

A descriptive analysis of Coppin State VITA on Baltimore neighborhoods.

Loretta Baryeh
Coppin State University

Hyacinth Ezeka
Coppin State University

ABSTRACT

The study analyzed the Coppin State VITA (volunteer income tax assistance) and the related effects on the residents of the inner Baltimore City and the surrounding areas that used the services for tax preparation purposes for the 2013 to 2014 period. Coppin State VITA was run by accounting professors and students in the college of business in the Coppin State University. The study found that the majority of tax payers earned a refund. The average income of taxpayers was \$22,000. The program was very beneficial to both the community and students of Coppin State University. Residents of the community benefitted from receiving professional tax preparation services from Coppin State VITA without having to pay. This saved the community thousands of dollars. The students benefitted from preparing real taxes, whilst they were still students. Most students do not graduate with such an experience.

Keywords: Volunteer, Income Tax, Assistance, Coppin, State

INTRODUCTION

Coppin State VITA was a volunteer income tax preparation service that was run by the accounting department of Coppin State University. Students enrolled in tax accounting as well as any other individuals who were willing to be trained in tax preparation were trained and required to take the VITA examinations in order to qualify to prepare taxes. There was an ethics, a basic and an advanced examination that the volunteers were encouraged to pass in order to participate in the program. While the students enrolled in tax accounting were required to participate in VITA as part of their tax course, the volunteers could pass any of the exams and that determined their level of participation. Taxpayers used the services of Coppin State VITA because they had used the service before or they were referred by the IRS downtown Baltimore office or by friends and relatives. Some taxpayers visited at the beginning of the tax season when the office was opened while many others waited till April 15th and the days closer to the deadline. Some taxpayers had to visit the office several times, because they did not have items required for tax preparation on hand. For the tax year (2013 to 2014) under study, the IRS VITA office in downtown Baltimore closed down so Coppin State VITA was overwhelmed with clients especially the last couple of days.

The study found that most tax payers earned a refund. The average income of taxpayers was \$22,000. Majority of the tax payers did not itemize their deductions. Furthermore the program was very beneficial to both the Baltimore community and students of Coppin State. Residents of the Baltimore community benefitted from receiving professional tax preparation services from Coppin State without having to pay. This saved the community thousands of dollars. A majority of taxpayers had visited H&R Block, Jackson Hewlett and Liberty Tax services among others and received quotes they could not afford. The program also helped increase the financial stability of residents by offering free tax service for the Moderate to Low income earners in the Baltimore City and the metropolitan area. The students benefited from preparing real taxes, whilst they were still students. Most students do not graduate with such an experience. Qualitatively the program fostered mutual trust and respect between the University and the residents of the Baltimore community.

This paper contributes to the literature because to the best of our knowledge it is the first paper to provide a descriptive analysis of the Coppin State University VITA program and its effect on the Baltimore community for the 2013 to 2014 period. This paper would help regulators make decisions about free tax preparation programs and would help guide other universities and colleges which want to give back to their community by following the Coppin State VITA example. Philanthropists and other donors have also been provided another opportunity of funding a good cause by providing grants for VITA in their communities or elsewhere.

The paper proceeds as follows, section two and three presents the literature review, and volunteers respectively. Section four presents the taxpayer characteristics, and section five presents data analysis and findings while section six presents the conclusion.

LITERATURE REVIEW

Volunteering enables people to obtain experience. According to Menchick, and Weisbrod (1987) volunteer labor constituted 5 % of the total labor force in the US in the 1980s. They used the investments model which associates on the job training with volunteering. They found statistical significant effects of price and income variables on volunteer labor.

It is believed that volunteering enhances individuals' employment opportunities. Day and Devlin (1998) used a data set from Canada to test human capital earnings using dummy variables representing distinguished volunteers from non-volunteers. They found that volunteering contributes 6 to 7 percent of annual earnings.

Wagner and Hertel (2010) worked on a collaboration of 14 VITA providers who provided free income tax services for American Indian communities to determine how Earned Income tax credit (EITC) could assist the community. Their survey response showed that communication was primarily through word of mouth and repeat clients as well as some media. The study revealed that \$4,000,000 was obtained in refunds. Additionally the VITA system saved the community about \$60,000 improving livelihood and generating funds for reinvestment in the local community.

