

Taxes Redux

“Render therefore unto Caesar the things which are Caesar’s; and unto God the things that are God’s.” Matthew 20:21

Back in March, I wrote an essay about income taxes and the volunteer work I was doing for the IRS’ VITA / TCE program. We’re now three quarters of the way through the year and the next tax season is approaching. In four months, W-2’s and 1099’s will be in the mail. The complexity of the code will only get worse, with new regulations coming on. I’m sure I’ll be boning up on the PPACA (aka Obamacare) and its impact on tax returns. It will likely be part of the qualification test we have to take. No, we’re not grandfathered in, we have to take the test every year. I bet most of you (those who are U.S. taxpayers) don’t know what the acronym PPACA stands for. I now have more statistics to share, so let’s revisit the subject.

There is a TV program in the UK, called Quite Interesting, or QI for short. Seen on the BBC, it is part quiz and part comedy. Unlike the somewhat staid Jeopardy!, QI awards points for imaginative answers. I think I would do well in that area. QI’s popularity has evolved into a book titled 1,227 QI Facts. If there is a mother of all trivia books, it is this one. So if you catch me using some obscure words like ultracrepidarian or dringle, QI is a likely source. A couple of the 1,227 facts provided refer to the United States’ IRS tax codes. They are; *"the U.S. tax code is four times as long as the combined works of William Shakespeare,"* and *"Americans spend six billion hours filling out tax forms."* In one of his monologues, Jay Leno referred to the Shakespeare quote, adding that *"if Romeo and Juliette were to file a joint tax return, they would have killed themselves in frustration."*

First the good news. I pointed out in the first essay that the Federal government provides incentives to work and one of the most successful is the Earned Income Tax Credit or EITC. The program enjoys rare bipartisan support and is being expanded for the April 2015 tax filing. (The expansion is already included in President Obama’s 2015 budget which starts Oct. 1.) The EITC was the most common tax break we were able to claim for our clients. You have to work, e.g. have earned income from wages or self-employment, to qualify. For 2013, nearly a million Ohio tax filers availed themselves of the EITC, with an average “refund” of around \$2,300. For our Fairfield, OH VITA site, we prepared 450 tax returns. One third of them were able to claim EITC and the average refund was \$1,750, less than the state average.

But there is bad news. For the 450 Fairfield site returns, the average AGI or adjusted gross income was \$21,500, which is only 40% of the national median family income. It is also \$2,000 below the poverty level for a family of four. As you can see, there are a lot of low income people in Butler county. I also volunteered at tax preparation sites all over the city of Cincinnati. This provided me an opportunity to observe the stark contrast between neighborhoods. I don’t have the exact numbers, but I would estimate the the AGI’s for some of the locations in Cincinnati was even lower than the Fairfield site numbers. Here’s my rant. We have a long way to go in reducing income inequality. People are willing to work, but opportunities are lacking. It was not uncommon for people to submit 2, 3 or even 4 W-2’s. This means they looked for and worked several jobs, typically through temporary agencies. Some work full time, making around \$17,000. That is one

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third of the national median income. I'll avoid mentioning these employer's names but they were food service jobs, with large multinational companies. You don't have to be a genius to guess who they are. The EITC will help, but \$2,000 isn't going to bring them out of poverty if they have dependents. I believe the words "working poor" should be an oxymoron. Anyone who works full time shouldn't have to earn below poverty line wages.

Besides food service jobs, another source of below poverty level wages for full time jobs are the "big box" stores. Let's name the biggest one - Wal*Mart, with its "everyday low prices," made possible by "everyday low wages." (I'm being sarcastic.) In the state of Ohio alone, there are 14,500 people depending on SNAP, whose primary income earner worked full time at Wal*Mart. Thanks, Ohio, for keeping track of this. SNAP is the acronym for Supplemental Nutrition Assistance Program, more popularly called food stamps. I have a simple suggestion - I would bill every company the amount of benefits, like SNAP, that any of their full time employees receive. They will have to raise their prices, but it will reflect the true cost. Instead, the company controlled by the wealthiest family in America, is subsidized by the taxpayers. A writer for Forbes, that capitalist magazine, wrote that Wal*Mart employees need \$6.2 Billion a year in government assistance. If you want to see the report, Google "Walmart on Tax Day."

But while our government is trying to help, there are those waiting in the wings to take a significant chunk of that benefit away. Ever heard of RAC or RAL? That's "refund anticipation check" and "refund anticipation loan." A lot of commercial tax preparers have these available for their clients. But data shows that the fees add up. A typical fee may include \$150 for tax preparation (that is for a simple or 1040 EZ return, more for an itemized return), \$150 for a loan fee and \$35 for an application fee. Do a little math and figure what percentage that represents for a \$2,000 refund. One of our volunteers remarked, "it is expensive to be poor in this country." By going to a VITA site, these people wouldn't have to pay any fees, returns are filed electronically, and refunds are received within 7-10 business days.

Once they have availed themselves of VITA services, the taxpayers never go back to the paid preparer. VITA has taken a lot of business away from H&R Block, Jackson Hewitt and Liberty. Sorry guys. I don't believe VITA has impacted on do it yourself tax preparation software such as TurboTax. (I've used TurboTax for years.)

In addition to the Federal, we also prepare the state income tax return. With the exception of a few states like TX, TN, AK and NV, the states require filing and paying an income tax. (A total of 7 states have no income tax.) This is where the fun starts. Each is different in what is deductible, and what isn't. That's easy but in this area, aptly called tri-state (IN, KY & OH), we always have situations where people live in one state but work in another. More forms. We provide each client with a hard copy of the returns, and it isn't uncommon to have 20 pages or more. We are often requested to, but at this point, we don't do local income taxes. A taxpayer could conceivably file 5 returns if he/she lived and KY or IN and worked in Cincinnati. One federal, two state and two local returns. Bring on tax simplification.

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The AARP also provides tax preparation help. But VITA is the biggest program. So come on over, we are always looking for more volunteers.

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