

Report to Congress

Proposed Design Plan

Community Volunteer Income Tax Assistance (VITA) Matching Grant Program

Part 1: Introduction and Background

In the joint explanatory statement accompanying the fiscal year 2008 Treasury Appropriations Act enacted on December 26, 2007 (Public Law 110-161), the House and Senate Appropriations Committees directed the Internal Revenue Service (IRS) to submit a proposed design plan for a new matching grant Community VITA program, in consultation with the Taxpayer Advocate Service. Specifically, the appropriations language states:

The amended bill also provides \$8,000,000, to be available until September 30, 2009, to establish a matching grant demonstration program for Community Volunteer Income Tax Assistance (VITA) programs, instead of \$10,000,000 as proposed by the Senate and no funding as proposed by the House. The Appropriations Committees direct that the matching grant program be administered by the IRS in consultation with the Taxpayer Advocate Service. The program shall provide direct funds to enable VITA programs to extend services to underserved populations and hardest-to-reach areas, both urban and non-urban, as well as to increase the capacity to file returns electronically, heighten quality control, enhance training of volunteers, and significantly improve the accuracy rate of returns prepared by VITA sites. The Appropriations Committees direct the IRS, in consultation with the National Taxpayer Advocate, to submit to the Committees, within 90 days of enactment, a proposed design plan for the matching grant program, including the scope of eligibility, an equitable selection methodology which takes into account geographic diversity, and an evaluation component to measure the overall effectiveness of the program and the results achieved.

Existing VITA Program

The existing VITA in-kind contribution program administered by the IRS originated with the Tax Reform Act of 1969 as part of the increased emphasis on Taxpayer Education Programs. Because of the success in the initial years, in 1973 emphasis was placed on expanding the VITA program through:

- increased recruitment of various religious, social and non-profit organizations;
- involvement of the military on a national level;
- development of specialized training materials;
- expansion of assistance to the Spanish-speaking community; and
- awareness of Earned Income Tax Credit and Child Tax Credit eligibility.

The VITA program offers free tax help to low to moderate income individuals who cannot afford professional assistance. VITA volunteers prepare basic tax returns for low income taxpayers in general, but also for those with special needs, including persons with disabilities, non-English speaking persons and elderly taxpayers. The availability of the VITA program in local communities prevents many low income individuals from having to depend upon paid tax return preparers and refund anticipation loans.

Today’s program continues to utilize the services of volunteers with an emphasis on finding the right mix of community organizations to serve as intermediaries among IRS, the volunteers, and the taxpayers. The VITA program is vital to delivering service to those taxpayers who most need tax assistance and cannot afford the services of paid preparers. As demonstrated in Exhibit 1, the growth of the program over the last five years is tremendous – with over 43.7 percent increase in the number of returns filed and over 81.7 percent increase in the number of returns electronically filed.

Exhibit 1: VITA¹ Growth for Fiscal Years 2003 - 2007

Returns	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Paper	258,756	165,760	149,568	145,991	146,383
E-filed	592,976	810,592	909,213	967,800	1,077,843
Total	851,732	976,352	1,058,781	1,113,791	1,224,226
Percent E-filed	69.6%	83.2%	85.87%	86.89%	88.04%
Volunteers	36,542	36,299	33,100	35,664	43,415

The tremendous growth and success of the VITA program can be attributed to a business model that leverages the resources of partners who are established in the community. The leveraging of partner resources began in 2000 with the reorganization of IRS and the creation of the Stakeholder Partnerships, Education and Communication (SPEC) organization. Currently, the IRS’ volunteer return preparation program, which includes the VITA and Tax Counseling for the Elderly (TCE) programs, consists of more than 300 coalitions, 60 National partners, and 4,000 local partners. More than 75,000 volunteers deliver free tax return preparation and tax education to low income, elderly, disabled, limited English proficient, rural and Native American taxpayers. Partners and coalitions² consist of community organizations, non-profit foundations, faith based

¹ This table represents VITA returns and volunteers only and not the combined returns and volunteers from VITA and Tax Counseling for the Elderly (TCE).

² Coalitions are a collaboration of community organizations that have a common interest or shared commitment to the overall goal of helping low-income families.

organizations, financial and educational institutions. In 2007, almost 2.7 million³ income tax returns were filed at almost 12,000 (4,474 VITA) volunteer sites nationwide.

Many of these partnering organizations contribute to the VITA program without the benefit of federal funding. Currently, the IRS offers support for the VITA program by providing free tax preparation e-file software, tax law and site coordinator training materials, tax law reference materials, and numerous publications. Further, the IRS lends a small number of computers and printers. In addition, the volunteers are provided with a dedicated tax law helpline, dedicated software helpline and a hardware helpdesk to support the IRS loaned computers. The establishment of the Community VITA Grant Program will allow the IRS to offer funding to assist these dedicated organizations and others with growing and sustaining the overall VITA program. The IRS does not plan to reduce or eliminate any of the current support being offered to the participants in the VITA program, regardless if they receive a VITA grant or not.

