

**BACKGROUND PAPER FOR THE  
California Tax Education Council (CTEC)  
(Oversight Hearing, March 10, 2014, Senate Committee on  
Business, Professions and Economic Development and the Assembly  
Committee on Business, Professions and Consumer Protection)**

**IDENTIFIED ISSUES, BACKGROUND AND RECOMMENDATIONS REGARDING  
THE CTEC**

## **BRIEF OVERVIEW OF THE CTEC**

### **History and Function of the CTEC**

The responsibility for approving tax schools and certifying the education of tax preparers was transferred by the Governor of California and the California State Legislature from the California State Tax Preparer Program in the Department of Consumer Affairs (DCA) to the California Tax Education Council (CTEC) effective July 1, 1997 through Senate Bill 1077, Greene, Chapter 1137, Statutes of 1996.

CTEC is the organization that registers tax preparers, the second largest segment of tax preparation professionals serving California, following certified public accountants. Anyone who, for a fee, assists with or prepares a state or federal income tax return, excluding certified public accountants, attorneys, enrolled agents, enrolled actuaries, and certain financial institutions or their employees, must be registered with CTEC. CTEC is also charged with approving providers of tax education and maintaining and distributing to the public a list of those approved providers.

CTEC is composed of not more than one representative from each professional society, association or other entity operating as a California nonprofit corporation which chooses to participate in the Council and which represents tax preparers, enrolled agents, attorneys, or certified public accountants with a membership of at least 400 for the last three years, and not more than one representative from each for-profit tax preparation corporation which chooses to participate in the council, and which has at least 400 employees and has been operating in California for the last three years. The following nonprofit organizations and for-profit corporations have representatives on the Council:

- California Society of Tax Consultants, Inc.
- National Association of Enrolled Agents
- Jackson Hewitt Tax Service
- California Society of Enrolled Agents
- Liberty Tax Service
- East Bay Association of Enrolled Agents, Inc.
- Mission Society of Enrolled Agents
- H & R Block
- National Association of Tax Professionals

- National Society of Accountants

Currently, CTEC has 16 directors who serve in a voluntary capacity on the council. They are as follows:

Name and Short Bio	Appointment Date	Term Expiration Date	Appointing Authority
<p style="text-align: center;"><b>Mary Beth LaMunyon-Jones, Chair</b></p> <p>Mary Beth LaMunyon-Jones is a CTEC Registered Tax Preparer (CRTP) and currently serves as the Council chair of CTEC. Ms. LaMunyon-Jones has more than 26 years experience as a tax professional and owns five tax preparation franchises in the Fresno region. She specializes in preparing tax returns for individuals, small businesses, military personnel, trusts and estates, and partnerships. Ms. LaMunyon-Jones recently passed the IRS exam to become a Registered Tax Return Preparer (RTRP). She is also an associate member of the California Society of Enrolled Agents (CSEA). Before she was elected as the council chair of CTEC, Ms. LaMunyon-Jones served as council Secretary and Treasurer. She has also served as chair of the Governance and Public Awareness Committees.</p>	01/01/2002	01/01/2015	CTEC Registered Tax Preparer (CRTP) appointed by CTEC Board of Directors
<p style="text-align: center;"><b>John Bishop, CRTP – Treasurer/CFO</b></p> <p>John Bishop is a CTEC Registered Tax Preparer (CRTP) and owns a private business accounting service firm in Oakland. Mr. Bishop specializes in preparing federal and state tax returns for individuals through multi-corporate consolidations and nonprofit corporations. He also has extensive experience with designing and installing accounting systems for businesses, as well as preparing financial statements and SEC filings. Mr. Bishop currently serves as the council Treasurer and is also chair of the Governmental Relations Committee. In addition to CTEC, he serves on a variety of corporate boards as a financial and accounting advisor. Mr. Bishop has a BS in Business Administration and Accounting from California State University, Hayward.</p>	12/01/2002	01/01/2015	CRTP appointed by CTEC Board of Directors

<p style="text-align: center;"><b>Susan Ring, Secretary</b></p> <p>Susy M. Ring has been in practice for 21 years. Champion Income Tax is based in Palm Desert, California and serves over 400 clients in all 50 states. They specialize in personal, small business and corporate returns. Susy has been a member of the Palm Desert Chamber of Commerce and was voted Ambassador of the Month in March 2013. Her son, Steve McMillen, has recently joined her as the firm's accounting partner. Susy's pastimes include oil painting and set design for Desert Theater Works. She was recently voted CTEC Board Secretary.</p>	11/01/2009	01/01/2015	CRTP appointed by CTEC Board of Directors
<p style="text-align: center;"><b>C. Lester Crawford, CRTP</b></p> <p>Lester Crawford has been a CRTP since the inception of the program. He was one of four CRTPs first appointed to the California Tax Education Council in 2000. He currently serves as Chair of the Public Awareness Committee, and also serves as a member on the Governance, Tax Preparer and Communications &amp; Technology Committees. Lester previously served two terms as Board Chair and Budget &amp; Finance Chair, and is a former member of the Audit &amp; Executive Committees. In addition to CTEC, Lester serves as Board Chair of the Mount Moriah Senior Housing Corporation, a non-profit entity in Los Angeles, which owns and manages a 42-unit apartment complex for seniors citizens. Lester recently completed a nine year term as a member of the Friends Foundation of the California African American Museum. Lester received his Bachelor of Science degree in Criminal Justice Administration from California State University, Long Beach. He has a professional certificate in Personal Financial Planning from UCLA. Lester is the Broker/Owner of Azure Realty, Inc., a boutique real estate company which specializes in residential sales and property management. He also is employed as a Bankruptcy Analyst with the Department of Justice, Office of the United States Trustee.</p>	05/01/2000	01/01/2015	CRTP appointed by CTEC Board of Directors
<p style="text-align: center;"><b>Karen De Vaney, CRTP</b></p> <p>Since 1976, Karen has owned and operated a business office in Modesto, California. She specializes in the income tax, bookkeeping and payroll for individuals and small businesses. She has served for over 20 years as an instructor for Yosemite Community College District teaching courses</p>	11/01/2009	Determined by Appointee Organization	California Society of Tax Consultants

<p>in Practical Bookkeeping, Payroll Accounting, Accounting, Income Tax Preparation, Budgeting, and Small Business. Currently Karen serves on the Board of Directors to the State of California Tax Education Council. Previously she served as a Governor’s appointee to the Tax Preparer Advisory Committee under DCA. Karen is also a past President of California Society of Tax Consultants, past President of American Business Women’s Associations for Tuolumne River and Golden Poppy Chapters. Karen is Vice President of the Central Valley Chapter of California Society of Tax Consultants, Advisor to Alliance Small Business Development Center and University of California Cooperative Extension. Karen is also active in several other local and national business and professional organizations.</p>			
<p style="text-align: center;"><b>Margaret “Margy” Dunn, EA</b></p> <p>Margaret “Margy” Dunn, EA is an enrolled agent in Monterey CA. She has been a tax professional in the Monterey area since 1983. She started as a tax preparer for H&amp;R Block and became their District Manager for Monterey and Santa Cruz Counties in 1987. In 1996 Margy left H&amp;R Block to establish her own private practice in Monterey. She was the founder and CEO of Bay Tax Service Inc., a tax practice comprised of enrolled agents serving clients throughout the United States and the world. In 2012, Margy sold Bay Tax Service and now works part-time for the buyer preparing tax returns while also running a separate office in Monterey where she provides taxpayer representation services for local attorneys and fellow tax professionals. Margy is a Fellow of the National Tax Practice Institute. She also holds a Series 6 and Series 65 securities license as well as a California Life Agent license for insurance. In addition to her service on the CTEC Board of Directors as an appointee of the National Association of Enrolled Agents (NAEA), Margy has served as a Director for the Mission Chapter of Enrolled Agents (MSEA) and the California Society of Enrolled Agents (CSEA). She served as the Education Chair for CSEA between 2010 and 2013 while also serving on numerous committees for CSEA. In 2013 Margy was honored as the Enrolled Agent of the Year by the California Society of Enrolled Agents. She was honored with the Lifetime Achievement Award by Mission Society of Enrolled Agents in 2010.</p>	<p>01/01/2010</p>	<p>Determined by Appointee Organization</p>	<p>National Association of Enrolled Agents</p>

