

There is a wide variety of support options and styles



Streamline the Filer User Experience: Discussions with practitioners and filers revealed frustration with some key steps in the FSA filer’s user journey that can be resolved through shrewd program design.

Current IRS SPEC rules prevent FSA VITA partners from providing the FSA software link to unknown persons on a public website and recommend sites individually email prospective FSA filers the software referral link. Many FSA filers have responded to this rule by having prospective FSA filers complete a short interest form and then automatically email users the FSA software referral link and instructions on accessing the FSA VITA program’s assistance services. While this solution does enable FSA practitioners to abide by IRS SPEC rules while servicing filers efficiently and at scale, the process creates delays and causes a significant portion of prospective FSA filers to drop out of the process. As many as 20% of prospective FSA filers may not receive the automated email containing the link to access the software, as email service providers and IT security settings will often route the email to the junk folder or block it from arriving at all due to it being perceived as malicious spam. During stakeholder interviews, filers and practitioners both indicated this process raises “red flags” for users because it is an atypical and uncommon user journey not seen elsewhere in users’ digital lives and because users have been instructed and conditioned to be vigilant about malicious actors when filing their taxes.

FSA practitioners are pre-empting some of these concerns by summarizing the referral steps upfront, but the best user journey enabling FSA practitioners to serve filers at scale allows filers to self-certify their VITA-eligibility and access the FSA software referral link online. IRS SPEC is currently allowing some FSA practitioners to pilot this streamlined referral process. We encourage more FSA practitioners to submit a request to join this pilot and look forward to IRS SPEC allowing the results of the pilot to update the FSA referral requirements.



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CALL TO ACTION

Government

- Adopt the goal of aligning returns filed via the VITA program with how Americans prefer to file their taxes, with about 45% of returns completed by filers using online software.
- Structure VITA grant funding to incentivize recipients to implement their own FSA VITA initiatives or integrate referrals to a partner's FSA VITA initiative within their program design.
- Promote FSA VITA alongside Traditional and Virtual VITA as primary VITA services available to all eligible filers.
- Include promotion of FSA VITA alongside Traditional and Virtual VITA in all VITA and tax-filing related communications.
- IRS-specific opportunities
- Increase the impact data provided for returns completed via FSA Remote to include data on state refunds and credits and zip code level data that practitioners need to measure and communicate local impact.
- Revise FSA referral rules to allow for a streamlined user experience.

Field

- Incorporate FSA VITA as a core component of your VITA program, either by implementing your own FSA VITA initiative or integrating referrals to a partner's FSA VITA initiative within your program design.
- Redefine success metrics to include the total number of filers who access VITA's free and safe tax filing services in a community rather than just focusing Traditional VITA return production.
- Advocate with governmental partners at all levels to promote FSA VITA services to their constituents, especially on federal, state, county, city webpages and in communications sent to public benefit recipients.
- Coordinate with partners to create a suite of broadly applicable filer support materials for FSA VITA filers, including software guides and subject-specific guides, such as with [Self-Employment Income](#), Claiming Education Credits and more.

Funders (private and government)

- Structure VITA grant funding to incentivize recipients to implement their own FSA VITA initiatives or integrate referrals to a partner's FSA VITA initiative within their program design, so that all VITA practitioners have a role to play in helping scale VITA through FSA.
- Redefine success metrics to include the total number of filers who access VITA's free and safe tax filing services in a community rather than just focusing Traditional VITA return production.
- Provide support to enable VITA practitioners to build the digital systems necessary to provide FSA services at scale, such as modern, well-designed websites, case management systems and other digital tools.
- Advocate with governmental partners at all levels to promote FSA VITA services to their constituents, especially on federal, state, county, city webpages and in communications sent to public benefit recipients.
- Support VITA practitioners and industry experts to create a suite of broadly applicable filer support materials for FSA VITA filers, including software guides and subject-specific guides, such as with [Self-Employment Income](#), Claiming Education Credits and more.



Waiving Income Reporting to Improve Access to the Tax System

Gabriel Zucker, Code for America

This innovation centers on an IRS-built filing tool that does not require most taxpayers to report their own income. An IRS built direct filing tool could ease this burden for them and narrow the tax benefits gap for the millions that currently can't access their tax benefits at all.

Problem Statement

The difficulty in reporting income data on a tax return stops many low-income families from filing tax returns and claiming thousands of dollars in tax benefits. For decades, the field has known that millions of families a year miss out on critical tax benefits because they don't file a return—and that the difficulty of accurately filing a return is one of the principal reasons families do not file.¹

Recent work by the Code for America Tax Benefits team confirms what many in the field have long thought: that, specifically, the difficulty of accurately reporting income data on a return is a principal barrier to filing for low-income households. Tracking down tax forms and accurately classifying income is a daunting task that stops many families from filing.

