

## **Economic impact of the Coppin State University volunteer tax program.**

Loretta N. Baryeh, PhD  
Coppin State University

Hyacinth Ezeka, CPA  
Coppin State University

### **Abstract**

The study examined the economic impact of Coppin State University VITA (volunteer income tax assistance) for the 2014 to 2018 tax season. Coppin State VITA had provided free tax preparation services to low income earners for several years.

The VITA program had a mutually beneficial impact on both the university and the community. The economic impact on the community for the four-year period from 2014 to 2018 totaled almost \$40 million. This was very advantageous to a community which by IRS standards was deemed impoverished. The university benefited by having its students obtain first-hand experience in tax preparation along with community- service hours as well as the immeasurable value of admiration and gratitude from the neighborhood resulting from community engagement.

Keywords: Volunteer, Income, Taxation. Economic, Impact

Copyright statement: Authors retain the copyright to the manuscripts published in AABRI journals. Please see the AABRI Copyright Policy at <http://www.aabri.com/copyright.html>

## Introduction

Coppin State University was a historically Black College located in Baltimore, Maryland. The Accounting Department in the College of Business of the University had offered a free tax preparation service to the community from 1998 to 2005 and then from 2010 to 2019. Some students, staff and faculty as well as residents of the inner Baltimore City and surrounding areas used the services of Coppin State VITA. Taxpayers used the services of Coppin State VITA because they had used the service before or were referred by the IRS downtown Baltimore office or by friends and relatives. Some taxpayers had to visit the office several times, because they did not have items required for tax preparation on hand. Many taxpayers procrastinated till around April 15<sup>th</sup> before seeking tax preparation assistance. In the years in which the IRS VITA office in downtown Baltimore closed, the Coppin State VITA was overwhelmed with clients especially on the last day to file taxes.

This inner-city Baltimore neighborhood was uniquely poor as acknowledged by the IRS. After the May 2015 riots in the City, many businesses were destroyed and closed down. Coppin State VITA therefore contributed to the community by assisting residents obtain \$3,329,671 in tax refunds to the neighborhood and an additional savings of \$565,065, through avoidance of tax preparation fees between 2014 to 2018. Fees charged were dependent on the itemization, schedule and complexity of the tax return filed.

We are motivated to conduct this research because taxation is important to the general populace and whilst obtaining refund especially among low income earners is generally gratifying, payments of tax preparation fees can serve as a deterring factor to people who are experiencing hardship. The results of this study will throw more light on an issue that affects the general population. The sample from which this study is based is especially important because the people in this sample cannot afford expensive tax preparation fees let alone expensive tax practitioners, attorneys and consultants to help them in their tax planning. Moreover, such clients are discouraged from filing taxes if they cannot afford the tax preparation fees and if they are of the notion that they owe. The moral responsibility towards the less privileged in society comes to bare in this research since the sample is from the low income and under privileged in society. Regulatory bodies will also be able to use the study's results to ascertain if their regulations are effective towards low income earners and as such modify the direction of future regulations

The study's results show that most taxpayers in this sample earned a refund. Majority of the taxpayers did not itemize their deductions. The program was mutually beneficial to both the Baltimore community and Coppin State University. Residents of the Baltimore community benefitted from receiving professional tax preparation services from Coppin State without having to pay. A majority of them had been to tax preparers such as H&R Block, Jackson Hewlett and Liberty Tax services among others and received quotes they could not afford. The economic impact on the community for the four year period from 2014 to 2018 was about \$38.9 million. This was made up of over \$500,000 in avoidance of tax preparation fees in addition to refunds. The students of Coppin State benefitted from preparing real taxes, whilst they were still students. Most students do not graduate with such an experience. This paper is an extension of Baryeh and Ezeka 2018. The paper continues as follows section 2 presents the literature review, section 3 presents Volunteers and Clients, Section 4 Analysis and Results while 5 presents Conclusion.

## 2. Literature Review

The Mission of Coppin State University VITA was “To increase the financial stability of working individuals and families in our community by offering free tax service for the Moderate to Low income families in the Baltimore City and the metropolitan area.”

Brondolo (2009) recommended that in cases of economic downturn or crisis the tax administration must encourage tax compliance by expanding assistance to taxpayers among others. The importance of volunteer income tax services, which is a non-paid preparer service cannot therefore be over-emphasized.

Madison et al (2008) state that the VITA Program is “an outgrowth of congressional efforts to deliver economic assistance to low-income working taxpayers without additional funding for a bureaucratic delivery system”

Tach et al (2018) studied 115 lower income working families. They found that more than three quarters of families experienced an income or expense shock in the prior three years of their study. Families therefore used refund dollars to create a personal safety net to cushion against income and expense shocks to improve a family’s economic security in the near term. Refund usage varied from savings, stockpiling, household staples, purchasing durable goods, and paying off debts. Even though this may seem like current consumption, these low-income earners cannot afford to set aside income for the long term as such partook in such precautionary forms of investment.