Part 2: Research

The IRS reviewed the administration processes of its existing grant programs to establish guidelines for the new Community VITA Grant Program. The IRS currently administers the TCE cooperative agreement grant program and the Low Income Tax Clinic (LITC) matching grant program. The IRS also reviewed eligibility criteria from other Federal and non-Federal agencies/organizations. In addition, the IRS has and will continue to consider internal and external stakeholder suggestions and input in the design of the new Community VITA Grant Program. More details of these efforts and plans are contained throughout this report.

Part 3: Community VITA Grant Program Design Plan

The development of the new Community VITA Grant Program is well underway, but it will take several months to complete the design and to assemble and train a staff to administer and monitor the grant program. The IRS is committed to keeping administrative costs to a minimum to allow for the maximum amount of grant funds to be available for award.

The IRS is also considering establishing a maximum grant award amount as a way to ensure grant funds are used effectively, just as the LITC program caps grants at \$100,000, and allow the IRS the opportunity to spread the grant among a number of applicants.

The IRS will provide clear direction on how the funds may be used. In developing the final guidelines partner feedback received around this issue will be considered, as well as knowledge and experience with the other IRS grant programs mentioned above. None of these funds will be used to pay front-line volunteers for return preparation

³ This represents the combined returns for both VITA and TCE.

services so as not to jeopardize the volunteer programs or any protections afforded volunteers under the Volunteer Protection Act.⁴

Although the partner organizations need a certain level of staff to support their programs, the grants will be structured so that staff salaries are not a significant expense for which grant funds may be used. By limiting the proportion of the grant that can be used to pay for staff, the IRS can keep VITA coalitions focused on developing other funding sources and key community partners. The TCE and LITC grant programs have similar restrictions.

The following information is an outline of the application process and information the IRS anticipates including in the application package.

How to Apply

Applicants will be asked to apply through Grants.gov during the open Community VITA Grant Program application period. The grant application package will provide specific and simple instructions on what each application package must contain. All aspects of the program will be included in the grant application package. A designated contact will be available for information and questions from potential applicants.

Information contained in the grant application package will include, but is not limited to:

- VITA Program Requirements - Quality standards, scope, electronic filing requirements, etc.
- Grant Program Requirements - Matching funds, payment management, budget projections, reports, etc.
- Federal Requirements – Civil rights, tax reporting and payment, debarment and suspension, etc.
- Grant application assembly instructions
- Background Narrative and Program Plan Requirements
- Eligibility Requirements
- Evaluative Criteria
- Selection Methodology
- Roles and Responsibilities of both IRS and Grant Recipients
- Allowable and unallowable purchases
- Payment and receipt of funds
- Definitions/Glossary

⁴ The Volunteer Protection Act of 1997 was established to provide certain protections to volunteers, nonprofit organizations, and governmental entities in lawsuits based on the activities of volunteers. The Act applies to volunteers who perform services for a nonprofit organization or governmental entity and do not receive compensation other than reasonable reimbursement or allowance for expenses actually incurred, or any other thing of value in lieu of compensation in excess of \$500 per year.

Marketing of the Grant

In addition to posting the Notice of Funds Availability in the Federal Register, the IRS plans to market the availability of the grant in a variety of ways to ensure the participants in the VITA program are well aware of its existence. Communications will begin early to afford potential applicants ample opportunity to identify and solicit funds from other sources to meet matching fund requirements. The methods of communication include:

- A brochure highlighting the grant program, its requirements, application process and timeline. This will be provided to field employees to share with their partners and coalitions. In addition, the IRS will mail the brochure to its database of partners.
- The grant program will be highlighted on IRS.gov announcing the grant and providing highlights of the grant, as mentioned above. The IRS maintains a Partner Resource web page on irs.gov which will be used to house all related grant information for easy access. The IRS will promote the open application period on IRS.gov as well.
- Information about the Community VITA Grant Program also will be included in VITA related publications to promote awareness.
- SPEC conducts routine stakeholder conference calls throughout the year and SPEC will use this forum to promote as well as provide information, solicit input and answer questions.
- Talking points and fact sheets will be provided to the SPEC field employees to share with their existing partners.

Scope of Eligibility

Eligibility criteria are the key elements that all applicants must meet in order to apply for a Community VITA Grant Program matching grant. The proposed criteria for the applicant organization are:

- Availability of matching funds;
- Classification as either a non-profit organization (including but not limited to Educational institutions, faith based & community organizations), State or Local government agency (including Native American Tribal governments)
- Compliance with Title VI of the Civil Rights Act of 1964;
- Compliance with Office of Management and Budget (OMB) Circulars A-21, A-87, A-102, A-110, A-122, and A-133, and Federal regulations, as applicable;
- Compliance with applicable Federal tax obligations (filing and payment);
- Capacity to electronically file the tax returns prepared; and
- Data Universal Numbering System (DUNS) number.