We know this thanks to a variety of evidence we collected in running GetCTC, a simplified filing tool that allowed traditional non-filers to claim some tax benefits without reporting their income in 2021 and 2022. We were able to run GetCTC thanks to an IRS-developed simplified filing process²—which itself was possible due to the fully refundable Child Tax Credit and Recovery Rebate Credit in those tax years. The evidence is summarized at length in our report, *The Importance of Simplified Filing*:³

- When we offered an income-free filing tool, tens of thousands of families were able to use the tool quickly and easily. Nearly 200,000 families used GetCTC across the two years we offered it, usually finishing the process in 15-20 minutes. Four out of five called the process “easy” or “extremely easy.” This evidence strongly suggests that income-free filing was a game-changer for traditional non-filers.
- To make a more precise comparison, we ran a randomized experiment in June 2022, in which some traditional non-filers were sent to GetCTC and others to traditional full tax filing products through VITA, which did require income reporting. We estimate that five to seven times more clients completed simplified compared to full filing.
- To isolate income reporting still further, we offered W-2 reporting and EITC claiming functionality on a pilot basis in GetCTC, for one month in 2022. Clients using the tool were given the option to report their W-2s and claim EITC, alongside CTC and RRC; or continue with income-free filing to claim only the CTC and RRC. We found that only one in six clients who got to the W-2 functionality successfully added a W-2. Drop-off in the W2 section was far higher than in any other section of the tool. Our clients found GetCTC easy to use—but not when income reporting was included.

Income reporting is one of the principal blockers for low-income would-be filers.
What can we do about it?

The Solution: An IRS-built filing tool that does not require most taxpayers to report their own income.

First, it is worth noting that GetCTC itself is not a scalable solution. Running GetCTC was possible because, in filing seasons 2021 and 2022, significant tax benefits were available to low-income families without a filing obligation and the amount of those benefits was not dependent on the exact amount of families' income.

The CTC was \$3,600 for a young child whether their parents earned \$0, \$1, \$100 or \$10,000. As such, the IRS authorized the submission of tax returns that omitted income reporting entirely, and processed those returns without regard for the exact amount of a filer's income.⁴ But this is not sustainable.



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First, under current law, there simply are not any tax benefits that do not depend on the precise amount of a filer's income; the EITC and TY2022 CTC are functions of earned income and cannot be calculated without that information.

Second, even if there were still, for example, a fully refundable CTC, it would still be critical in the long run for low-income families to receive all the money they are owed—including benefits, like EITC, that are income-dependent. We need a solution that does not require income reporting directly from families, while still having the income information available to tax agencies.

Thankfully, such a goal is eminently achievable, because the IRS does already know income data for the vast majority of households. Income is reported to the IRS on Forms W-2 and 1099. We need a system that takes advantage of this data to remove the need for most clients to report their own income.

Such a system could take a couple of different forms.

1. Income pre-population

One commonly discussed model is a government-run tax filing application featuring income pre-population. Under such a system, a filer would verify their identity to the tax filing tool and would see a record of all the income the IRS already knows about. If those records are complete, the taxpayer does not need to report or classify any additional income.

Critics have pointed out one possible drawback of such a system: if IRS income records are incomplete, taxpayers could be induced to underreport their income and then be liable for the error. However, a pre-population system does not require perfect IRS data. In February 2023, Code for America published the results of a design exercise exploring what an IRS direct file tool with pre-population could look like.⁵ We explored in detail how pre-population could be used to make the filing process easier for taxpayers, while still keeping the onus on the taxpayer to review, confirm and, if necessary, edit their data.

A draft of a pre-populated income page is shown here, illustrating how a taxpayer could be prevented from continuing until they proactively confirm that this income list is complete. Our prototype designs are speculative and any such pages would need to be refined based on testing with taxpayers. But the idea is clear: we can address this problem with thoughtful, iterative design. The prototype also explores other critical aspects of a pre-population system, including other ways to utilize and pre-populate other data the IRS has regarding the taxpayer, such as prior-year dependents, or unresolved EITC bans under Section 32(k).

QuickFile

English / [Spanish](#) Chat

Here are the income records we have for you and your spouse in 202X. You are required to add any missing income.