The Internal Revenue Service offers Volunteer Income Tax Assistance (VITA) program which is a free tax help to people who generally make \$54,000 or less. The elderly, persons with disabilities and limited English-speaking taxpayers who need assistance in preparing their own tax returns have used this program. People who do not feel comfortable preparing their own taxes and cannot afford to pay for professional tax services can also use the program. Volunteers who have undergone training and are certified by the IRS provide free basic income tax return preparation with electronic filing at no charge to qualified individuals. Even though the IRS does not endorse google products, clients have used google maps to find a VITA location close to them. Some organizations and institutions partner with the IRS to offer this free tax preparation help. These include University campuses, community centers, shopping malls, churches, public libraries and even military bases. Most of these VITA sites begin operating from January to April 15<sup>th</sup>. While some places operate by appointments other VITA centers operate on a first come first serve basis. United Way for instance is a 501(c)(3) tax exempt organization which partners with the IRS to offer VITA to low income residents. United Way can be found in various states including Maryland.

## 3. Volunteers And Clients

Volunteers for the program involved the Professors and students of accounting from the Coppin State University as well as students from the Baltimore Community College. Most students were enrolled in the 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. All volunteers were required to take VITA examinations available from the IRS. These examinations 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 their identifications, W2, 1098s and 1099s 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 who had also certified as a site coordinator from the IRS; as well as another professor who had a PhD in accounting. The professors reviewed the prepared taxes as well as supervised and trained the students. Coppin State University provided the office spaces, computers and parking spaces for the clients. The IRS provided software and general oversight of the program.

The taxpayers who used the services of Coppin State Vita lived in Baltimore City and the surrounding areas. Some students and staff of the University also used the services of VITA. The average income of taxpayers was \$22,000. Most taxpayers were repeat clients who had used the service before. Others were referred by the IRS Baltimore office or by friends and relatives. Some taxpayers came at the beginning when the office was opened while majority waited till April 15<sup>th</sup>. Some taxpayers 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, Liberty Tax services among others and received quotes they could not afford. Others came because this was a free and professional service. Some clients worked temporary jobs, others worked full time, whilst others worked several jobs with the year.

#### 4. Analysis and Results

Recommendation by Brondolo (2009) that in cases of economic downturn or crisis the tax administration must encourage tax compliance by expanding assistance to taxpayers serves as a motivation factor for Coppin State VITA. Low income earners were encouraged to file their taxes when they were offered free assistance through the VITA program at Coppin. Table 1 shows the characteristics of returns prepared for a sample year (2018). Prior studies have concluded that expensive tax preparations fees are a deterring factor for tax compliance. Table 2 shows the average fees charged to prepare taxes from a survey by the national society of accountants. Avoidance of such fees through free preparation translates into a saving which benefited the community.

#### Economic Impact

It is universally accepted in the economics literature that economic impact is generally driven by expenditure. According to the Keynesian theory (1930) government expenditure propelled cycles of increased economy and spending. Therefore, if people did not save any of their income the economy would grow unstoppably fueled by full employment. Keynesian theory does not however take into consideration savings that are used for investment purposes. If savings for investment purposes is taken into consideration, then the economic growth would even be greater. This study adopts the Keynesian multiplier which is  $1 / (1-MPC)$  where MPC is the marginal propensity to consume. The change in total consumption resulting in a change in total income is the marginal propensity to consume.

#### Economic Impact Model

This study follows Keynesian theory to propagate that every time there is extra income resulting in more spending, the more spending in turn creates more income, and the trend

continues. The economic impact model considers our sample of low-income earners who on the average spend 90 cents and save 10 cents of every \$1 of extra income. Adopting the Keynesian multiplier ( $1/1-mpc$ ) translates to  $1/1-0.9 = 1/0.1 = 10$ . This implies that every \$1 of new income generates \$10 of extra income in our sample population. Table 3a and b show the economic impact for 2014 to 2018. It can be seen that from \$5million in 2014 the economic impact increased drastically to \$12 million in 2018.

Keynes 1930 advocated that increased government spending can boost an economy, since total spending has an effect on output and inflation. Increased expenditure can therefore lead the economy out of depression. This is a demand sided theory that focused on monetary and fiscal policy to lead the economy. We postulate that the savings as a result of avoidance of tax preparation fees along side the injection of money into the community as a result of tax refunds mimics the effects documented by the Keynesian theory. The \$38 million economic impact on the community can therefore boost and lead the community out of an economic downturn.

## 5. Conclusion

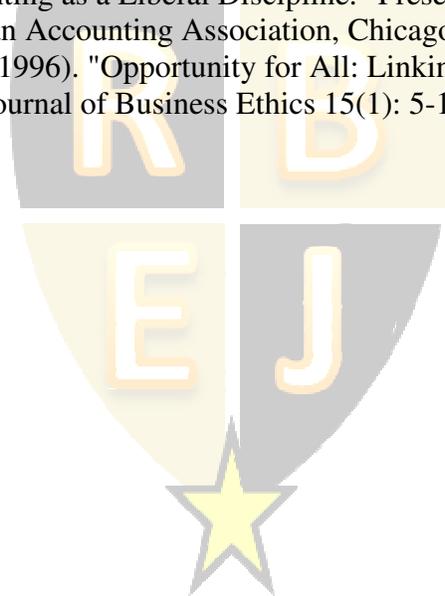
It can be concluded that the economic impact on Coppin State VITA on the inner city Baltimore community was tremendously positive. Prior studies had come to the conclusion that in cases of economic downturn or crisis, assistance to tax payers boosted tax compliance. The 2015 riots in Baltimore had compounded the economic predicament of an already impoverished inner city.