Evaluative Criteria

In order to ensure services are available to the underserved populations and hard-to-reach areas, attracting the right mix of Community VITA Grant Program partners will be the key to successful implementation of this program. To this end, the IRS will utilize the following criteria to evaluate thoroughly all completed grant applications that meet the Eligibility requirements.

Program Standards – The applicant’s commitment to the program and ability to meet IRS standards:

- Applicant’s staff qualifications;
- Hours devoted to the program by the staff;
- Volunteer training plan;
- Volunteer recruitment and marketing plans;
- Service availability of tax return preparation, (i.e., site days/hours of operations);
- Site accessibility to the underserved;
- Electronic filing capacity of the applicant to both offer and increase electronic filing; and
- Infrastructure to measure their VITA program performance.

Geographic Coverage – The applicant’s existing and proposed service locations in relation to geographic dispersion for the underserved. In evaluating the applicant’s proposal, the IRS will look at the location of existing and proposed sites, ratio of volunteers to support the program, target population⁵, and focus on underserved and/or hard to reach areas along with the proposed number of returns to be prepared.

Population Targeted – The demographics of the low income population and the applicant’s proposed plan to target limited English proficient, elderly, disabled, Native Americans, and/or rural taxpayers.

Past Performance – If applicable, the applicant’s past performance in the volunteer return preparation program will be evaluated as to total Federal returns filed and electronically transmitted.

Sustainability and Growth Strategy – The applicant’s plan for program expansion in regard to continued funding, volunteer retention, partner collaboration, and support.

Quality Standards – The applicant’s commitment to all IRS quality processes will be evaluated as well as additional plans to improve the quality of the applicant’s

⁵ Target population includes low to moderate income individual, limited English proficient, elderly, disabled, rural and Native Americans.

return preparation program and the accuracy of the returns prepared. In addition, applicants with a proven record of volunteer return accuracy will receive additional points while those with no such record or a record reflecting average or below average accuracy will receive fewer points.

Selection Methodology

The selection methodology is challenging as it must consider a fair and just selection of grantees and take into account a series of evaluative criteria for each applicant. The objective for selection is to award funds to those applicants who best demonstrate the ability to provide and/or expand services to the underserved populations, ensure geographic coverage where service gaps may exist, provide electronic filing and commit to following the quality processes the IRS has developed for the VITA program.

The application process will require each applicant to provide a detailed program plan and background narrative to address each of the evaluative criteria. Selection of grant recipients will be based on a ranking methodology that uses the established evaluative criteria outlined above. Applicants will receive points for each evaluative component and be scored based on their ability to provide the needed services to the community.

Accuracy of Returns

The IRS has identified nine practices to ensure taxpayers visiting volunteer sites receive quality service and accurate return preparation. The nine practices called Quality Site Requirements are:

1. Volunteer Certification - All volunteers who prepare or correct returns, answer tax law questions, review completed returns or teach tax law must be certified.
2. Intake and Interview Process - All sites must use an Intake and Interview Process. This process must include correct use of an approved intake and interview sheet for every return prepared.
3. Availability of Reference Materials - All sites must have reference materials available for use by every volunteer return preparer and quality reviewer, preferably at each workstation.
4. Civil Rights - All sites must display or provide the Title VI of the Civil Rights Act of 1964 information to the taxpayer.
5. Privacy, Confidentiality, and Security Guidelines - All sites must follow the privacy, confidentiality and security guidelines⁶ to ensure taxpayer information is provided reasonable protection and reduce the threat of identity theft.
6. Quality Review - All sites must use a quality review process, which includes 100 percent review of all returns. This process must include correctly using an approved Quality Review check sheet for every return.

⁶ Publication 4299, Privacy and Confidentiality – A Public Trust, provides guidelines for the volunteer return preparation programs.

7. Finished Return - All sites must have processes in place to ensure every return is timely filed or delivered to the taxpayer.
8. Site Identification - All returns prepared must contain the correct Site Identification Number.
9. Electronic Filing Control - All returns prepared electronically must contain the correct Electronic Filing Identification Number.

Part 4: Administration

Oversight for the administration of the Community VITA Grant Program is under development and covers:

- Staffing needs
- Receipt and control of grant applications;
- Documentation of review, ranking, and award processes;
- Control and monitoring of expenditures against established guidelines;
- Checkpoint monitoring to ensure services are delivered;
- Financial review of a sample of grant recipients to ensure the VITA grant funds are expended within the grant guidelines; and
- Documentation of Quality Assurance reviews conducted by IRS/SPEC to ensure adherence to quality standards.