Walmart
Bentonville, AK 72716
\$25,068.50 edit

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Waiving Income Reporting to Improve Access to the Tax System

Gabriel Zucker, Code for America

This innovation centers on an IRS-built filing tool that does not require most taxpayers to report their own income. An IRS built direct filing tool could ease this burden for them and narrow the tax benefits gap for the millions that currently can't access their tax benefits at all.

2. Back-end income automation

A significant drawback of the income pre-population system is that the filer must be able to verify their identity to a very high level of assurance. The IRS cannot present sensitive income data of a taxpayer back to a web user who may not be the taxpayer themselves. A good tool would have many flexible options for identity verification, which have been tested and proven with vulnerable populations; some of these considerations are outlined in our prototype work. But even the best-designed identity verification systems will leave out some low-income households who do not have the resources to pass identity checks.

For such households, our design prototype proposes offering a functionality we called Look Up My Income. Taxpayers who confirm they had only W-2 income in the given tax year would provide just family structure information (as they did in GetCTC), and then authorize the IRS to use its own copy of W-2 data to complete the rest of the return on the taxpayer's behalf. The IRS backend processing could be completed with technology akin to the FixERS tool—a tool the IRS uses to catch and correct errors—the IRS deployed in 2022.⁶ The refund amount would be revealed to the taxpayer only later, via mail. The taxpayer would have to actively confirm various criteria that indicate they are eligible for this service.

A mock-up of the sign-up page for this functionality—which would come after other pages in the application adding family information and other data—is shown here.

The screenshot shows a web interface for 'QuickFile'. At the top, there's a blue header with 'QuickFile' in white. Below the header, there's a language selector 'English / Spanish' and a 'Chat' button. The main content area has a white background with a blue border. It starts with a heading: 'Please make sure you can use the Look Up My Income Option.' Below this, a paragraph states: 'You elected to have the IRS determine your refund amount using our records of your income from 202X.' There's a section titled 'To use this option, please confirm:' with three checkboxes and their corresponding text: 1. 'I did not earn any income last year other than salaries and wages income reported on Form W-2' (checkbox is unchecked). 2. 'I understand that this process may delay my refund 4-6 weeks' (checkbox is unchecked). 3. 'I would like the IRS to prepare my return using the income data that the IRS has on file.' (checkbox is unchecked). Below these checkboxes is a grey button labeled 'Continue with Look Up'. At the bottom of the form, there are two blue buttons: 'Manually add my income instead' and 'Verify my identity instead'.

The IRS announced in May 2023⁷ that it will launch a direct file tool in 2024. Per Treasury, the pilot version of this tool will not contain such income automation, which is a prudent choice.

We believe in principles of iterative software development, which dictate starting with a minimum viable product—launching a product that is useful but basic before adding more advanced functionality.

The minimum viable product for an IRS direct file tool will—like today's tax prep software—require taxpayers to report their own income. But even a tool without income automation will be an excellent first step towards the more robust functionality we described here.



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CALL TO ACTION

Thankfully, the project to build an IRS tool that could grow to encompass income automation is already in motion. In May, the IRS delivered a report to Congress⁸ documenting taxpayer interest in an IRS direct file tool and finding the project viable for the agency. The IRS also announced that it would make direct file available as a pilot in 2024. While the pilot will not contain income automation features, the report documents taxpayer interest in and expectations of data pre-population in the longer term and it is clear that the direct file project could expand to encompass this functionality.

We call on government to continue the direct file project. And, we call on advocates, funders and field partners to support the project as a priority of a modernizing IRS and to help make the project a success. Specifically:

Government

- Launch the direct file pilot program in 2024, with a focus on low-income taxpayers. Detailed recommendations and best practices are documented in our publication on the possibility of an IRS direct file tool.¹⁰
- The IRS, along with state and local governments (particularly Human Services agencies), should proactively promote the 2024 direct file pilot tool in line with outreach best practices developed in running GetCTC.¹¹ Government outreach actors should experiment with other new outreach strategies and measure their effectiveness.

Field

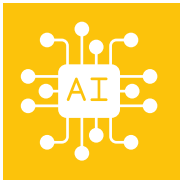
- Publicly support the direct file tool and proactively promote it in coordination with the IRS, VITA sites, states, local governments and other relevant actors.
- Identify and document any client-facing issues with the direct file tool so the IRS direct file team can—hopefully—quickly resolve them.

Funders (private and government)

- Encourage and support grantees to participate in outreach activities for IRS direct file and to integrate it with VITA and other free tax preparation resources where available.