<p style="text-align: center;"><b>Ruth Godfrey, EA</b></p> <p>Ruth has been an Enrolled Agent since 1984 and is President of Godfrey and Hardy Tax &amp; Business Services Inc. She works with individuals, businesses, estates, and trusts in her tax practice. Prior to becoming an Enrolled Agent, Ruth was a licensed real estate agent specializing in 1031 exchanges. Ruth is a past president of the California Society of Tax Consultants, Inc. (CSTC) and the Inland Empire CSTC Chapter as well as Past-Chairman of CTEC. She is currently serving CSTC as the chair of Governmental Relations and as Parliamentarian. Ruth has returned to CTEC as the NSA representative to CTEC. Ruth is a Fellow of the National Tax Practice Institute of NAEA and is a member of CSATP, and NSA. Involved in civic groups as well as professional, Ruth has also served as president of the Ontario, California, Chamber of Commerce.</p>	05/13/2013	Determined by Appointee Organization	National Society of Accountants
<p style="text-align: center;"><b>Aaron Gray, CRTP</b></p> <p>Aaron Gray is a CRTP and owner of an independent tax business since 2005. Mr. Gray moved his tax practice to from Gardena to Long Beach in 2011. He provides mobile tax preparation. Mr. Gray joined the California Tax Education Council Board of Directors in 2008, serving as chair of the Governance Committees.</p>	01/01/2008	01/01/2015	CRTP appointed by CTEC Board of Directors
<p style="text-align: center;"><b>Tim Henry</b></p> <p>Tim is a family man with 3 sons all successfully working on their own and contributing to society. His wife of 33 years is also a successful entrepreneur. He has an Associate's degree in Culinary Arts and Bachelor's degree in Business Management from Johnson &amp; Wales University in Providence, RI. Tim has been a volunteer serving the youth of America for his entire adult life through various sports groups and mentoring programs. He has an extensive career in the restaurant business spanning over 20 years in the Southern California area and 14 years in the tax business with Jackson Hewitt Tax Service, overseeing the Western United States for both franchised and company owned operations. He has been serving as Jackson Hewitt's representative on the CTEC board for the past 6 years.</p>	01/18/2011	Determined by Appointee Organization	Jackson Hewitt Tax Services

<p style="text-align: center;"><b>Pam Jipp, EA</b></p> <p>Pamela Jipp, EA began her career as a tax preparer in 1997 and became an enrolled agent in 2003. She became a Fellow of NTPI in 2013. Pam is co-owner of Top of the Line Tax Service Inc. located in Southern California. She has been an active board member of the Inland Empire Chapter of CSEA, serving as President during 2011-2012. She is currently Chair of CSEA Education Foundation Scholarship Committee, Vice-Chair of CSEA Education as well as a member of CSEA Membership committee. She also serves as a Board Member of California Tax Education Council.</p>	01/01/2013	Determined by Appointee Organization	California Society of Enrolled Agents
<p style="text-align: center;"><b>Paul Latter</b></p> <p>As Regional Director at H&amp;R Block Inc. for Region 68, Paul Latter is responsible for providing strategic direction and leadership to District Managers and their associates in sixteen northern California and Nevada districts. Prior to joining the H&amp;R Block family eight years ago, Paul gained extensive management experience at several nationally known companies. For 12 years he worked for FedEx Kinkos as Vice President for Commercial Sales. Before that he worked as a System's Engineer for SAS and Account Manager for Xerox Corporation. Paul earned a Masters in Business Administration from San Diego State University.</p>	11/01/2010	Determined by Appointee Organization	H & R Block
<p style="text-align: center;"><b>Heather Smith</b></p> <p>Heather's history in the tax industry begins with her mother who started working with H&amp;R Block when she was in elementary school, well before the years of electronics, where taxes were prepared by hand with a pencil. She remembers her mother had a really nice one, pencil that is. Heather's first tax industry experience started in 2003, where she took her first tax class with her mother's Jackson Hewitt office. In 2004 she was retained by Liberty Tax National Office (JTH Tax, Inc.) to open 5 locations in Cleveland, OH. After a couple of years in the business and working with her sister's franchise, a Liberty Tax office, she opened her own franchise in 2006, which she very much enjoyed. After being solicited by Liberty to do more work for their corporate office they asked her to relocate and permanently work for the National Office as Director of Tax School in 2008. She later sold her franchise locations in the Pittsburgh, PA area in 2009. She maintained the position as Director of Tax School through July 2012, after which she</p>	01/01/2012	Determined by Appointee Organization	Liberty Tax Service

<p>was promoted to Director of Guerrilla Marketing. Heather has been affiliated with CTEC since taking her original position in 2008 and became a member of the Board of Directors in 2012. Heather is a committee member of the Curriculum Providers, Public Awareness and Budget and Finance.</p>			
<p style="text-align: center;"><b>Katie Tae, CRTP</b></p> <p>Katie Tae received a dual bachelor’s degree in Business Management /Economics and Psychology from the University of California at Santa Cruz. Having worked for a Big Four accounting firm, Deloitte &amp; Touche in multi-state and corporate taxation, Katie has extensive experience in tax preparation for individuals and corporations. Katie served as a forensic accountant at Cohen Miskei &amp; Mowery CPA LLP for several years, working with high net worth clientele. Katie is currently the Chief Financial Officer at ITS Financial Group Inc., an accounting and financial services firm in Gardena.</p>	<p>02/19/2012</p>	<p>01/01/2015</p>	<p>CRTP appointed by CTEC Board of Directors</p>
<p style="text-align: center;"><b>Walter Thomas, EA</b></p> <p>Walter Thomas was born in Plains, Georgia and attended Georgia public schools prior to his service in the United States Navy as an Electronics Technician. He graduated from the University of California, Berkeley with a BSEE, a MSEE, a MSEE&amp;CS and participated in the Ph.D. program. Walter has been employed with Beckman Instruments, Badger Meter, University of California at Berkeley, and Spear Systems (founding member) in various positions, including Engineer, Project Engineer, Computations Manager, Research Assistance and Director of Research and Development. He founded ADvanced TEChnology in 1973, an electronic systems design, development, sales and services company which was incorporated as Omega-C-Tau, Inc in 1991. Walter started ADTECH Tax Service in 1992, and was enrolled to practice before the Internal Revenue Service as an Enrolled Agent in 1996, later becoming a Fellow of the National Tax Practice Institute in 2001. The company has expanded to four locations in the East Bay Area and employs six Enrolled Agents, two Accountants, CRTP’s and support personnel. He is currently President of Omega-C-Tau, Inc, DBA ADTECH Tax Service and ADTECH Tax &amp; Payroll, Member and Past President of the San Francisco Chapter of the California Society of Tax Consultants (CSTC), Member and Past Board Member of</p>	<p>01/01/1998</p>	<p>Determined by Appointee Organization</p>	<p>East Bay Association of Enrolled Agents, Inc.</p>