The major milestone dates for the new Community VITA Grant Program through September 30, 2009, are outlined in Exhibit 2.

Exhibit 2 – Major Milestone Dates

Application Open Period	7/1/2008-9/1/2008
Review and Ranking of Applications	9/15/2008-10/3/2008
Executive Approval of Awards	10/15/2008
Notification to Recipients	10/30/2008
Funds Available for Draw	12/1/2008
Mid-Year Report Due from Grantee to IRS	4/30/2009
Annual Report Due to from Grantee to IRS	12/31/2009

Part 5: Program Evaluation

The areas outlined in this section will be reviewed at the end of the grant period to compare the actual delivery of the grant recipient’s performance against its performance plan. Summary reports covering the entire grant program will be created by the IRS Grant Administration office to provide year-to-year recipient and program assessment information for use in evaluating performance.

Key components for program evaluation of the VITA grant include:

- Extended service to the underserved and hardest to reach areas;
- Increased capacity to primarily file returns electronically;
- Improved accuracy of returns prepared by VITA sites; and
- Enhanced training of volunteers.

The IRS infrastructure currently exists for measuring some, but not all, of these components at the program level. The IRS currently does not have an existing infrastructure to capture data that could be used to measure program performance specific to individual underserved communities such as, limited English proficient, disabled, Native American, and rural. Therefore, program performance reports from the grant recipients will be required to demonstrate performance results for the categories of underserved that are not otherwise available through IRS data. The IRS will evaluate what additional infrastructure will be needed to evaluate the overall effectiveness of the Community VITA Grant Program.

Extended service – Infrastructure currently exists to measure the number of sites where tax preparation service is offered and the number of tax returns filed. Program success would be demonstrated by increases in the following existing measures over the prior year data:

- Number of sites offering service;
- Number of returns filed; and
- Percent change in returns filed.

Increased capacity to e-file – Infrastructure exists to capture the change in percent/number of e-filed tax returns in the prior year to the percent/number of e-filed tax returns in the current year.

Improved return accuracy at VITA sites – There currently is no method available to measure the accuracy of an individual site or grant applicant. The establishment of a return accuracy measure based on statistical selection of sites is in its baseline year for FY 2008 covering the VITA/TCE programs overall and will be used to demonstrate improvement in quality of returns prepared for future years. The IRS has aggressively integrated initiatives to address quality at the VITA sites, as acknowledged in a recent Treasury Inspector General for Tax Administration audit. The SPEC organization developed and implemented a multi-year quality improvement plan centered on five key strategies – training, standardization of procedures, understanding of roles, responsibilities and capabilities, continual assessment of the quality program, and proactive communication of quality improvement efforts to stakeholders. In an effort to effectively measure the accuracy of returns prepared at volunteer sites, the IRS will utilize a statistically valid sample of volunteer sites to conduct 350 unannounced site visits in 2008. During each of these visits, three reviews of completed returns (selected at random) will be performed to determine if the return has been correctly prepared. The results of the reviews will be used to determine the overall accuracy of the returns prepared at volunteer sites. This approach allows for representation of the diverse customer base and types of returns being prepared in the volunteer return preparation

program. FY 2008 will be a baseline year for this measure. In FY 2009 specific visits to the grant recipients will be scheduled to measure the accuracy of tax preparation.

Enhanced training of volunteers – The IRS has taken many steps to enhance the training of volunteers. In FY 2007, the IRS required that all volunteers pass an IRS test, eliminated partner developed tests, and raised the passing score from 70 percent to 80 percent. Additional controls were placed on the volunteer training test answer key in an effort to strengthen the validity of the certification process. In addition, the IRS piloted Process Based Training (PBT), which is a new training concept for the VITA program. In FY 2008 a proof of concept is being conducted for PBT. This training method uses a performance-based approach to teach volunteers tax return preparation. It is designed to empower volunteer return preparers by providing the insights and tools needed to prepare accurate paper and electronic tax returns. In the event the proof of concept results follow the success of the pilot, PBT would be adopted as the approved training method for FY 2009 – the period covered by the grant. SPEC believes this change in training methodology will produce an increase in return accuracy.

Part 6: Report Summary

The establishment of the Community VITA Grant Program provides an opportunity to continue to grow the VITA program while focusing on improved return accuracy. The VITA program's growth and success demonstrates community commitment to providing services to the underserved and to the tremendous need for such services. The addition of the Community VITA Grant Program may further strengthen the relationship between the IRS and its partners by providing funds to expand the overall program.

Over the next several months, the IRS will continue to develop and refine the design plans outlined in this report to meet the goals of the Community VITA Grant Program as directed by the Congress.