The field and funders should remember that IRS direct file may not be the best filing option for every taxpayer. In early years, the functionality may be limited, leaving some taxpayers out of scope. And many taxpayers will always require more hands-on assistance for their more complicated cases; these taxpayers will continue to rely on the invaluable assistance of VITAs and LITC sites in their communities. But the tool will be a unified way to increase access for millions of families at once, democratizing access to the tax system at an ambitious scale and setting the stage for automation that will break down profound barriers for low-income filers. This is a goal the entire field can get behind.





Large Language Models Will Democratize Tax Advice and Preparation

Samuel Hammond, Foundation for American Innovation

Artificial Intelligence (AI) has the potential to transform many areas of American life, not least our experience with the tax system. This brief provides an overview of how LLMs could transform the US tax system by making tax preparation more accessible for taxpayers, contributing to a more efficient and equitable tax system for all.

Overview

Artificial Intelligence (AI) has the potential to transform many areas of American life, not least our experience with the tax system. While software applications for preparing and processing tax filings are nothing new, recent advances in AI portend a step-change increase in the capabilities available to the IRS and taxpayers alike. Indeed, in the near future, AI-powered services will likely be able to answer any question an individual or business has about the tax code, read and summarize complex tax documents, prepare and file returns on one's behalf and even execute sophisticated tax strategies—all at virtually zero marginal cost.

Recent progress in AI has been driven by the emergence of powerful Large Language Models (LLMs), such as the GPT series of models developed by OpenAI. LLMs are machine learning systems capable of generating natural language responses to almost any human query. LLMs are trained with large datasets to merely predict the next word in a sequence yet demonstrate emergent reasoning and inference capabilities as models increase in scale.

From copy writing to computer programming, LLMs have already shown remarkable potential in various applications. Now, LLMs are being explored for their potential in modernizing the tax system and democratizing tax preparation services. In this brief, I explore how LLMs could transform the US tax system by making tax preparation more accessible for taxpayers and contribute to a more efficient and equitable tax system for all.

A brief history of LLMs

Language models, which aim to teach computers to understand and generate human language, have been an area of active research for decades. However, the computing power and large datasets needed to train sophisticated language models only became available relatively recently.

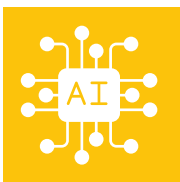
In 2017, a new machine learning approach called "transformers" was introduced that took the field by storm. The paper, "Attention is All You Need," proposed a new model architecture that uses self-attention mechanisms to capture the long-term dependencies between words in a sentence.¹ Models based on transformer architectures quickly achieved state-of-the-art results on a range of language tasks, including machine translation, text classification and question answering. To the surprise of many researchers, the performance of LLMs not only improved as the models grew larger but became qualitatively better at generalizing concepts beyond certain scaling thresholds—a phenomenon known as "grokking."²

Since then, many LLMs have been introduced and made available to the public. The most well-known LLM is ChatGPT from OpenAI. ChatGPT gained 100 million users in the first two months following its release, making it the fastest growing consumer technology product in history.³ Comparable LLMs have also been developed by Google, Meta and

AnthropicAI, along with a bevy of open-source competitors.

The most powerful LLMs require large supercomputers and tens to hundreds of millions of dollars to train (known as the "pre-training cost"). However, once trained, the cost of using an LLM (its "inference cost") is extraordinarily cheap and getting cheaper. The ChatGPT API currently costs \$0.002 to generate 1000 tokens or roughly 750 words. This equates to 375,000 words—a 750-page book—generated for the cost of a single dollar. Training costs are also falling rapidly. Most notably, researchers at Stanford University recently released a model called Alpaca that has capabilities comparable to ChatGPT but which was trained for only \$600 using consumer-grade hardware.⁴

With the release of GPT-4 in March, 2023, publicly available LLMs can now do everything from pass the LSAT in the top percentiles to code a website from a simple text description.⁵ GPT-4 is also multi-modal, meaning it can accept images and other non-textual data as inputs. This includes the ability to upload a scanned document and query the model about its contents, bypassing the need for optical character recognition (OCR) technology. Perhaps most significantly, OpenAI has also announced support for plugins, allowing ChatGPT to browse the web, access a code interpreter, retrieve documents and interface with dozens of other applications.⁶



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LLMs applied to taxes



Surprisingly, GPT-4 already demonstrates competency with tax preparation out of the box. When prompted with a set of household characteristics, such as adjusted gross income and the number of dependents, the model will estimate the household's tax liability net of credits and deductions.⁷ However, the model's intrinsic knowledge is limited to its pre-training data, which cuts-off in September 2021, meaning such outputs are not guaranteed to be fully accurate or up to date.