<p>the California Society of Tax Consultants, Member and Past President of the East Bay Association of Enrolled Agents (EBAEA), Budget Committee Chair Member and Past Board Member of the California Society of Enrolled Agents (CSEA), Member of the National Association of Enrolled Agents (NAEA), Member of the Estate Planning Council of Southern Alameda County Director, Past Chair of CTEC, Audit Oversight Committee Chair, Member of the Franchise Tax Board Advisory Council, Past Member of the Board of Equalization Advisory Council, and President of WCT Consulting, Inc. which offers business advice for small businesses.</p>			
<p style="text-align: center;"><b>Randy Warshawsky, EA</b></p> <p>Awarded the Lifetime Achievement Award in 2010 and Enrolled Agent of the year June in 2005 by Mission Society of Enrolled Agents, Randy Warshawsky was born and raised in the Willow Glen area of San Jose where he currently resides with his wife. He is very active in the local community serving on the Board of Directors for Willow Glen Little League for three years, the Board for Touched by Cancer, Treasurer for District 12 Little League, Past President (2007 to 2009) for the Mission Society of Enrolled Agents serving two consecutive terms, and Past President (2010) for Network Today. Randy has three grown children and is the proud "Papa Randy" to Eddie, his first grandson who turns 11 in 2014. Randy's entrepreneurial spirit led him into two businesses - first as the owner of Big W Liquors in Santa Clara, and now as The Tax Man in Willow Glen. Randy started his tax business in 1986 while working for a local bank. He was also certified by the State of California to teach tax preparation courses. Randy continued to build his business while working for a local attorney in the tax department. Eventually, his own business grew to the point where he worked full time for himself, growing to an office of seven now. The Tax Man provides tax and bookkeeping services for Individuals, Estates, Trusts, Partnerships, and Corporations. He specializes in small to medium sized businesses and, in addition to tax preparation and bookkeeping, Randy also does payroll, audits (all agencies), and business development for his clients.</p>	<p>01/01/2011</p>	<p>Determined by Appointee Organization</p>	<p>Mission Society of Enrolled Agents</p>



<p style="text-align: center;"><b>Greta Zeimetz</b></p> <p>Greta Zeimetz is the Director of the Tax Knowledge Center of the National Association of Tax Professionals. She leads a team of tax experts that provide research and education services to NATP members. Before joining NATP, Zeimetz was a manager with Aid Association for Lutherans in its Training &amp; Development department. Zeimetz earned a Bachelor of Arts degree in communications with an emphasis in journalism from the University of Wisconsin-Stevens Point. She later received a Master’s degree in Management and Organizational Behavior with an emphasis in Training and Development from Silver Lake College, Manitowoc, WI. She is currently pursuing her doctorate in Business Administration. Zeimetz is a member of the American Society for Training &amp; Development and the American Society for Association Executives. She is also a board member for the Appleton e-School in addition to her service to CTEC.</p>	<p>01/01/2012</p>	<p>Determined by Appointee Organization</p>	<p>National Association of Tax Professionals</p>
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In order to provide for the public benefit, the mission of the CTEC is to establish professional tax education standards, approve tax education providers who comply with these standards, and facilitate tax preparer compliance.

CTEC has adopted the following mission statement:

***The California Tax Education Council (CTEC) will continue to establish professional tax education standards, approve tax education providers who comply with these standards, and facilitate tax preparer compliance for the benefit of California tax payers.***

In 1996, when the legislature initiated the “grand experiment” to privatize the regulation of tax schools and registration of tax preparers in the State of California, the CTEC did not exist. The registration of tax preparers and the regulation of tax schools were transferred from DCA to this new private tax industry Council. No funds were allocated to the Council, and no staff existed to carry out the workload. A brand new organization had been created. As with the Tax Preparer Program (TPP), tax preparers were, under the guidelines established by the Council, required to complete specific qualifying and continuing education, as well as maintain a \$5,000 bond.

Penalties, including new fines, jail time, and civil suits, were added for those who violated the Tax Preparers Act. These penalties required a civil action to enforce. The legislative charge was clear. The Council was to be more efficient and effective to provide better value than any previous effort had achieved.

Senate Bill 1077 of 1996 dramatically modified the regulatory responsibility for tax preparers previously regulated by the TPP under DCA. The initial legislative framework was subsequently modified by two bills, Senate Bill 1307 (Committee on Business and Professions, Statutes of 1999, Chapter 983) and Senate Bill 602 (Alpert, Statutes of 1997, Chapter 337).

The CTEC has several working committees that may consist of between five to seven members. Working committees include the Audit Oversight Committee, Executive Committee, Budget and Finance Committee, Bylaw Committee, Communications and Technology Committee, Curriculum Provider Standards Committee, Governmental Relations Committee, Public Awareness Committee and the Tax Preparer Committee.

**Registration of Tax Preparers**

In 1997, DCA transferred its responsibility of registering tax preparers to CTEC. At the time, there were 28,831 registered preparers. Information received that first year from the California Franchise Tax Board indicated that there were anywhere between 10,000 and 20,000 illegal preparers in California. The expectations of the Council were to attain registration numbers somewhere between 38,000 and 48,000. Below is a listing of yearly registrations:

Registration Year	Total Registrations
07/01/97-06/30/98	28,831
07/01/98-06/30/99	29,009
07/01/99-06/30/00	29,773
07/01/00-06/30/01	28,444
07/01/01-06/30/02	29,943
07/01/02-06/30/03	32,093
07/01/03-06/30/04	34,391
07/01/04-06/30/05	36,931
07/01/05-06/30/06	39,226
07/01/06-06/30/07	40,565
07/01/07-06/30/08	41,881
07/01/08-06/30/09	44,888
07/01/09-06/30/10	43,963
07/01/10-06/30/11	44,326
07/01/11-06/30/12	42,144
07/01/12-06/30/13	39,088

During most years, CTEC’s registration numbers have increased. CTEC attributes these increases to stabilized fees, improved provider standards, development of a CTEC website, online registration and consumer education through CTEC’s public awareness program. During the last two years, CTEC’s registration numbers have declined. CTEC attributes this decrease to the start of the IRS federal registration program. Many CTEC registered preparers have mistakenly thought that if they register with the IRS they no longer are required to register with CTEC. The board has taken steps such as newsletter articles, IRS Forum presentations and through the CTEC website to inform registered preparers that CTEC registration is still required in California.

CTEC issues a Certificate of Completion, for those individuals who are new registrants and have completed a 60-hour qualifying education course. A Statement of Compliance is issued to those individuals who are renewing their registration and have completed a 20-hour continuing education

course. Non-Exempt preparers who live and prepare outside of California are not required to register with CTEC.

