

Asset Building

Increase funding for free tax preparation to support low-income families during the COVID-19 crisis

March 27, 2020

KALITHA WILLIAMS

People who are paid low wages often work challenging jobs, such as restaurant servers, child care providers or home health aides. They deserve to make enough money to make ends meet. Our state and national tax codes are upside down and full of holes. Taxpayers at the very top pay less as a share of their income than people who struggle to get by. Free tax preparation programs help filers who are paid low wages keep more of their refund. In the midst of the COVID-19 pandemic and its economic fallout, this service is critical. Low income workers, many of whom have been laid off due to mandatory closures, need more money in their pockets. Every bit helps. In order to get the extra support, many low wage Ohioans will need help from free tax preparation programs. For-profit alternatives to free tax preparation assistance often gouge clients with hundreds of dollars in fees.

Ohio has a strong network of free tax preparation programs that offer this important service to senior citizens and low-to-moderate income families during the tax filing season. By taking necessary precautions to limit the spread of COVID-19, Governor DeWine's orders have led to the closure of nearly every free tax preparation site in the state and caused the cancellation of thousands of appointments. The Internal Revenue Service (IRS) has rightly extended the federal tax filing deadline to July 15, 2020 and is offering relief to people in existing installment payment programs. Governor Mike DeWine and the Ohio legislature followed suit and extended the filing deadline for state, municipal and school district to the same date. Federal policymakers should take additional, swift action to ensure that Ohioans have access to these important services.

Free Tax Preparation Programs

There are two primary programs operating in Ohio that offer free tax preparation services: the Volunteer Income Tax Assistance (VITA) program and Tax Counseling for the Elderly (TCE). VITA, founded in 1969, focuses on tax filers with annual incomes under \$56,000, people with disabilities, and those with limited English-speaking proficiency. Most TCE programs are operated by the AARP Foundation

Tax-Aide program. AARP Foundation started the Tax-Aide program in 1968 for people over 50 years old. Both programs receive financial and technical support from the Internal IRS and train volunteers to do individual tax filings. In 2019, VITA filed 1.5 million returns. The AARP Tax-Aide program has filed nearly 50 million returns since its inception. Ohio's 11 VITA programs and the AARP Foundation Tax-Aide program operate dozens of sites throughout the state at libraries, malls, banks, schools and other publicly accessible facilities.

Last year, the IRS received over 154 million individual income tax returns. Nearly three-quarters of individual income tax filers received a refund at an average of about \$3,000. When tax filers qualify and claim tax credits that are larger than the taxes they owe, they receive the difference as a refund. Many low- and moderate-income families can claim refundable tax credits like the earned income tax credit (EITC) and the child tax credit (CTC), which were designed to boost their wages. Together, the EITC and the CTC lifted 7.9 million Americans out of poverty. Tax refunds are the largest paycheck most workers will receive all year. Workers who are paid low wages use their refunds to purchase food, make car repairs and pay for child care. While paid preparers charge on average \$294 to complete and file an individual tax return and push exploitative high-interest financial products, free tax preparation programs help refunds go further. Paid preparers offer refund anticipation loans (RALs), refund anticipation checks (RACs), and prepaid debit cards which can carry triple-digit interest rates. The National Consumer Law Center gave an example of a preparer allowing their customers to pay \$40 to defer a \$300 tax filing fee for three weeks. The fee for this service is the same as paying 232% annual percentage rate for a short-term loan.

Nationwide, businesses are closing their doors and laying off employees or cutting their hours. The Trump Administration has encouraged Americans to quickly file their tax returns so those receiving refunds can use them to weather the financial uncertainty. Without the help of free tax preparation programs, filers with low incomes may turn to paid tax preparers.

Federal, state and local filing tax deadlines extended

After pressure from Congress, tax professionals and free tax preparation advocates, the IRS announced the extension of the federal tax filing deadline to July 15, 2020. This policy change is helpful for self-employed earners who may have been depending on their March and April income to pay their federal taxes. Governor DeWine and the Ohio legislature took decisive action to extend the tax filing deadlines for state, local and school districts. This measure will prevent unnecessary confusion for Ohioans who may have been subject to state and local late filing penalties if they waited until the federal deadline to file. The extensions will give

Ohio's free tax preparation programs the opportunity to re-organize their efforts to offer their services to filers. However, extensions do not help people who are unable to file due to pandemic-related restrictions that cut off access to free tax preparation support.