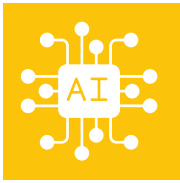
The GPT class of LLMs are what is known as "foundation models." Such models are language and reasoning generalists, serving as the foundation for applications customized around a particular use case or domain of expertise. Software developers access foundation models via API, allowing companies and organizations to fine-tune language capabilities for a specific task or domain. Such integrations can greatly enhance the capabilities of the base model. For instance, GPT-4 can be instructed to pre-process its response against a curated knowledge graph, thereby avoiding the tendency of language models to hallucinate incorrect or outdated facts. For the purposes of tax preparation, this could be a tax engine or database of relevant tax policies, ensuring the model responds on the basis of the latest law and regulation.

The reasoning capabilities of LLMs can also be harnessed to devise a chain of actions, such as calling upon simple scripts to perform tax calculations or to pull information from a relevant document. This is often accomplished by asking the LLM to reason "step by step" about a multifaceted task, creating a plan it can then execute. This allows LLMs to serve as a natural language interface for every kind of computer program.

All told, progress in machine learning research has recently accelerated. In the coming months and years, LLMs and related models are sure to have additional, unanticipated capabilities. A recent study from researchers at OpenAI estimated the near-term labor market impact of LLMs across a variety of industries and occupations. Their top-line finding indicates that "approximately 80% of the U.S. workforce could have at least 10% of their work tasks affected by the introduction of GPTs, while around 19% of workers may see at least 50% of their tasks impacted." The same report finds that tax preparers have 100% exposure to automation by GPTs, where exposure is defined as driving a reduction in the time it takes a human to complete a task by at least 50%.⁸

A handful of companies are already deploying LLMs in the context of business taxes. OpenAI's major investment in this space is the startup Harvey AI, which specially trained ChatGPT on legal data to assist and automate complex legal questions, including contract analysis, due diligence, litigation and regulatory compliance. Harvey AI recently announced a special partnership with PricewaterhouseCoopers, indicating the technology is being extended to accountancy as well.⁹

The application of LLMs to taxes isn't limited to elite legal and accounting services. Personal AI "co-pilots" are widely available for a growing number of tasks and will soon reach mainstream adoption with the release of Microsoft 365 Copilot later this year.¹⁰ Tax services for individual use will touch both the end process of completing a filing and the process of tracking relevant tax data throughout the year.



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Consider Keeper Tax, a tool built on GPT-3 to extract data from recent bank statements to automatically identify tax-deductible expenses.¹¹ As these tools develop, the next generation of models will approximate having a personal chartered accountant in your pocket.

In the near term, however, the applications of LLMs to personal taxes can be grouped into four major buckets:

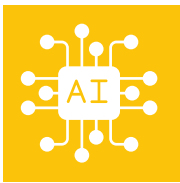
Personalized Tax Advice: LLMs will be used to generate personalized tax advice based on individual circumstances, reducing the need for expensive human tax advisors. For example, an LLM could ask taxpayers a series of questions about their income, expenses and deductions and generate customized advice based on their responses. Overall, personalized tax advice and counseling generated by LLMs could help taxpayers save money and time by avoiding the need for human tax counselors and CPAs.

Automated Tax Preparation: LLMs will help automate tax preparation processes, reducing errors and saving taxpayers time and money. A multi-modal LLM could automatically extract relevant information from taxpayers' financial documents and input it into their tax forms, reducing the need for manual data entry. The model could then use its knowledge of the tax code to recommend particular tax provisions and "pre-populate" their return.

Real-Time Feedback: With LLMs, taxpayers could receive immediate feedback on their tax returns, ensuring that they are accurate and complete before submission. For example, an LLM could flag potential errors or inconsistencies in taxpayers' tax returns as they input their information, helping them avoid costly mistakes and reducing the likelihood of IRS audits. Additionally, LLMs could provide real-time suggestions for maximizing tax deductions and credits, helping taxpayers reduce their tax liability.

Increased Accessibility: Lastly, LLMs will help increase tax compliance by making expert tax advice and preparation services available 24/7 and in multiple languages. Natural language as a medium will enhance accessibility by empowering users with vision or mobility issues. Given the competitive landscape of LLMs, tax assistance will also likely be free or available at an ultra-low cost, making tax preparation services more affordable for taxpayers with limited financial resources.