In the table below, the number of registrations for the past four years is broken down by new registrations and renewals; delinquent refers to those preparers who renewed their registration after the October 31<sup>st</sup> deadline and were charged a late fee.

<b>Registration Population</b>					
		FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
New Registration Certificate of Completion	Active	8,249	8,680	6,858	6,260
Renewal Registration Statement of Compliance	Active	26,538	26,528	25,146	25,732
	Delinquent	9,176	9,118	10,141	7,096
<b>TOTAL REGISTRATION</b>		<b>43,963</b>	<b>44,326</b>	<b>42,145</b>	<b>39,088</b>

CTEC requires online registration; however, paper applications are accepted on a case-by-case basis. The online registration process verifies all education immediately, which means once an applicant completes the online application and submits it to CTEC, their registration is approved. CTEC does not require a standardized exam to register as a new preparer. The examination process is left to the provider; however, the provider’s course, including the exam, are reviewed and approved by CTEC. All CTEC approved providers who offer qualifying education courses are required to have a final exam, and individuals taking the course must pass that exam with a grade of not less than 70%.

### **Qualifying Education and Continuing Competency Requirements**

In order to register with CTEC, applicants are required to take a 60-hour qualifying education course that consists of basic personal income tax law, theory, and practice (45-hours of federal and 15-hours of state). CTEC requires qualifying education courses to be developed using specific subject matter specified in its written Policy. All approved CTEC self-study course providers are required to follow self-study guidelines that are similar to those adopted by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA). It is the CTEC approved provider that administers the final examination for their respective course. A grade of not less than 70% must be achieved on the exam in order for the provider to issue the student a certificate of completion.

CTEC also requires 20-hours of continuing education consisting of 15-hours of federal education (consisting of 2-hours of ethics, 3-hours of federal tax updates, and 10-hours of federal tax law) and 5-hours of state education. This is consistent with the IRS requirements.

CTEC verifies qualifying and continuing education of every registered tax preparer every year. Since many of CTEC’s approved providers offer both qualifying and continuing education courses online, CTEC requires all providers to report successful completion of the tax preparers education courses online, and then matches those courses to individuals attempting to register. CTEC does not allow self-certification of either qualifying or continuing education. Preparers are able to go into their personal online accounts and verify the number of educational hours reported by their provider.

The responsibility for approving tax schools was transferred from the TPP under DCA, to CTEC by the Governor and the Legislature effective July 1, 1997 (Greene, Chapter 1137, Statutes of 1996). To

become an approved provider, an applicant must submit a course for review to CTEC's course review staff. A separate approval is required to be a qualifying education provider and a continuing education provider. The review includes a meticulous examination of a prospective provider's course.

CTEC's provider approval process requires a new provider, either qualifying or continuing education, to submit a course for review. CTEC has several policies dealing with the review process. These policies include:

- Provider Approval Process
- Denied Provider Appeal Procedure
- Self-Study Courses
- Education Standards

The process outlined in the policies of CTEC requires that CTEC contracts with a number of knowledgeable reviewers who verify the continuing education awarded by either a word count formula or pilot testing using standards very similar to those adopted by both AICPA and NASBA. This includes verifying an interactive element through the use of three review questions per continuing education hour at the end of each education element, and five exam questions per continuing education hour at the conclusion of the course. The reviewers also look for and deny approval for courses whose material and questions are overly simplistic, and questions that are simply look-up questions with no educational value. The review team is headed up by a professional educator, Phillip Storrer, CPA. Mr. Storrer is a retired professor of taxation from Hayward University, Hayward, CA.

The CTEC continuously reviews its policies related to continuing education, and has, over the years, made many policy changes with regards to education. CTEC annually holds a provider task force meeting with its approved providers to gain insights into operational problems faced by the providers and to keep the providers abreast of changes in CTEC policies.

The CTEC reviewed the new joint AICPA/NASBA education standards and the IRS education standards for their national registration program. The CTEC adopted the AICPA/NASBA approach to determining the continuing education awarded for self-study courses. The CTEC went a step further than AICPA/NASBA standards by giving its curriculum review staff the latitude to deny approval of a course where the course and/or questions are not:

- Clearly written;
- Technically accurate;
- Current – up to date with the current tax laws;
- Complete – sufficient detail to explain the subject matter; and,
- Sufficient to meet the course learning objectives.

The CTEC also adopted the NASBA restriction on the use of IRS, state and general usage publications as course study material. These publications are designed for use by taxpayers not professionals and do not include code, regulation, or court case references, and are not suitable for professional use.

As indicated, CTEC providers are divided into two categories: qualified education providers and continuing education providers. Each category requires a separate approval process and some

providers are approved for both categories. Currently, CTEC has a total of 118 approved providers of which 78 are approved for qualifying education and 104 are approved for continuing education.

Although CTEC is unable to review all courses, it is sensitive to the course review problem and has developed a new review strategy and implemented an audit policy that will, hopefully, ensure the quality of continuing education courses. These are the keys to this strategy:

- When a provider submits a course for the 3-year periodic review, they must submit their most frequently taken course. Many students will look for an easy way to get continuing education credits, and, by requiring the most frequently taken course, our review staff can uncover deficient courses.
- CTEC also adopted a unique audit policy in 2012 and implemented the policy in 2013. This policy requires that the five most frequently taken courses be audited each year, in addition to random audits and audits as the result of complaints.

Audits are performed by members of the CTEC course review staff, who subscribe to the course just like any other student but do so without the provider's knowledge. They are looking for courses that award excessive continuing education credits, are overly simplistic, not current, and lack substantial educational value.

### **Fiscal and Fund Analysis**

CTEC Policy states: (1) all approved budgets must be balanced; and, (2) all expenditures must be included in the board approved CTEC budget for the current fiscal year. According to CTEC Policy, CTEC's annual revenues are primarily collected from registration fees during the months of September through December. CTEC's fiscal year begins July 1, three months before the beginning of the revenue stream for the fiscal year. Therefore, three months annualized operating expenses must be funded from the prior year's revenues and provided for in the prior year's budget. In addition, a prudent operating reserve, equal to two months annualized operating expenses shall be included in a current year budget. The combination requires budgeted reserves equal to two months annualized expenses. The reserve includes \$50,000 restricted funds for possible legal action taken by FTB against a non-compliant preparer. A statutory reserve level does not exist. CTEC has never experienced a deficit nor anticipates having one, as registration fees paid by tax preparers entirely fund the oversight of this program.

Since the establishment of CTEC by the California State Legislature, the registration fee of \$25 has never been increased. The board, however, has periodically increased the fee for late registration in order to encourage timely compliance of the law by tax preparers. Effective November 1, 2012, the late fee was increased from \$15 to \$55. Revenues, Expenditures and the Fund Balance for CTEC over the past four years are reflected in the Fund Condition below. There are no projected deficit or fee increases expected over the next two fiscal years.

