



The High Cost of Return: Tax Filing in the Service Sector

Introduction

As tax season wraps up, many workers have received tax refunds. [Tax refunds](#) are substantial sources of income for many low income workers and their families. In particular, the [Earned Income Tax Credit](#) (the federal tax credit for low- and moderate-income workers) delivers billions of dollars to working families and raises a significant share of children and working parents out of poverty. These benefits are, by design, focused on the working poor and especially parents. EITC refund recipients are in turn [concentrated among the low-wage workforce](#), especially in service occupations which represent the [largest group of minimum wage hourly workers](#).

While tax refunds are a substantial source of income for many workers, tax filing expenses appear to take a significant bite out of these funds for working parents. In 2018, the IRS estimated that Americans in total spent \$20 billion filing taxes that year. Low-income taxpayers are not exempt from high tax preparation costs.

In fact, tax filing companies like Liberty Tax and H&R Block have been known to take advantage of complex tax-filing requirements by targeting their services to low-income communities through setting up proportionately [more storefront locations in low income zip-codes](#) and through offering “[rapid refund loans](#)” at higher prices.

In this brief, we draw on data collected between March and May of 2021 from 6,977 workers (including 2,594 working parents of children under 18) employed at 88 of the country’s largest service sector firms. We show that tax refunds are a substantial source of income for service sector workers, the equivalent of up to 12% of their annual income for working parents. We find that the median worker spends 7% of their refund on filing taxes, but tax preparation costs vary widely by company. Finally, we observe that while workers making \$58,000 or less annually should [qualify for free public filing services](#), a large portion of qualifying workers paid high fees in order to file taxes each year.

Table 1 Median Tax Refunds by Parental Status

	Overall	Has Kids Under 5	Has Kids 0-18	No Kids 0-18
Median Refund	\$ 1,000	\$ 3,400	\$ 3,000	\$ 900
Median Refund in Hours Worked	77 hours	258 hours	214 hours	69 hours
Median Refund in Weeks Worked	2.2 weeks	7.0 weeks	5.6 weeks	2.0 weeks
Refund as % of Estimated Annual Earnings	5%	14%	12%	4%

The Importance of Tax Refunds

Refunds make up a significant portion of earnings for the service-sector workers employed at large firms in our sample. The median worker in our data received a tax refund of \$1,000 in 2021. For these service-sector workers, this translates into 77 hours of work at the median wage, over two weeks of work. When compared to estimated annual earnings, these refunds equate to 5% of earnings for the median service-sector worker (Table 1).

Parents received much larger tax refunds. For the service-sector workers in our sample with children under the age of 18, the median refund was \$3,000 in 2021. In a single refund payment, these working parents received the equivalent of what they would earn in wages over 214 hours or 5 weeks of work. This is equivalent to 12% of these workers' annual earnings. For service-sector workers with at least one child under the age of five, this refund amount was even greater. These workers received a median tax refund of \$3,400, which equates to nearly 7 weeks of work. Overall, this is the same as nearly 14% of their estimated annual income (Table 1).

Given the scale of low-wage employment at some of the largest U.S. service-sector firms, these refunds return billions to workers at the firm level. Workers at these fourteen firms alone (Fig. 1) received over \$6 billion in tax returns in just one year. Grossing-up estimated refunds to Walmart workers alone suggests that [Walmart](#) workers received at least \$1.35 billion in tax refunds (Fig. 1).

In terms of scale, Walmart's reported selling, general, and administrative expenses (SG&A) in 2021 totaled \$112 billion. The yearly refunds reported by Walmart's hourly workers are equivalent to 3.6% of the SG&A. But, SG&A includes not only salaries and wages but also rent, advertising, and marketing expenses, meaning the 3.6% is likely understated.

Tax Preparation is a Financial Burden to Workers

Tax prep services are clawing back the hard earned

income of low income workers. In spring 2021, over half of service workers paid others to prepare and file their taxes on their behalf. The median service-sector worker in our data paid \$95 to file taxes, and a quarter of workers paid \$165 or more. Translating these amounts in terms of work hours, the median service-sector worker would have had to work for 6 hours to pay their tax preparation fees and a quarter would have had to work over 11 hours.