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Case Study #1

To illustrate the power of LLMs for tax advice and preparation, consider a hypothetical single household with two children, ages 4 and 8, and \$20,000 in gross income. As a first stage, feeding these characteristics into GPT-4 elicits an initial estimate of this household's refund for 2021, the year of the model's knowledge cut-off.

As shown in the outputs on the right, GPT-4 correctly infers that this household likely qualifies for the Head of Household tax status and thus a larger standard deduction. The model further assigns the correct Child Tax Credit (CTC) amounts under the American Rescue Plan given each child's age. Lastly, the model correctly suggests the household is eligible for the maximum Earned Income Tax Credit (EITC) for a taxpayer with two qualifying children and links to the IRS's online EITC assistant for more information.

Model: GPT-4



I need help filing my US federal income taxes. Specifically, I am a single female with two children (ages 4 and 8) and \$20,000 in annual gross income. What should I expect my tax refund to be? Assume the year is 2021.



I'm not a tax professional, but I can try to give you some general information about your tax situation based on the tax laws for 2021. Keep in mind that this is not personalized tax advice, and it's always best to consult a tax professional for your specific situation.

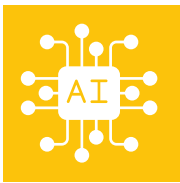
Based on the information you provided, here are some things to consider when estimating your tax refund:

1. **Filing Status:** As a single parent, you may qualify to file as Head of Household, which has more favorable tax brackets and a higher standard deduction than the Single filing status.
2. **Standard Deduction:** For the 2021 tax year, the standard deduction for Head of Household is \$18,800. This will reduce your taxable income.
3. **Taxable Income:** Assuming you have no other income or deductions, your taxable income would be \$20,000 (your gross income) minus \$18,800 (the standard deduction), which equals \$1,200.
4. **Income Tax:** Based on the 2021 tax brackets, the tax rate for the first \$14,100 of taxable income for a Head of Household is 10%. Therefore, your income tax liability would be $\$1,200 \times 10\% = \120 .
5. **Earned Income Tax Credit (EITC):** With two children and a gross income of \$20,000, you may qualify for the EITC. In 2021, the maximum EITC for a taxpayer with two qualifying children is \$5,980. The actual amount you receive depends on your income and other factors. You can use the IRS EITC Assistant (<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant>) to estimate your EITC.
6. **Child Tax Credit (CTC):** For 2021, the CTC was expanded to \$3,000 per child for children ages 6-17 and \$3,600 for children under 6. In your case, you would have one child eligible for the \$3,000 credit and one for the \$3,600 credit. These credits are refundable up to \$1,400 per child, meaning that even if your tax liability is reduced to \$0, you can still receive a refund for the remaining amount.

Considering these factors, your tax refund might be calculated as follows:

- Income tax liability: \$120
- Earned Income Tax Credit: (up to) \$5,980
- Child Tax Credit: \$3,000 (8-year-old) + \$3,600 (4-year-old)
- Total Refund: EITC + CTC - Income Tax Liability

Please note that these calculations are a rough estimate and do not take into account any other credits, deductions, or taxes you may be subject to. It's always best to consult a tax professional for your specific situation.



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Case Study #2

The EITC is a crucial financial support mechanism for low-income households in the United States. However, its complex design contributes to errors (over- and under-payments) and a high audit rate. According to the GAO, the audit rate for EITC taxpayers is 0.77%, more than three times the average of 0.25% for all taxpayers. Moreover, in a typical year, an estimated 15-20% of eligible taxpayers fail to claim the EITC at all.

The complexity of the EITC arises from its numerous eligibility requirements, such as rules governing qualifying children and eligible earnings. As LLMs possess vast knowledge and capabilities to process natural language, they can help EITC filers by providing clear, accurate and personalized explanations of tax rules, guiding them through the process of determining eligibility, calculating the credit amount and properly reporting it on their returns.

Continuing with the example household above, suppose the taxpayer clarifies that their oldest child only lives with them four months of the year. GPT-4 immediately understands that this has implications for their eligibility given the residency tests for claiming a child under both the CTC and EITC.



My oldest child only lives with my 4 months out of the year. Does that affect my refund at all?

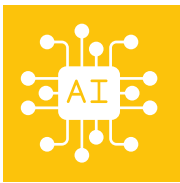


Yes, the living arrangement of your children can affect your tax refund, specifically regarding the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC). 👍 👎

For the CTC, a child must meet certain criteria to be considered a qualifying child. One of these criteria is the residency test. To meet the residency test, your child must have lived with you for more than half the year (more than 6 months). Since your oldest child only lives with you for 4 months out of the year, they may not be considered a qualifying child for the CTC. This would mean that you could only claim the CTC for your younger child, which is \$3,600 for a child under 6 years old in 2021.