<b>Fund Condition</b>
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(Dollars in Thousands)	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Beginning Balance	666,000	414,000	433,000	568,000	N/A	N/A
Revenues and Transfers	1,266,000	1,282,000	1,281,000	1,397,000	N/A	N/A
<b>Total Revenue</b>	1,932,000	1,696,000	1,714,000	1,965,000	N/A	N/A
Budget Authority	N/A	N/A	N/A	N/A	N/A	N/A
Expenditures	1,255,000	1,293,000	1,327,000	1,428,000	N/A	N/A
Loans to General Fund	None	None	None	None	N/A	N/A
Accrued Interest, Loans to General Fund	None	None	None	None	N/A	N/A
Loans Repaid From General Fund	None	None	None	None	N/A	N/A
<b>Fund Balance</b>	677,000	403,000	387,000	537,000	N/A	N/A
<b>Months in Reserve</b>	2	2	2	2	2	2

Notes: CTEC maintained certificates of deposit (CDs), which are reflected in the beginning balance above, for the four year reporting period as follows:

FY 2009/10	\$510,000
FY 2010/11	\$303,000
FY 2011/12	\$404,000
FY 2012/13	\$306,000

The CDs are used to fund the two month reserve budget requirement mandated by CTEC policy.

The amounts of expenditures by program component are reflected are reflected in the chart below:

<b>Expenditures by Program Component</b>								
	FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Personnel Services	OE&E	Personnel Services	OE&E	Personnel Services	OE&E	Personnel Services	OE&E
Enforcement	281,017		298,528		271,939		319,419	
Examination	N/A		N/A		N/A		N/A	
Registration	677,860		722,611		761,604		756,475	
Administration *	296,515		272,095		293,822		297,093	
DCA Pro Rata	N/A		N/A		N/A		N/A	
Diversion (if applicable)	N/A		N/A		N/A		N/A	
<b>TOTALS</b>	1,255,392	\$	1,293,234	\$	1,327,365	\$	1,372,987	\$

\*Administration includes costs for executive staff, board, administrative support, and fiscal services.

The fee schedule and revenue collected over the past four years is reflected in the chart below. The \$25 fee to register has not changed since CTEC began in 1997. For those preparers who register late (after October 31<sup>st</sup>), there is a late fee added to the \$25.00. The initial late fee was \$12.50. It was increased to \$13.00, then \$15.00. In 2012 the late fee was increased to \$55.00. For those registering late, the total cost to renew their registration was \$80.00. The increased late fee was initiated due to

the large number of preparers renewing late. The Business & Professions Code is silent on the fees CTEC can charge preparers.

<b>Fee Schedule and Revenue</b>							
Fee	Current Fee Amount	Statutory Limit	FY 2009/10 Revenue	FY 2010/11 Revenue	FY 2011/12 Revenue	FY 2012/13 Revenue	% of Total Revenue
New Preparer	25.00	N/A	206,235	217,000	171,450	156,500	14%
Renewal	25.00	N/A	892,850	891,139	882,170	820,700	67%
Late Fee	55.00	N/A	137,633	136,764	152,115	390,270	15%

### **CTEC Staffing**

CTEC does not have employees. To administer the program, CTEC contracts with an outside firm to provide staff support services for all of its functions. That firm, Advocation Strategies, Inc., is located at 1029 J Street, Suite 150, Sacramento, CA 95814. Advocation Strategies’ functions are outlined in CTEC Policy. CTEC pays Advocation Strategies an administrative management fee. This fee covers all staff support, office space, and all office equipment necessary to administer the program. Advocation Strategies has been administering the program since 1997. Information concerning the expenditures for this administrative contract is included in CTEC’s Annual Reports which includes audited financial statements. CTEC also contracts for the following services: curriculum reviews – Phil Storrer and Raymond Ho; advertising and public relations – Campo Communications; audit – Fritz-Russell, CPAs; legal counsel – Jill England; Information Technology – Mark Griffith.

Also, since CTEC does not have employees, there have been no staff development efforts. CTEC does, however, have board development meetings and meets each year during the spring to discuss its strategic plan. During this planning session, the Council reviews Roberts Rules of Order, as well as the previous year’s strategic goals and objectives to ensure a uniformity of understanding by the board members. CTEC has also established a mentoring program for its new appointees to the Council.

### **Enforcement**

CTEC’s expectations for its enforcement program are to eliminate from the marketplace illegal preparers—preparers who are not educated or bonded. CTEC’s goal, once an illegal preparer is identified, is to allow that preparer 90 days to take the required education, purchase a bond and register with CTEC. Over the years, FTB’s enforcement program has identified hundreds of illegal preparers, provided them with information regarding CTEC requirements, and most individuals have come into compliance and became CTEC Registered Tax Preparers. Without the enforcement arm of FTB, there would be no reason for preparers to become registered. The board has felt that one of the main reasons for the increase in CTEC registration over the years has been FTB’s presence, especially in the field. Needless to say, CTEC’s enforcement program has been an overwhelming success.

FTB’s enforcement process was recently improved with the reengineering of business processes, including using systems to improve verification of preparer information and correspondence prior to imposition of the failure to register as a tax preparer penalty. The changes resulted in a 44% increase in failure to register penalties imposed.

Current process requires FTB to verify, based on the information available, that an illegal tax preparer is not otherwise exempt from CTEC registration. Attorneys, Certified Public Accountants (CPAs), Enrolled Agents (EAs), and other listed exempt persons/entities in good standing are exempt from CTEC tax preparer registration pursuant to Business & Professions Code Section 22258. When FTB is unable to identify the individual or entity as exempt from registration, FTB will send a first and second notice before imposing the penalty to ensure that illegal tax preparers can respond with their exempt information, or comply with the registration requirement by registering with CTEC before the penalty will be imposed. FTB expends time and resources to confirm tax preparer activity, confirming the identity of the tax preparers, and identification of exempt tax preparers.

Effective January 1, 2014, CTEC will have legislative authority to deregister tax preparers who have been involved in illegal activities. Once a registered preparer is deregistered, CTEC will notify FTB of the deregistered individual. This may increase the number of enforcement cases FTB will administer.

### **Information on Council Meetings**

CTEC has two meetings a year, usually in May and November. These meetings include both committee and Council meetings, and are two days in duration. The dates and locations of meetings for the next two years are determined at the November annual meeting. In January, after the November meeting, dates and locations of meetings occurring that year are posted on CTEC's website, announced in CTEC's *News & Views* preparer newsletter, which is mailed to all registered preparers in January, May and August, and *The Provider* newsletter, which is emailed to approved providers in July and December. One month prior to the meeting, meeting agendas are posted online. Two weeks after the meeting, Council approved minutes are posted on the website and remain on the website until the next meeting.

### **Public Outreach and Education**

In terms of providing information to the public about CTEC's registered preparers, CTEC provides a list of the registered tax preparers its website. The preparer information provided includes:

- CTEC Number
- Preparer's Name
- Preparer's Address
- Preparer's Telephone Number
- "Doing Business As" Information
- Registration Valid Through: Date

In addition, CTEC sends to new preparers a CTEC window sticker which can be displayed at a preparer's place of business, and a CTEC logo slick which can be used on business cards and advertisements. When displayed, these items signify to the consumer that this preparer is educated and bonded.

CTEC focuses on four main methods to provide consumer outreach and education about tax preparers. They are as follows:



Media Interviews. Each tax season, CTEC launches a media relations campaign that focuses on how to find a legal tax preparer. With the help of an outside public relations consultant, CTEC submits press releases and radio public service announcements to media outlets statewide. CTEC now averages between 60-120 media reports each year. Approximately 25-60 radio stations will also air CTEC public service announcements each tax season.