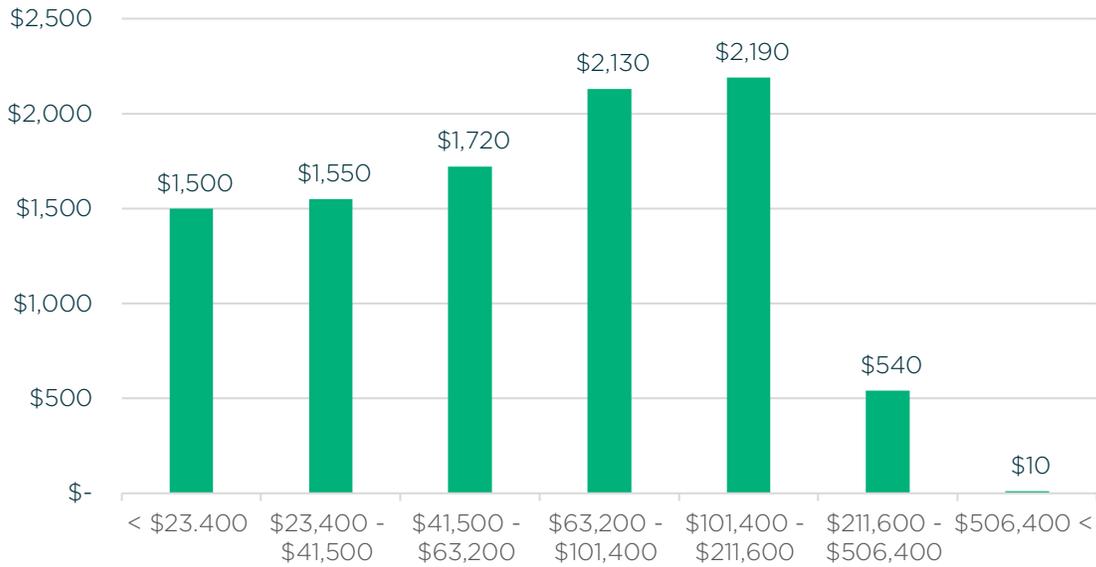
Information for tax filers

- If you cannot wait: Use free online software to file income taxes. Governor DeWine should promote this option during his daily public briefings and include the option in state outreach to the public on COVID-19. The IRS has a [Free File Online](#) site with several choices. Most are for those with annual household income below \$69,000, but there are choices for higher income families. Beware of options for additional fees for unnecessary services like "tax law support" or "CPA sign off."
- If you can wait and prefer to work face-to-face with a free tax preparation program: After coronavirus restrictions have lifted, use the tools on [this page](#) to identify a VITA or AARP Tax-Aide site or call 800-906-9887.

Federal Stimulus Dependent on Tax Filing

The pending federal stimulus package increases the urgency to get free tax preparation sites operating so more Ohioans can file their taxes. On March 25, 2020, the United States Senate passed the \$2 trillion federal stimulus legislation, which includes a [provision](#) that will give many Americans a one-time payment or rebate. The payments will be up to \$1,200 for individuals and \$2,400 for married couples and \$500 per child. Benefits decrease for individuals with annual earnings over \$75,000 or \$150,000 for married couples. The chart below shows the estimated amount of payments Ohioans will receive by income quintile. The IRS will determine payments from 2019 tax filings or 2018 tax filings if there is not one from 2019. Low income Ohioans who have not filed their taxes last year or this year could miss out on this one-time payment when they need it most to weather this health crisis. Everyone contributing to our economy should have access to COVID-19 economic relief. Despite [paying billions in payroll taxes](#), undocumented immigrants will not receive federal stimulus payments. Even those with children who are U.S. citizens. In 1996, the IRS created the Individual Taxpayer Identification Number (ITIN) so undocumented immigrant could file income taxes. In 2015, there were [4.6 million federal tax filings using ITINs](#). Many undocumented immigrants are overrepresented in the low wage jobs most affected by the health crisis. Undocumented immigrants should have access to benefits in the coronavirus relief packages, including federal stimulus payments.

Chart 1
Average Ohio rebate by income quintile



Source: Institute for Taxation and Economic Policy estimates for average federal stimulus payments for the U.S. Senate version of the 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act

Support free tax preparation programs with emergency funding

Ohio’s free tax preparation programs are engaged in planning and efforts to offer their services again. Discussions are underway for some programs to offer virtual tax filing using new technology. Implementing that technology and training volunteers to use it will cost the programs more money. Nationally, VITA programs need more funding to accommodate the extended filing deadline and to ensure the programs are ready to re-open once it’s safe to do so. Congress should provide emergency VITA funding to ensure free tax providers are able to continue filing taxes for those in need.