Free tax preparation services by Coppin State Vita therefore positively affected tax compliance in the community. The economic impact on the community for the four-year period from 2014 to 2018 was about \$38.9 million. This was made up of over \$500, 000 in avoidance of tax preparation fees. The Coppin State University benefited by obtaining respect and admiration from the community as well as their students tax preparation experience with real taxes, whilst they were still students. Most students do not graduate with such an experience.

## References

- Accounting Education Change Commission. (Fall 1993). "Improving the Early Employment Experience of Accountants." Issues Statement No. 4. Issues in Accounting Education 8(2): 431-435.
- Brondolo J. (2009), IMF Staff position note. Collecting Taxes During an Economic Crisis: Challenges and Policy Options
- Bronchetti E.T., Thomas S. Dee, David B. Huffman, and Ellen Magenheim NBER Working Paper No. 16887 (March 2011) JEL No. C93,D03,D1 When a Nudge Isn't Enough: Defaults and Saving Among Low-Income Tax Filers
- Bronchetti, E.T Thomas S. Dee, David B. Huffman, Ellen Magenheim NBER Working Paper No. 16887 Issued in (March 2011). When a Nudge Isn't Enough: Defaults and Saving Among Low-Income Tax Filers NBER Program(s):Public Economics
- Isenberg, Howard. (September 13, 1993). "Nonprofit Training for Profitable Careers." The Wall Street Journal, 1.
- Keynes, J.M ( 2008) "The general theory of employment, interest, and money" [electronic resource] - University of Adelaide Library ebooks @ Adelaide

- Linnenbrink, M. Koonce, J. Mauldin, T. Rupured, M. et al. (2008) Earned Income Tax Credit: Experiences from and Implications of the Voluntary Income Tax Assistance Program in Georgia Journal of extension
- Madison, T., Ward, S. G., & Royalty, K. (2008). Volunteer income tax assistance (VITA) episodic volunteers: Training and retraining. *The International Journal of Volunteer Administration*, 25(3), 67-76.
- Morton, Keith, and Marie Trappe. (1996). "From the Margin to the Mainstream: Campus Compact's Project on Integrating Service With Academic Study." *Journal of Business Ethics* 15(1): 21-32.
- Tach, Laura, Sarah Halpern-Meehin, Kathryn Edin, and Mariana Amorim. Forthcoming.(2018) As Good as Money in the Bank: Building a Personal Safety Net with the Earned Income Tax Credit." *Social Problems*. Google Scholar
- Tufano, Peter, Daniel Schneider, and Sondra Beverly (2005). "Leveraging Tax Refunds to Encourage Saving," Retirement Security Project policy brief 2005-8. Washington, DC. Retirement Security Project (August).
- Tufano, Peter, and Daniel Schneider (2005). "Reinventing Savings Bonds," *Tax Notes* (October)
- Udpa, Suneel. (1996). "Accounting as a Liberal Discipline." Presentation at the national meeting of the American Accounting Association, Chicago, IL.
- Zlotkowski, Edward. (January 1996). "Opportunity for All: Linking Service-Learning and Business Education." *Journal of Business Ethics* 15(1): 5-19.



**Table 1**  
**2018 VITA**

		Federal	State	Total
A	Total Returns	820	820	1,640
B	Total Efile	795	795	1,590
C	Refunds	\$774,963	\$268,808	\$1,043,771
D	Tax preparation savings			\$184,500
E	Average= c/b	\$975	\$338	\$1,313
F	Increase in income from VITA			\$1,228,271
g	Economic impact			\$12,228,271

**Table 2**  
Average fees to prepare forms (National Society of Accountants)

Form 1040 with a Schedule A and state return	273
Form 1040 (non-itemized) and a state return	176
Form 1040 Schedule C (business)	184
Schedule D (gains and losses)	124
Schedule E (rental)	135

**Table 3a: Economic Impact of VITA 2014-2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Tax Returns	335	350	574	705	820
Total efile	331	326	566	678	795
Total Refunds (Federal + State)	\$448,000	\$447,500	\$577,020	\$813,380	\$1,043,771
Tax preparation savings	\$63,650	\$66,500	\$114,800	\$135,600	\$184,500
Increase in income from VITA	\$511,650	\$514,000	\$691,820	\$948,980	\$1,228,271
<b>Economic Impact</b>	<b>\$5,116,500</b>	<b>\$5,140,000</b>	<b>\$6,918,200</b>	<b>\$9,489,800</b>	<b>\$12,228,271</b>

**Table 3b: Total Economic Impact**

Year	Amount
2014	\$5,116,500
2015	\$5,140,000
2016	\$6,918,200
2017	\$9,489,800
2018	\$12,228,271
Total	\$38,892,771



**Figure 1**

**Economic Impact of VITA Per Year-  
2015-2018**