Paid Advertisements. Each tax season, CTEC launches an outdoor and internet advertising campaign that focuses on the message concept: *Is Your Tax Preparer Legal?* Many of the outdoor advertisements (i.e. bus signs, billboards and transit signs) run from early January through mid-April in markets the FTB reports to have the most problems with illegal tax preparers. Those markets include Los Angeles, San Diego, Fresno, Bakersfield and San Francisco. The internet advertisements run year-round throughout the state.

Partnerships. As indicated by CTEC, “the reality is CTEC cannot accomplish its public awareness campaign on its own if it wants to educate the entire State of California. CTEC faces a lot of competition during tax season to get its message out on how to choose a tax preparer. It needs backup. It needs partnerships. The more outside agencies know about CTEC and registered tax preparers, the more accurate the media coverage and the more extensive is CTEC’s reach to consumers.”

As a result, CTEC has built partnerships with: the FTB Taxpayer Advocate and Public Affairs Department, Board of Equalization (BOE), Employment Development Department, California Small Business Association, California Better Business Bureau (BBB) offices and the Hispanic Association of Professional Services. The partnerships have proved beneficial. CTEC has received free publicity through many of its partners’ newsletters, press releases, brochures, seminars, public events and website links. For example, each tax season CTEC and FTB partner together to educate the public about enforcement efforts and how to choose a tax preparer. The BBB has also been extremely helpful in getting CTEC’s message out during tax season by including information in its press releases, media interviews and on BBB websites throughout California. CTEC also participates at BOE events year round to educate small business owners about CTEC and CRTPs.

Online Visibility. In 2007, CTEC implemented a new campaign to help increase its online visibility. The purpose is to ensure that information about CTEC is as accurate and accessible to consumers as possible—whether through government websites, consumer-based websites, online informational directories, social media websites, blogs or advertisements.

In 2008, CTEC implemented its first internet advertising campaign to reach California consumers year round. In 2012, CTEC revised its website to be compatible with mobile phones and tablets. The Council has also expanded its internet advertising campaign through Google AdWords and social media sites such as Facebook and YouTube.

As for other recent efforts to expand CTEC’s online visibility:

- In 2010, CTEC produced a YouTube video in English and Spanish on how to choose a tax preparer. The video received close to 2,000 hits the first few months it was posted.
- In 2011, a Wikipedia page was created for CTEC.

- In 2011, CTEC started including QR codes on some of its transit advertisements (i.e. BART signs, interior bus cards) that take consumers directly to the “Verify Your Tax Preparer” page of the CTEC website.
- In 2012, CTEC started submitting Social Media News Releases during tax season. One of the press releases made Twitter Trend Topics due to the high volume of response.

Since implementing the campaign, the CTEC website continues to receive more visitors each year. In 2006, the CTEC website had received one million hits; however, in 2008, (the same year the new online campaign was launched) that number increased to *four million hits*. In 2011, the CTEC website received *more than 11 million hits*. As of 2012, the most popular page visited is “Verify Your Tax Preparer”— the same page that consumers are directed to when using a QR code on CTEC advertisements.

At the time of this report, the council was also working with a website team and public relations consultant to update the CTEC website so it is more user-friendly to both CRTPs and consumers. By 2014, CTEC also plans to launch an online visual marketing campaign by using infographics to promote the mission of CTEC, how to become a CRTP, tax preparer enforcement and how to verify a tax preparer is legal. The council also increased its 2013/2014 advertising budget by \$10,000 to help expand its internet reach to California consumers through Google AdWords and social media.

## **PRIOR SUNSET REVIEW: CHANGES AND IMPROVEMENTS**

CTEC was last reviewed by the former Joint Legislative Sunset Review Committee (JLSRC) in 2000/2001. On October 1, 2000, CTEC submitted its required Sunset Report to this Committee. At that time, the JLSRC identified 12 issues for discussion at its hearing in December and made 6 recommendations at its hearing in April or 2001.

Below are the prior issues raised by the JLSRC in its Background Paper of 2000 and in its final recommendations, and what action CTEC’s took in response to the recommendations or findings of the JLSRC. (The prior “California Tax Education Council’s Background Paper of 2000” which details these issues and the JLSRC Recommendations of 2001 regarding the Council can be obtained from this Committee.)

- The JLSRC recommended that CTEC should continue working with the JLSRC and the FTB in an effort to determine whether the FTB should be given cite and fine authority. CTEC continued working with FTB and in 2002 legislation was passed, SB 1955 (Figueroa, Chapter 1150, Statutes of 2002), which gave the FTB the authority to conduct site visits to identify illegal tax preparers and provide CTEC with a list of these preparers.

In 2004, CTEC again went to the legislature to introduce language that would give even more enforcement authority to FTB. SB 1543 (Figueroa, Chapter 2004) gave the FTB the authority to cite and fine illegal tax preparers. The result of this legislation changed Business & Professions Code Section 22253.2 and Revenue and Taxation Code Section 19167, whereby FTB was given the authority to cite and fine individuals who failed to register as a tax preparer with the California Tax Education Council. The penalty for the first failure to register is \$2,500. This penalty is waived if proof of registration is provided to FTB within 90 days from the date notice of the

penalty is mailed to the tax preparer. The amount of the penalty, other than the first failure to register, is \$5,000.

CTEC agreed to reimburse FTB for first year costs associated with the development of processes or system changes to start-up the program, as well as agreeing to reimburse FTB for the annual costs incurred with the penalty authorization. CTEC annually budgets between \$300,000 and \$350,000 to cover these costs.

- The JLSRC recommended that CTEC and the Bureau of Private Postsecondary Education (formerly the Bureau of Private Postsecondary and Vocational Education) should continue working with the JLSRC to determine who should have jurisdiction over providers of tax preparer education. SB 724 (Figueroa, Chapter 728, Statutes of 2001) deleted the Bureau of Private Postsecondary and Vocational Education from Business & Professions Code Section 22251, making CTEC the sole entity for approving tax schools.
- The JLSRC recommended that CTEC should work with the Joint Committee to determine what if any authority CTEC should be given to deny, suspend or revoke a certificate of completion of statement of compliance. In an effort to deal with the issue of denying, suspending or revoking a CTEC registration, in 2009 CTEC added the following language to its own Policy:

(1) Grounds for denial of application for registration or removal of a currently Registered CRTP:

- (a) CTEC may deny or refuse to register any applicant who does not meet the criteria established in its CTEC Policy.
- (b) CTEC may deny or refuse to register any applicant who has, in the Council's determination upon review of evidence of same committed any act, or omission, which the Council judges to be in violation of any CTEC Policy.
- (c) CTEC may deny or withdraw registration from any individual upon receiving information from (a) government agencies (i.e. FTB or the Treasury Inspector General for Tax Administration (TIGTA)) stating the preparer has had his/her professional license revoked; (b) professional regulatory agencies stating the preparer had his/her professional license revoked.

Unfortunately, the policy was ineffective because it was not law and, therefore, CTEC did not have the authority to carry it out.

In 2013, CTEC sponsored legislation, SB 484 (Wyland, Chapter 660, Statutes of 2013) which authorized the Council to discipline a registrant by, among other things, placing the registrant on probation or suspending or revoking the registration. The bill required the Council to notify the FTB and the IRS that a registration is suspended or revoked. The Governor signed the bill on October 8, 2013, and it will go into effect on January 1, 2014, giving CTEC the legislative authority to deregister preparers.