The expense of tax filing cuts meaningfully into the benefit many workers receive from their tax refund. For the median service-sector worker, 7% of their refund went to tax filing costs and one in four workers paid 15% or more of their refund on tax filing costs. Other research has found even higher rates. Patten and Weinstein (2016) find that low-income taxpayers spend an average of 13-22% of their refund to file taxes. However, the study only surveys storefront tax preparation services, effectively excluding the majority of taxpayers that use online tax prep services.

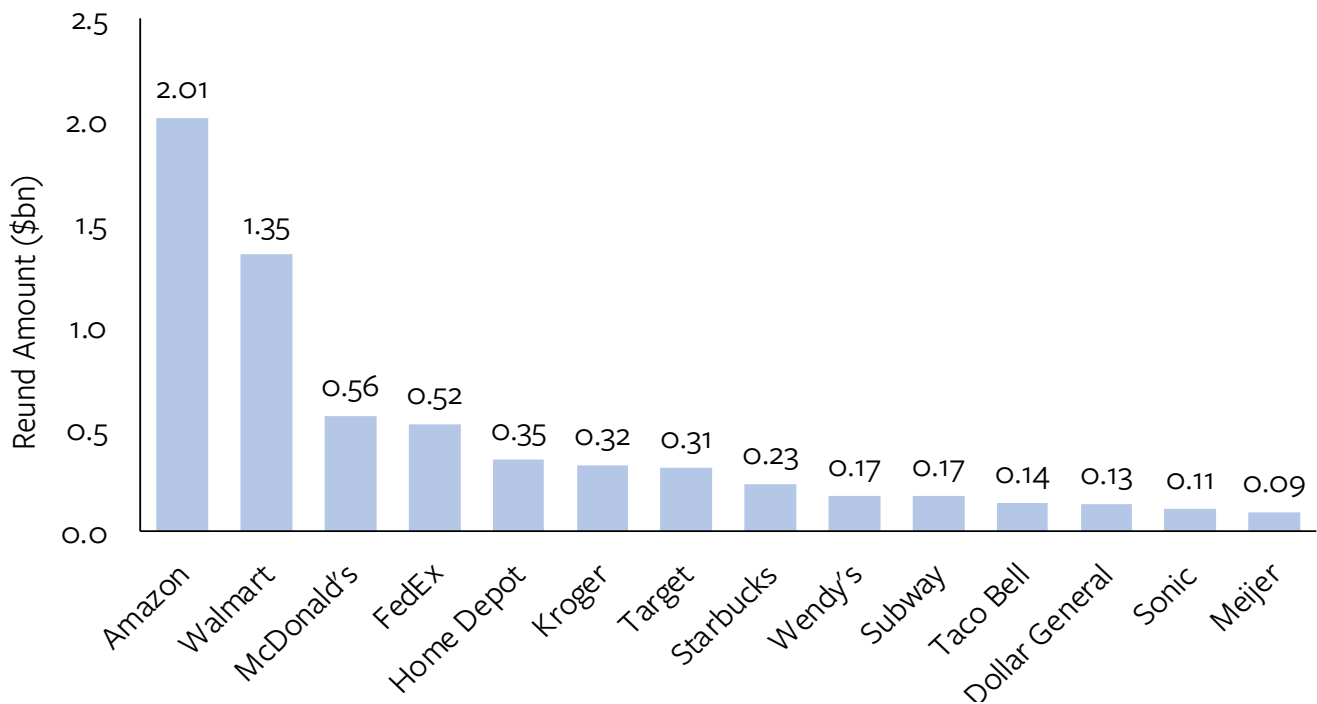
Aggregating these expenses across workplaces, we find that workers at Walmart, the largest service-sector employer in the U.S., spend over \$170 million in total each year filing taxes. Amazon workers spend over \$160 million in total (Fig. 2).

Tax Preparation Services Vary Significantly in Cost

Not all tax preparation services are equal. The most common online and in-person tax preparation services have significant variation in costs. But, customers at these firms may also differ, as may the complexity of their returns. We estimate the average cost of tax preparation by tax preparation service, after adjusting for differences between customers in demographics, income, parental status, and geography.