For the EITC, a child must also meet certain criteria to be considered a qualifying child, including the residency test. If your oldest child doesn't meet the residency test, they may not be considered a qualifying child for the EITC. This would affect the amount of EITC you can claim, as the credit amount differs based on the number of qualifying children.

Keep in mind that there are exceptions and additional rules for divorced or separated parents, and the noncustodial parent may be able to claim certain credits if they meet specific criteria. It's important to consult a tax professional for your specific situation, as they can help you determine your eligibility for tax credits and deductions based on your individual circumstances.



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Case Study #3

Complex and differing qualifying child rules are one of the largest sources of error for low-income filers. When prompted, GPT-4 can also explain how those rules vary across provisions in the tax code:

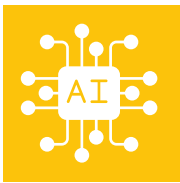
Prompt: What are the qualifying child rules for the CTC and EITC and HoH status? How are they the same or different?

 The qualifying child rules for the Child Tax Credit (CTC), Earned Income Tax Credit (EITC), and Head of Household (HoH) filing status are similar in many respects but have some differences. Here's a breakdown of the rules for each:

1. Qualifying child rules for the CTC and EITC:
For both the CTC and EITC, a qualifying child must meet the following requirements:
 - a) Relationship: The child must be your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals (e.g., your grandchild, niece, or nephew).
 - b) Age: For the CTC, the child must be under 17 years old at the end of the tax year. For the EITC, the child must be under 19 at the end of the tax year, or under 24 if they are a full-time student. There is no age limit if the child is permanently and totally disabled.
 - c) Residency: The child must have lived with you in the United States for more than half of the tax year. Temporary absences, such as for school or medical care, still count as time lived with you.
 - d) Support: The child cannot have provided more than half of their own support during the tax year.
 - e) Joint Return: The child cannot file a joint return for the year, unless they are only filing to claim a refund and would not have had a tax liability if they filed separately.
2. Qualifying child rules for Head of Household (HoH) status:
To claim the HoH filing status, you must have a qualifying person who lived with you for more than half the year. While a qualifying child for the CTC and EITC can also be a qualifying person for the HoH status, the rules for the HoH status are slightly different:
 - a) Relationship: The qualifying person can be a qualifying child (as defined above) or a qualifying relative, such as a parent, sibling, or grandparent, who meets specific requirements.
 - b) Age: There is no specific age requirement for a qualifying child or relative for the HoH filing status.
 - c) Residency: The qualifying person must have lived with you in the United States for more than half of the tax year. Temporary absences, such as for school or medical care, still count as time lived with you.
 - d) Support: You must have paid more than half of the cost of maintaining your home for the tax year. This includes rent, mortgage interest, real estate taxes, utilities, repairs, property insurance, and food consumed in the home.

In summary, while the qualifying child rules for the CTC, EITC, and HoH status share similarities in relationship, age, and residency requirements, there are differences in the support requirement and the inclusion of qualifying relatives for the HoH status.

Bear in mind, these are outputs from the basic version of GPT-4. Services customized around tax prep will build on this foundation, allowing for data retrieval from an individual's financial documents, complete access to current IRS forms and publications and the ability to call upon third party plugins. The above case study is merely offered as a proof of concept.



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Conclusion

The rapid development of Large Language Models (LLMs) has the potential to revolutionize the tax preparation landscape by making tax advice and services more accessible, accurate and affordable. With LLMs' vast knowledge and natural language processing capabilities, taxpayers will soon benefit from personalized tax advice, automated tax preparation, real-time feedback and increased accessibility to tax services of all kinds.

As LLMs become more integrated into tax preparation processes, they are expected to reduce errors, saving taxpayers time and money and potentially reducing the audit rate. This is particularly significant for low-income households, who often struggle with the complexity of provisions within refundable tax credits. LLMs can help these taxpayers navigate the tax system more efficiently, ensuring they receive the support they are entitled to.

Ultimately, the democratization of tax preparation services through LLMs has the potential to create a more equitable and efficient tax system, benefiting taxpayers across the income spectrum. Policymakers, tax professionals and technology developers must work together to harness the potential of LLMs while addressing their challenges, ensuring the responsible and beneficial integration of this ground-breaking technology into the world of tax advice and preparation.