Rhine et al (2005) studied how Earned Income Tax Credit affected decisions of savings or expenditure. Using information from 18 000 taxpayers at a FoodChange VITA site in New York City, they found that majority of taxpayers with low income anticipated using refunds to pay expenses or debt. 15% of the taxpayers used their refund to open a savings account. Furthermore the study revealed that taxpayers with no bank accounts were of a greater propensity to open a savings account and that was related positively to the size of refund and the age of the taxpayer.

Direct experience into accounting curriculum was facilitated by service learning projects; including assistance to small income individuals and businesses. Rama and Zlotkowski, (1998) developed a theoretical framework for service learning in accounting aligned to the curriculum reform and to goals identified by accounting educators and described implementations across the curriculum in accounting.

It has been advocated that service learning is a good method in including experiential education into course work to help communities and instill the discipline of civic responsibility into students. Andrews (2007) found that business areas of marketing, management, information systems and marketing had "more service learning applications" aligned to course objectives than finance and accounting. She advocated "that service learning may fit best in business courses where skilled interaction with users was a key learning goal."

Volunteer income taxes have been associated with less underreporting of taxes. For instance Dubin et al 1992 found that out of 10.6% of tax payers that used non accounting services (volunteers), 3.7 % underreported taxes while out of 28.5 % that used other paid preparers 30.8% underreported taxes. However out of 16.7% that used "tax practitioner" services 42.7% accounted for underreported taxes.

Strupeck and Whitten (2004) studied two United States universities engaging in VITA in conjunction with the importance employers place on experience for entry level positions. They used the service learning opportunities used by VITA and addressed the positive outcomes as well as the short comings of the program.

VITA VOLUNTEERS

The College of Business, Coppin State University offered a Volunteer Income Tax Assistance (VITA) in collaboration with the Internal Revenue Service, (IRS). The program offered free federal and state income tax preparation services mainly to lower income earners in the Baltimore community. Coppin State University volunteered the office spaces, computers and parking spaces for the program. The IRS provided software and general

monitoring of the program. Tax returns prepared included federal tax returns and states tax returns including, Maryland, Pennsylvania, Delaware, Virginia, North Carolina, New York, and in a few cases, West Virginia, and Porto Rico.

Volunteers for the program involved the Professors and students of accounting from the Coppin State University and most recently students from the Baltimore City Community College. Most students were enrolled in tax accounting course. Students majoring in accounting at Coppin were required to participate in VITA as part of the requirements to fulfill the tax accounting course. Examinations available for VITA from the IRS included the ethics, the basic and advanced examinations. Most students took and passed all three examinations. Some students served as greeters who checked and ensured that taxpayers brought along required documents such as the W2 and 1099 when needed. Other volunteers also prepared the taxes using software provided by the IRS. The Professors involved include a CPA, with a vast experience in taxation and who has certified as a site coordinator with the IRS. He was recently joined by another professor who is a PhD in accounting. Table 1 shows the test scores of the students.

All volunteers were required to pass at a minimum, the basic IRS test with a score of 80% or better. Table I shows that the Majority of the students exceeded this minimum qualification. Even though the students were required to pass only the basic IRS exam by the 2014 tax season, most passed the ethic, basic, and advanced IRS tax preparation examinations as shown in Table 1. There was one other student who had passed the IRS exam from the previous year and did not take the exams again.

TAXPAYER CHARACTERISTICS

The taxpayers who used the services of Coppin State Vita lived in Baltimore City and the surrounding areas. They included residents from the immediate community of Baltimore City, students, some faculty and staff from Coppin State University, Baltimore City Community College, and residents from the surrounding counties of Baltimore County, Anne Arundel, Harford, and Howard County. The average income of taxpayers was \$22,000. Most taxpayers were repeat clients who had used Coppin State VITA services before. Others were referred by the IRS Baltimore office or by friends and relatives. Some tax payers had to visit the office several times, because they did not have items required for tax preparation on hand. A majority of taxpayers had been to H&R Block, Jackson Hewllet and Liberty Tax services among others and received quotes they could not afford. Others visited because this was a free and professional service. Some clients worked temporary jobs, others worked full time, whilst others worked several jobs within the year. The gender characteristics of the taxpayers were as follows, 56% of taxpayers were female while 44% were male as shown in Figure 1a and b.