- The JLSRC recommended that CTEC should provide registrant status online within a reasonable period of time. In 2002, CTEC developed a website that included all currently registered CTEC preparers as well as all currently approved CTEC providers. Each currently registered preparer's

CTEC number, name, address, telephone number and “Registration valid thru” date are listed on the site. Consumers can verify that their tax preparer is registered or enter a zip code and find registered tax preparers in their area. Because of CTEC’s real time online registration process, registration status is always current and up-to-date on the site.

- The JLSRC recommended that existing law should be amended to provide for at least two CTEC tax preparers, with full voting privileges on the Council at all times. SB 724 of 2001 stated that the Council shall establish a process by which two individuals who are tax preparers are appointed to the Council with full voting privileges to serve terms as determined by the Council, with their initial terms being served on a staggered basis. A Certified Public Accountant (CPA), Enrolled Agent (EA) or attorney is not eligible for appointment to the Council, other than an employee of a CPA, EA or attorney. CTEC, at the time, appointed six tax preparers to the Council, providing full voting privileges to two of the six.
- SB 1476 (Figueroa, Chapter 658, Statutes of 2006) then expanded this provision of the law by requiring CTEC to establish a process whereby six tax preparers are appointed to the Council with full voting privileges. These individuals must be CTEC Registered Tax Preparers with no other designation (CPA, EA or attorney).

## **CURRENT SUNSET REVIEW ISSUES**

The following are possible unresolved issues pertaining to the Council, or areas of concern for the Committees to consider, along with background information concerning the particular issue. There are also recommendations that the Committee staff have made regarding particular issues or problem areas which need to be addressed. The Council and other interested parties, including the professions, have been provided with this Background Paper and can respond to the issues presented and the recommendations of staff.

### **EDUCATION REQUIREMENTS FOR TAX PREPARERS**

**ISSUE #1: (USE OF A STANDARDIZED TEST AND INCREASED EDUCATION REQUIREMENTS.) Should CTEC be allowed to provide a standardized test and require increased hours of education for those seeking to become Registered Tax Preparers?**

**Background:** The Council has had several discussions regarding (1) the use of a standardized test and (2) additional hours for both the initial registration as well as annual continuing education. Currently, initial registrants are required to take a 60-hour qualifying education course from a CTEC approved provider. Providers are required to give a final exam, which they develop, but is reviewed by CTEC reviewers. Given the importance of this 60-hour course, the Council has been considering the development of a standardized test, which would be distributed to providers. The providers would proctor the exam, eliminating the need for testing centers. CTEC argues, that the standardized test would give CTEC the ability to frame the appropriate questions to be sure that all required topics are covered by the provider.

CTEC also indicates, that, given the many changes to the IRS code each year, the Council has felt that neither the 60-hour initial education requirement nor the 20-hour continuing education requirement are

sufficient to cover the necessary topics needed to prepare an accurate federal or state tax return. They believe that additional education hours for both categories could substantially help improve the quality of tax preparation.

**Staff Recommendation:** *If the Council is considering the use of a standardized test for initial registrants then they should ensure that the test has the appropriate occupational analysis and examination validation study conducted. (See, Section 139 of the Business and Professions Code.) The Council might consider contracting with the Office of Professional Examination Resources of the Department of Consumer Affairs to conduct such an evaluation of a standardized test to be provided by the Council to providers. Such an evaluation could also take into consideration the need for increased education for tax preparers so that an appropriate passage rate could be achieved. The passage rate should be closely monitored, however, and the registration rate for initial registrants should not drop significantly because of the additional requirement of both a standardized test and additional education. Tax preparation work is an important profession which many seek as a career and the new education requirements should not be a barrier to entering into this profession.*

## **ENFORCEMENT**

**ISSUE #2:** (EXPAND THE SCOPE OF THE FTB.) Should the FTB be granted authority to enforce some of the other provisions of the “Tax Preparer Code of Conduct and Responsibilities?”

**Background:** According to CTEC, the FTB is only authorized to identify illegal preparers and penalize those preparers if they do not come into compliance. CTEC asks whether it might be feasible for the FTB’s authority and jurisdiction to be expanded so that they could take enforcement action for some of the other issues listed in CTEC’s Code of Conduct.

After several informal discussions with the FTB, CTEC indicates that the FTB has realized the benefit of CTEC knowing who received penalties as well as tax preparers who are discovered not to be in compliance based on complaints filed. CTEC believes that it would benefit from knowing if a Personal Tax Identification Number (PTIN) is accurate and/or not fraudulent. Currently, there are many tax preparers who do not have PTINS, but are still able to register with CTEC, which ultimately makes it difficult to truly identify the tax preparer. Tax preparers are also able to register with CTEC even if they have been disciplined or their license may have been revoked (such as those for a CPA, EA, or Attorney) because CTEC does not receive that type of information. This also applies to social security numbers as well.

Ultimately, as argued by CTEC, they have been given the responsibility to regulate tax preparers, but they have not yet received all the tools to completely do the job. The FTB only has the power to penalize the tax preparers that are not registered, but past that, the FTB cannot penalize the many preparers that are registered, but are acting in violation of certain provisions of CTEC’s Code of Conduct, as indicated below:

- Must, prior to rendering any tax preparation services, provide the customer, in writing, with the tax preparer’s name, address, telephone number, and evidence of compliance with the bonding requirement.

- Must not make fraudulent, untrue, or misleading statements or representations that are intended to induce a person to use their tax preparation services.
- Must not obtain the signature of a customer on a tax return or authorizing documents that contain blank spaces to be filled in after it has been signed.
- Must not fail or refuse to give a customer a copy of any document requiring the customer's signature within a reasonable time after the customer signs.
- Must not fail to maintain a copy of any tax return prepared for a customer for four years from the later of the due date of the return or the completion date of the return.
- May not engage in advertising practices that are fraudulent, untrue, or misleading, including assertions that the tax preparer bond in any way implies licensure or endorsement of a tax preparer by the State of California.
- Must not fail to sign a customer's tax return when payment for services rendered has been made.
- Must not fail to return, upon demand by or on behalf of a customer, records or other data provided to the tax preparer by the customer.

It is also the understanding of CTEC that the FTB cannot provide information regarding tax preparers that receive complaints as mentioned in the eight areas above because of the State's privacy and disclosure laws. CTEC believes that any additional assistance that could be provided by the FTB, in regards to any one of these items listed above, would certainly make the program much stronger especially with regard to consumer protection.

***Staff Recommendation:*** *CTEC should continue meeting with the FTB and discuss further what information could be provided by the FTB in dealing with violations of its Code of Conduct for registered tax preparers and what further powers and authority could be granted to CTEC and the FTB to assure that action could be taken against those registered tax preparers who may violate some of the more serious provisions of CTEC's Code of Conduct.*

## **MEDIA CAMPAIGN**

**ISSUE # 3: (EXPENSIVE MEDIA CAMPAIGN.) Should CTEC continue with a rather expensive media campaign costing nearly \$278,000 in 2012, or should it be somehow curtailed?**

**Background:** In 2008/2009 fiscal year, CTEC hired a media research firm to measure its advertising campaign results. Past communication strategies relied solely on media interviews and paid advertisements that focused on educating the public about the CTEC Registered Tax Preparer designation. During its early advertising efforts, CTEC spent a substantial amount of budgeted funds on TV and radio ads and received few, if any, response from consumers. In 2005, the Council decided to try bus tail (signs on the back of buses) advertisements. Although the bus tails seemed to be a more effective approach to reach consumers, the Council still believed the results could be better.