CALL TO ACTION

Government

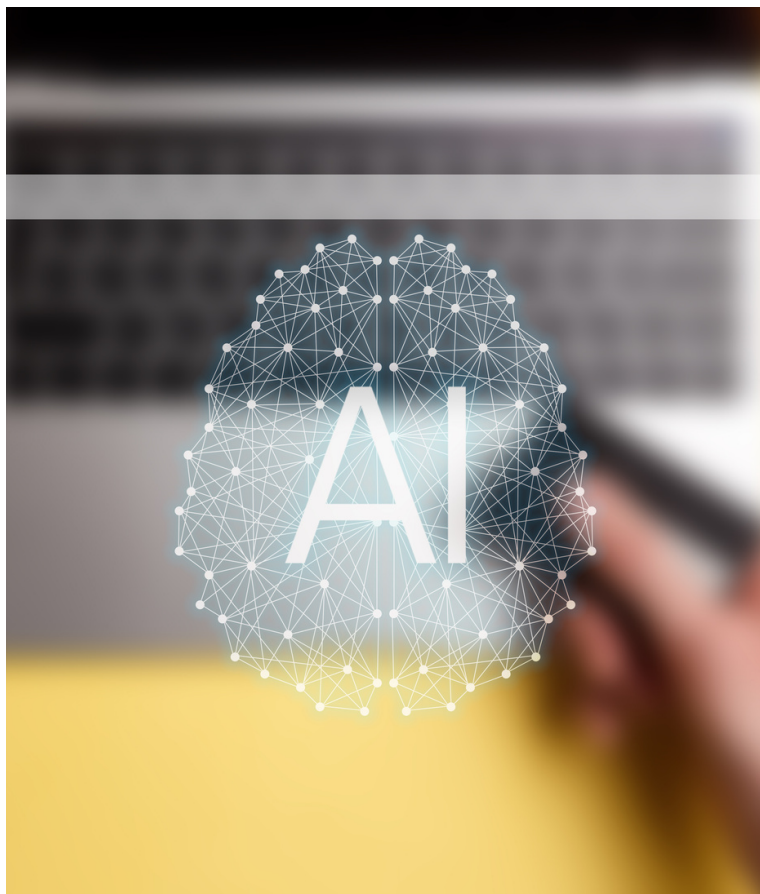
- The government should explore opportunities for deploying LLMs in the context of tax examination, enforcement, and customer support, while making available up-to-date datasets of current tax law and regulation for use in training LLMs.

Field

- Organizations working in the field should familiarize themselves with current AI tools and trends, explore ways of integrating LLMs into their current work and provide feedback on their utility and limitations to funders, governments and other tax policy stakeholders.

Funders (private and government)

- Funders should likewise familiarize themselves with the trends in AI and explore how it could impact both their current funding strategies and internal grant making processes. This could include identifying gaps in tax prep assistance that the for-profit sector is neglecting and the development of AI-enabled tax applications by nonprofit/public interest software developers.



Additional Resources



INNOVATION #2

Regulation of Return Preparers - A Personal History

Nina E. Olson, Center for Taxpayer Rights

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3. Tax Administration Good Government Act, H.R. 1528, 108th Cong. § 141 (2004) (incorporating Tax Administration Good Government Act).
4. [Statement of Nina E. Olson, National Taxpayer Advocate, Senate Finance Comm. Hearing on Tax Return Options for Taxpayers \(Apr. 4, 2006\).](#)
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6. [Government Accountability Office, Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors \(Apr. 8, 2014\).](#)
7. IRS Pub. 4832, Return Preparer Review (Dec. 2009).
8. [Annual Filing Season Program for Preparers.](#)
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INNOVATION #3

Smart Reforms: How Human-Centered Data Can Transform the Tax Time Moment

Leigh Phillips and Radha Seshagiri, SaverLife

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INNOVATION #4

Scaling Access to Free Tax Assistance Through FSA VITA

Bryndan Stueve, United Way Worldwide

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Additional Resources

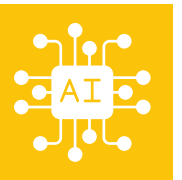


INNOVATION #5

Waiving Income Reporting to Improve Access to the Tax System

Gabriel Zucker, Code for America

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INNOVATION #6

Large Language Models Will Democratize Tax Advice and Preparation

Samuel Hammond, Foundation for American Innovation

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Sincerely,

The Tax Equity Funders Network
Prosperity Now - Taxpayer Opportunity Network

Special Thanks



Contact

www.taxequityfunders.org
info@taxequityfunders.org

www.prosperitynow.org
hello@prosperitynow.org