The IRS allowed taxpayers to file according to the certain categories, including married filing jointly as well as married filing separately single and head of household. Among taxpayers that used Coppin State VITA for 2013 to 2014, the Single category was the highest, 82%, followed by head of household, 10%, Married filing separately was 5% and married filing jointly was 3%, Table 2 and Figure 2 shows the filing status.

DATA ANALYSIS AND FINDINGS

The majority of taxpayers who used the Coppin State Vita Services to prepare and file their tax returns for the tax year 2013 to 2014 did not itemize their deductions. The analysis showed that most tax payers earned a refund, while others owed taxes. In addition out of the total net funds due or paid by the federal government, Coppin State VITA obtained a total of 76% (\$214,741) of refund from the federal government and 24% (\$ 68,520) was owed to the federal government by the clients. Figure 3a and 3b shows the graphical presentation of federal refund and federal amount owed. The analysis further showed that majority of tax payers also earned a state refund, while other tax payers owed state taxes. It was found that of the total state refund obtained by Coppin State VITA for its clients 65% (\$ 68,580) of refund was paid by the state of Maryland and 35% (37,065) was owed by taxpayers. Figure 4a and b shows the amount of state refund and state amount owed.

The IRS gave back refunds to taxpayers depending on whether they overpaid taxes or qualified for some tax credits and or deductions. The credits and deductions included the “earned income tax credit, child and dependent care and educational credits.” For instance according to the IRS, the Earned Income Tax credit (EITC) “is a benefit for working people with low to moderate income.” EITC could reduce ones taxes or provide a refund. Certain requirements had to be met to qualify for the EITC. The” child and dependent care credit” helped reduce federal income tax and it was for people who paid someone “for child care in order to work or look for work.” It could also be used by people who paid for the care of mentally or physical impaired spouses or relatives. Educational credit reduced the amount of tax owed or gave a refund for the cost of higher education. To qualify for the credit, one must have paid for qualified expenses at an eligible institution. The Educational credit was made up of the Lifetime Learning Credit and the American Opportunity Credit. The American opportunity credit was allowed for qualified expenses for eligible students who are pursuing the “first four years of higher education.” The Lifetime learning credit on the other hand was for qualified tuition and related expenses in a qualified educational institution. This could be a qualified undergraduate, graduate or professional institution and it included courses that helped “acquire or improve job skills.” The Lifetime Learning credit however is limitless on the number of years. Under the year of study (2013 to 2014), taxpayers who used Coppin State VITA earned the following tax credits as shown below. EITC formed 76% of refund as shown below. The Child tax credit formed 10%, American Opportunity made up 12% and Lifetime credits made up 2% of the total credits. Analysis of the credits shown below in Figure 5a and 5b.

According to the National Society of Accountants 2013 income tax preparation fees averaged the following; “the average cost of preparing a 1040 with Schedule A and state return was \$261 while the average for a 1040 with state return with no itemized deductions was \$152” (as at 2013) as shown in Table 3. “The average at the franchise tax office was, H&R Block: \$198 per return (average, 2013 data), Liberty Tax Service: \$180 per return (average, 2013 data)” Jackson Hewlett averaged \$208. According to the National Society of Accountants 2014 income tax data, the average fee was \$273 for a Form 1040 plus Schedule A. The 1040 plus state return but without itemization averaged \$159. For the franchises, H& R Block and Liberty Tax averaged \$147 and \$191 respectively for 2014. National Society of Accountants found that the highest fee of \$348, was “charged by tax preparers in the West, Washington, California, Oregon, Alaska and Hawaii. The lowest average fee, \$198, was charged by preparers in the upper Midwest; Minnesota, Iowa, North and South Dakota, Kansas, Missouri, Nebraska, Table 3 is shown below.