In 2006, the Council decided to try a different message concept by putting more emphasis on explaining CTEC and state law requirements for tax preparers, in addition to educating the public about Registered Tax Preparers. The revised strategy was implemented in 2007 through public relations and advertising campaigns. The new message concept (“Is your tax preparer legal?”) showed a significant increase in media coverage and phone calls from consumers; but again, the Council still did not have any formal reports to prove the campaign’s effectiveness.

CTEC advertised during tax season in Los Angeles and San Diego, the two markets the California Franchise Tax Board (FTB) reports to have the most problems with illegal tax preparers. CTEC had also implemented its first Internet advertising campaign in 2007. The advertisements ran statewide year round.

In May, 2009 CTEC had a survey conducted to determine the effect of its advertisement effort. The report was titled, “*CTEC Advertising Awareness Research Report.*” The survey results conducted by the research firm found that 10% of participants were aware of CTEC. To provide some perspective, as argued by CTEC, McDonald’s will spend millions of dollars on advertising in Los Angeles year round and averages 40% awareness. CTEC spent \$73,000 on advertising in Los Angeles for four months and still received what is considered to be “moderate” awareness.

Below is a summary of how respondents became aware of CTEC:

- 28% Friend/Family
- 17% TV (Media Interviews)
- 14% Radio (Media Interviews/PSAs)
- 10% Bus Tail
- 10% Internet
- 7% Tax Preparer
- 17% Other
- 3% Don’t Know

CTEC indicates that the results show that the public relations campaign is just as important, if not more so, than the advertising campaign. The survey also found that the majority of consumers believed the new message “Is Your Tax Preparer Legal?” was a good fit for CTEC and gave it a “5” rating. The rating was based on a scale of 1 to 5. A “1” rating meant “strongly disagree” and a “5” rating meant “strongly agree.”

It is difficult to determine what efforts are still being made by CTEC regarding both its “public relations campaign” and its advertising efforts and how much is spent on each. In CTEC’s Annual Report it showed that for the year ended June 30, 2012, CTEC spent \$278,326, and for the year ended June 30, 2011, they spent \$266,494, and for year ended June 30, 2010, spent \$201,000. They also spent \$72,000 for 2012 and 2011 to hire an outside public relations firm (these amounts are included in the total amounts for 2012 and 2011). In its Annual Report, CTEC indicated that they use advertising [and promotion] to assure that the public is informed of the requirements for “unlicensed tax preparers practicing in California to be registered.” (It seems unclear as to what this means and the message which CTEC is trying to deliver to the public.) From \$190,700 in 2009, to \$278,000 for advertising and promotion in 2012, it would be nice to know if the results are any better in terms of informing the public about registered tax preparers and their responsibility and requirements under the law and as it pertains to CTEC.

**Staff Recommendation:** *CTEC should explain to the Committees what current efforts are being made regarding the advertising and promotion of both the work of CTEC and informing the public about the responsibilities and requirements which tax preparers have under the law and as it pertains to CTEC. The Committees should also receive a breakdown of how these costs are being spent and have another independent study completed by June 30, 2014 on the effectiveness of its advertising and promotion campaign.*

## **CONTINUATION OF CALIFORNIA TAX PREPARER COUNCIL**

**ISSUE # 4: (SHOULD CTEC BE CONTINUED?) Should the registration of tax preparers by CTEC, an nonprofit public benefit corporation (501(c)(3)) be continued and the profession be regulated by the current Council membership?**

**Background:** The responsibility for approving tax schools and certifying the education of tax preparers was transferred from the California State Tax Preparer Program, under the Department of Consumer Affairs, to CTEC by the Governor and the Legislature effective July 1, 1997. Since taking over this responsibility, CTEC has continued to be more efficient and effective and has provided better value, service and response to the profession of tax preparers than the prior state run program. For example, a survey was conducted in 2006 by CTEC with 2,063 CTEC registered tax preparers responding to see how tax preparers viewed CTEC. Questions ranged from “how to reach CTEC” to “how effective is CTEC in protecting taxpayers from fraudulent tax preparers.” The following is a compilation of the information gathered from the survey.

- **Communications and Services:** 80% of respondents were satisfied with the various methods of communicating with CTEC—toll-free telephone and fax lines, email, and regular mail. Of those surveyed, 88% indicated that the services provided by CTEC were about right. Some of the services provided preparers include: newsletters, brochures, online registration and access to education providers. 82% of survey respondents rated the overall service provided by CTEC as either good or excellent.
- **Providers:** 95% of those surveyed indicated they had adequate access to continuing education providers with 56% wanting more courses offered online.
- **Consumer Protection:** 62% of respondents indicated that CTEC registration protects consumers from fraudulent or incompetent tax preparers and that the existing protections are sufficient. 70% indicated that the bond requirement protects the public.

CTEC indicates that one of its main responsibilities is to educate the public regarding illegal tax preparers. 88% of survey respondents indicated that they were aware of all or some of the resources CTEC had available to educate the public about the risks of hiring unregistered tax preparers. Respondents overwhelmingly indicated that regulation of tax preparers benefit the public, with 77% of those surveyed indicating CTEC registration is necessary.

In 2013, CTEC conducted another survey of its registered tax preparers. In this survey, as in the previous one, questions regarding CTEC services were asked, with a bit more emphasis on educational



requirements. The CTEC survey was conducted with 1,211 CTEC registered tax preparers responding. The following is a compilation of the information gathered from the survey.

- Communications and Services. Since CTEC's last survey in 2006, the number of survey respondents rating the services provided by CTEC, either good or excellent, increased from 88% to 96%. 88% of survey respondents indicated that for the services provided, CTEC's \$25 registration fee was about right.
- Providers: Over 96% of respondents indicated they had adequate access to continuing education providers, an increase from the 2006 survey. Almost 80% of respondents indicated they would obtain continuing education without the registration requirement.
- Consumer Protection: Almost 80% of respondents indicated CTEC registration protects consumers from fraudulent or incompetent tax preparers. This is an increase of almost 20% from the 2006 survey. Over 83% of respondents indicated the bond requirement protects the public, an increase of 13% from the 2006 survey. Only 34% of respondents would prefer errors and omissions insurance as a CTEC requirement rather than the surety bond requirement.

Over 80% of respondents indicated that CTEC registration improves tax preparer ability to prepare tax returns and 72% indicated they were more competent tax preparers due to CTEC registration requirements. Both surveys would seem to indicate strong support of CTEC by tax preparers.

CTEC has also been very responsive to the recommendations of this Committee and that of the prior JLSRC. As discussed earlier, all the recommendations made to CTEC by the JLSRC in 2001 were fully addressed and appropriate action taken. With the assistance of the JLSRC and Legislature, CTEC was able to successfully achieve the results recommended by the Joint Committee and has continued to show improvement in its overall operation.

**Staff Recommendation:** *Recommend that the registration of tax preparers by CTEC be continued and the profession be regulated by the current Council membership in order to protect the interests of the public and consumers in seeking the assistance of tax preparers and that CTEC be reviewed by this Committee once again in six years.*