Coppin State VITA's free service was therefore a cost savings to the people in the community whose income was already low. Taxpayers would have spent approximately over \$40,000 (using the lowest fees charged and no itemization) in tax preparation fees. The economic impact to the community was a net direct benefit for the year of a total of \$322,854. This includes \$214,274 of refunds from the federal government, \$ 68,580 from the state and \$40,000 savings from tax preparation fees.

CONCLUSION

The Coppin State VITA program and its contributions to the residents of city of Baltimore and the surrounding areas that used the services of VITA (volunteer income tax services) for tax preparation purposes for the 2013 to 2014 period were examined. Coppin State VITA was run by accounting professors and students in the college of business in the Coppin State University.

It was found that most tax payers earned a refund. The program was very beneficial to both the community and students of Coppin State. Residents of the community benefitted from receiving professional tax preparation services from Coppin State VITA without having to pay. Coppin State Vita was at a convenient location for clients. Clients received free parking from the University while engaging in the services of VITA. According to the IRS 2014 Tax data, the community around Coppin State University was in economic depression. Baltimore city residents would have spent approximately over \$40,000 in tax preparation fees, had it not been for the program. The economic impact to the community was a net direct benefit for the year of \$322,854.

The students benefited from the program by gaining experience in tax preparation services as well as professional interaction with clients whilst they were still students. They also used the VITA experience to satisfy their community service requirements. Moreover students utilized this experience on their resume. Furthermore they received a certificate from the IRS, for their participation as well as the completion of the examinations. Most students do not graduate with such an experience. Qualitatively the program fostered mutual trust and respect between the University and the residents of the Baltimore community.

APPENDIX

Table 1 - 2015 VITA Exam Scores for Volunteers

Volunteer Initials	Basic Exam Score	Advanced Exam Score	Standard of Conduct (Ethics)
J.W.	96%	92.5%	80%
A. F.	86.6%	90%	100%
S. E.	86.6%	92.5%	80%
A.O	90%	80%	95%
C. F.	90%	90%	100%
D. S.	96.67%	87.5%	100%
R. S.	90%	97.5%	100%

Figure 1a

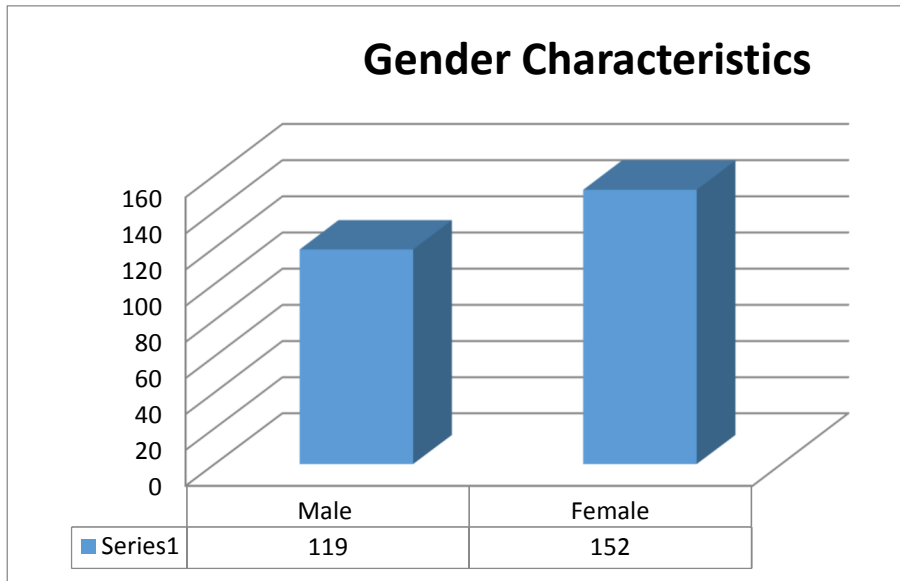


Figure 1b

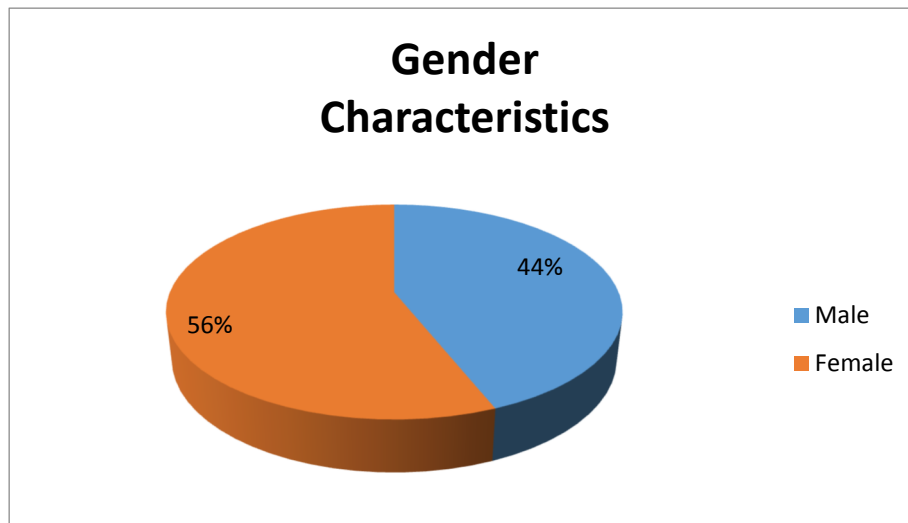


Table 2

Single	Married filing jointly	Married filing separately	Head of Household
223	9	12	27

Figure 2a

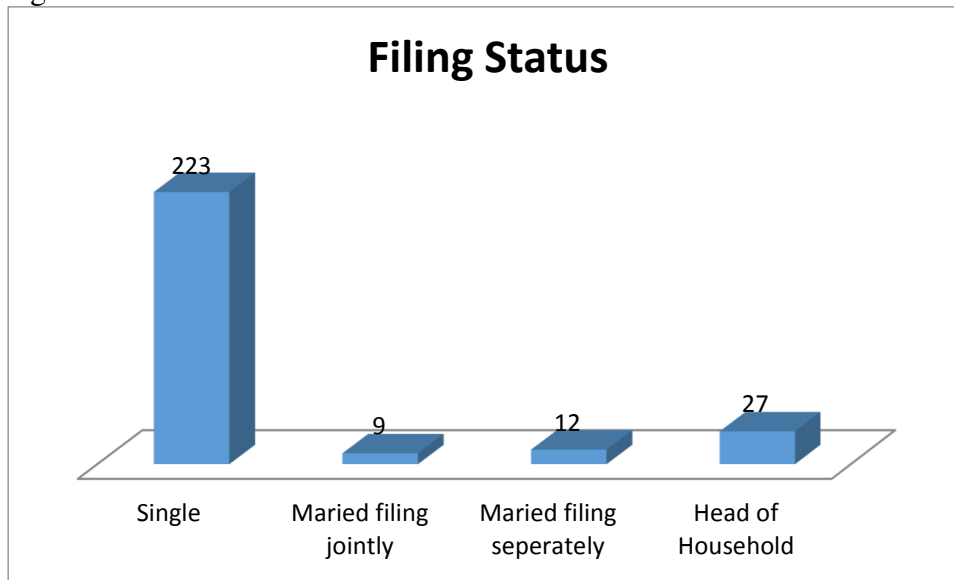


Figure 2b

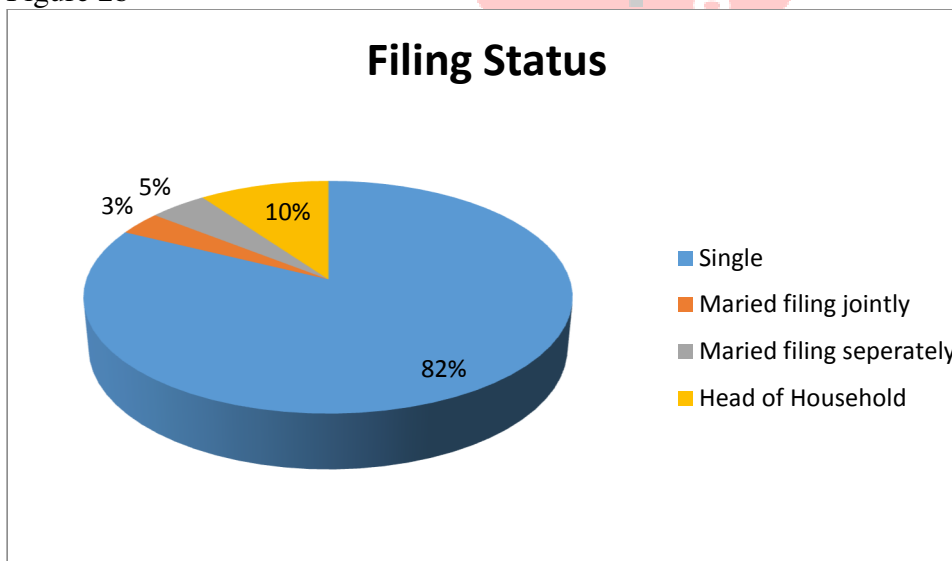


Figure 3a

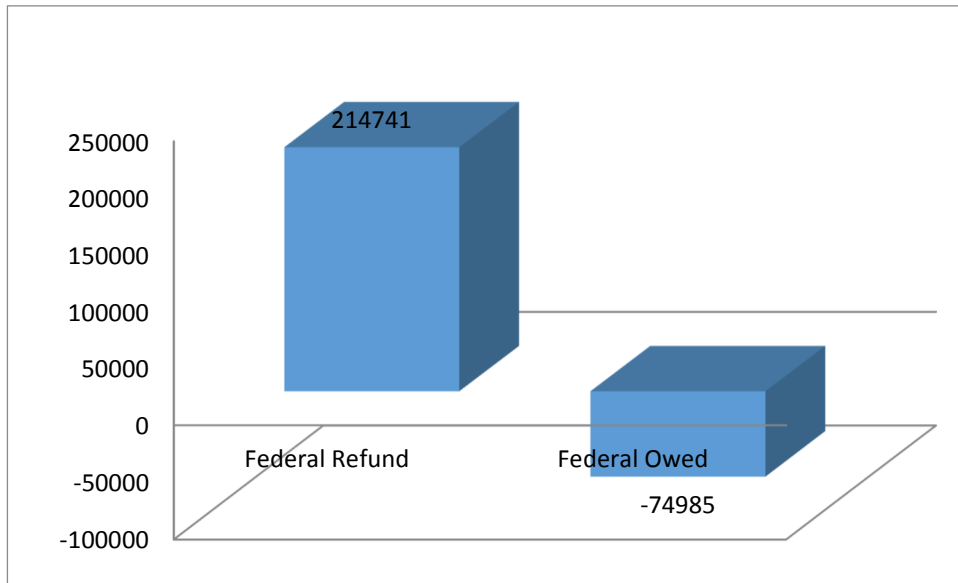


Figure 3b

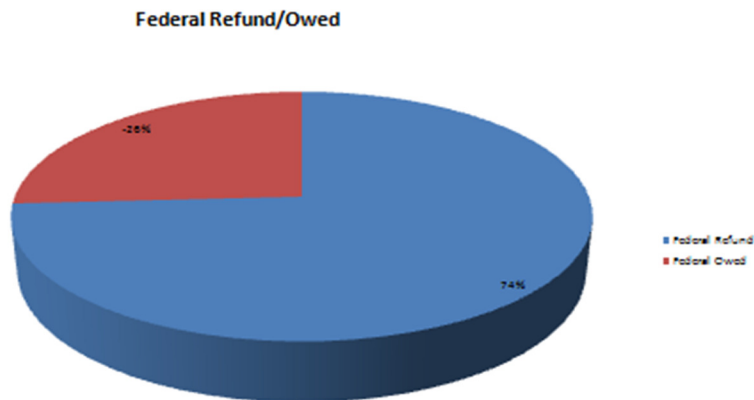


Figure 4a

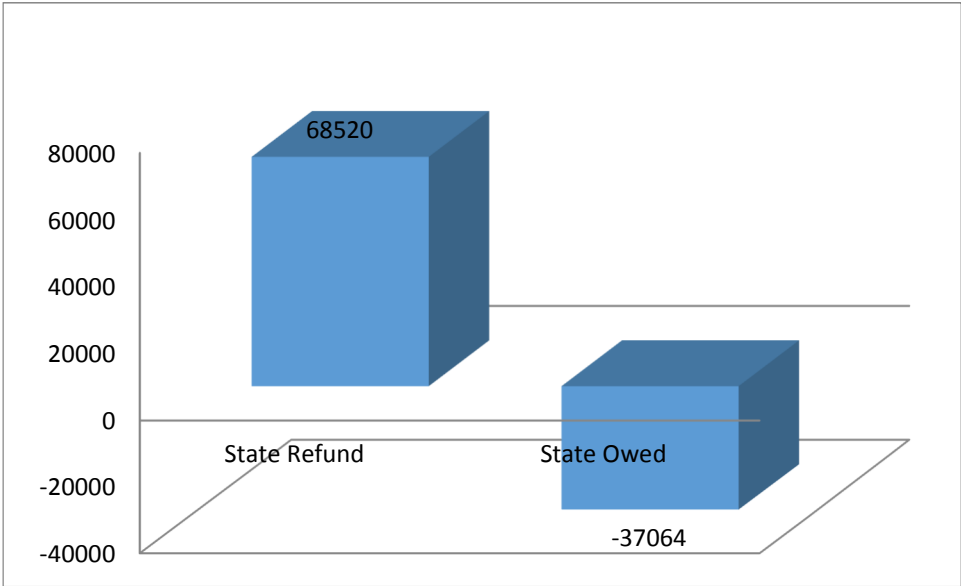


Figure 4b

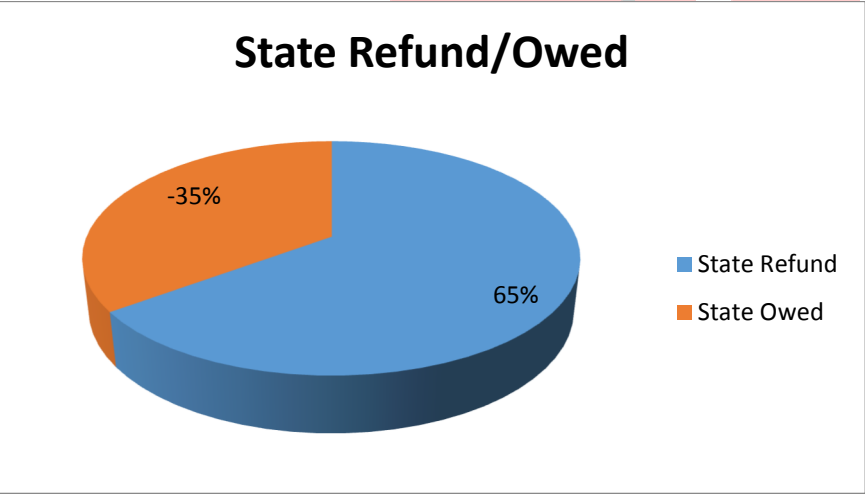


Figure 5a

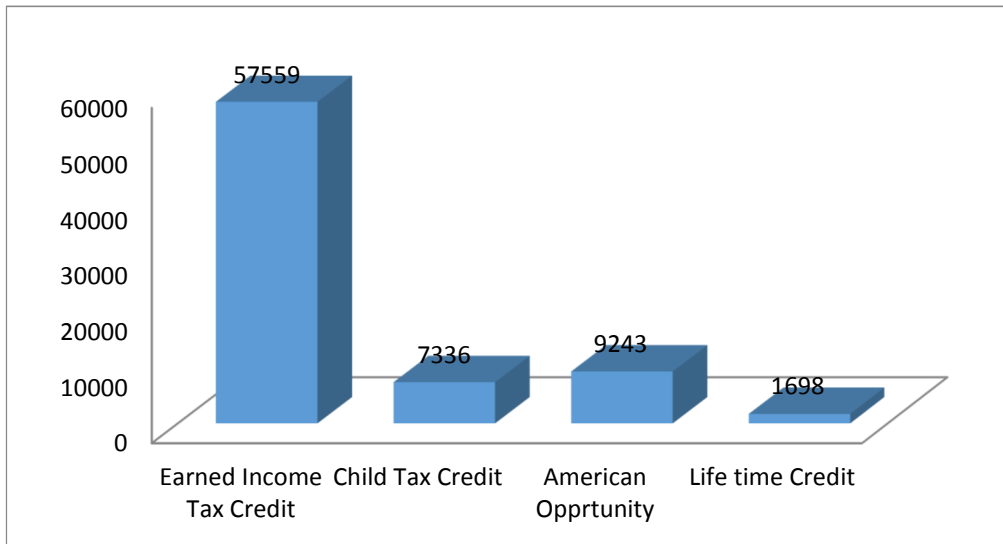


Figure 5b

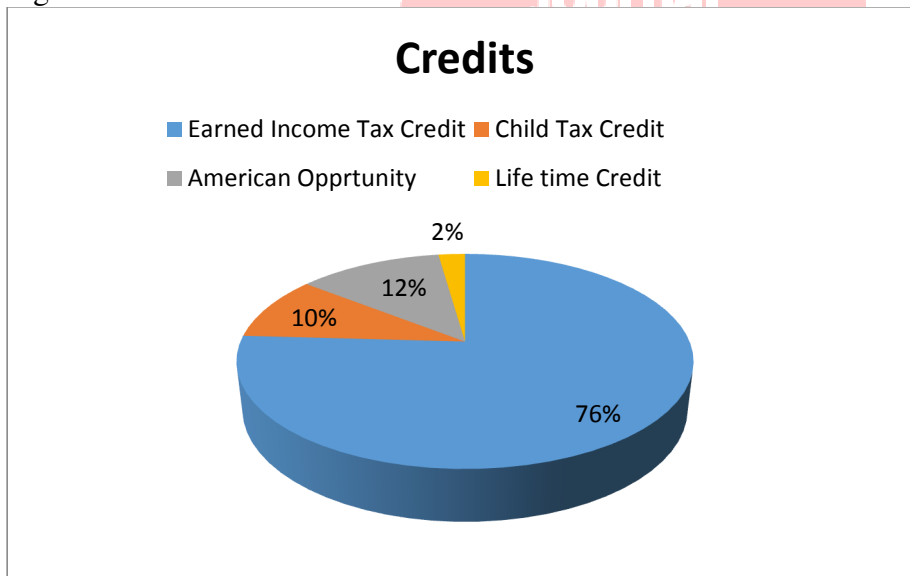
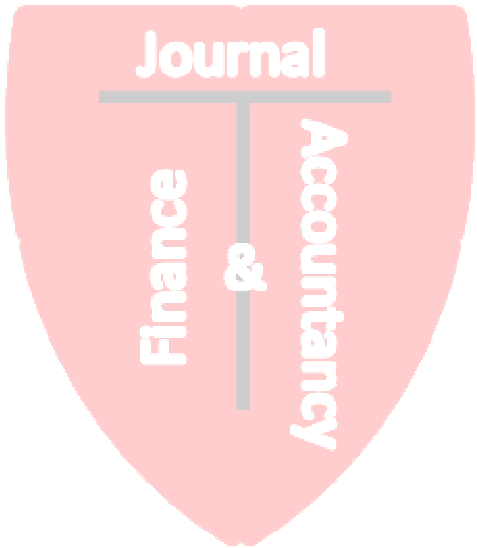


Table 3

1040 plus Schedule A plus state return (average)	2013	\$261	2014	\$273
1040 plus state return and no itemization (average)	2013	\$152	2014	\$159
Franchises:				
H & R Block	2013	\$198	2014	\$147
Liberty Tax	2013	\$180	2014	\$191
Jackson Hewitt	2013	208	2014	NA



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