We find that Liberty Tax is the most expensive commonplace service, where workers paid nearly \$600 on average to file their taxes. Among companies that offer both in-person and online services, we also observe differences between these options. For

Figure 1. Estimated Total Employee Refund Amount by Employer



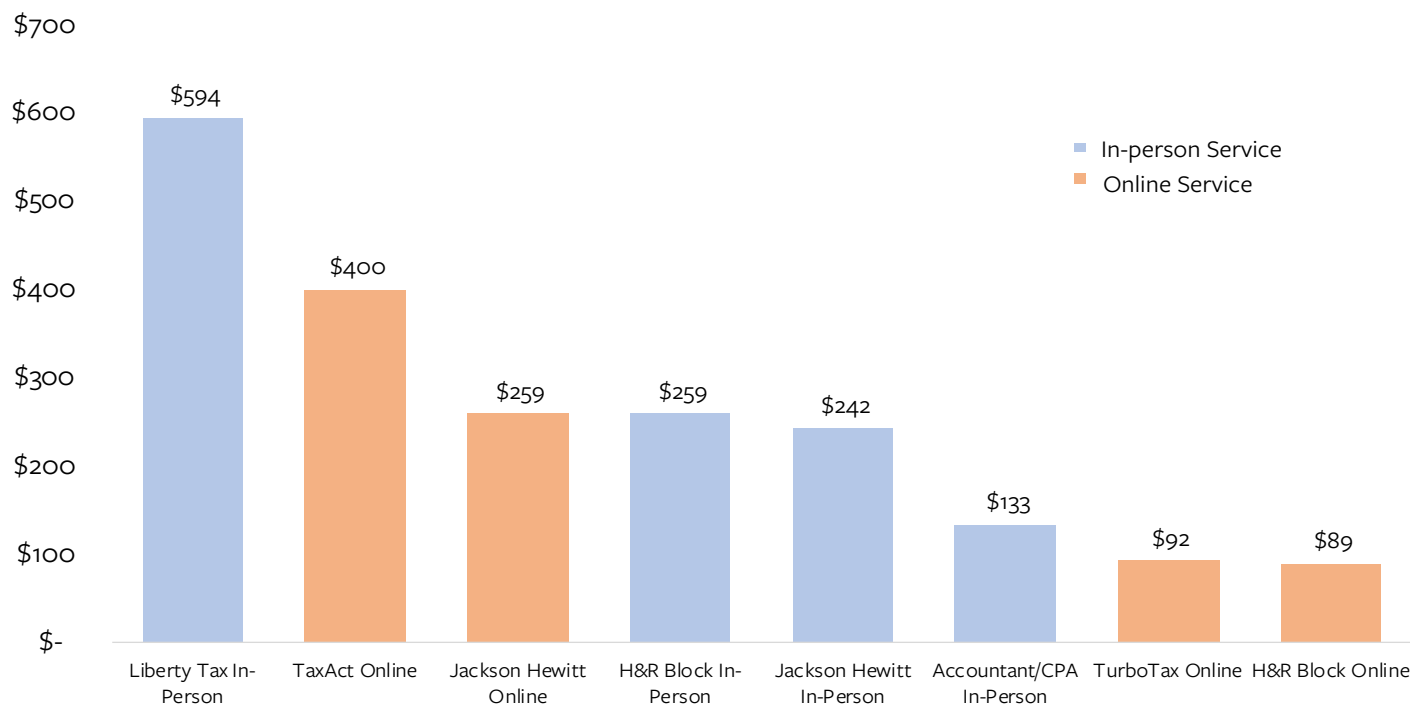
Note: Employer median refund amount calculated from Shift data, aggregated using employer size when publicly reported or through Reference USA.

Figure 2. Estimated Cost of Employee Tax Prep by Employer



Note: Employer median cost amount calculated from Shift data, aggregated using employer size when publicly reported or through Reference USA.

Figure 3. Predicted Cost of Tax Filing by Service



example, taxpayers who used H&R Block’s online service paid less than \$90 to file taxes on average whereas those who visited H&R Block in person paid \$250, nearly 3 times more the cost for the same service (Fig. 3).

Additionally, some tax filing services partner with the IRS Free File program and state free filing programs to offer tax filing services at no cost. We find that a quarter of those who used online or in-person tax preparation services filed their taxes through a free file program. But not all filers use tax prep services. Eleven percent of filers had a family or friend do their taxes for free and 17% reported doing their own taxes not paying anyone.

Free Tax Filing Underutilization

While most workers pay to have taxes filed, the government provides some free options to reduce costs and administrative burdens for low-income workers. The IRS Free File program partners with for-profit firms such as TaxAct and Turbo Tax to provide [free tax filing services for individuals making less than \\$73,000](#). We estimate that in our sample, 98% of single

workers not working a second job should qualify for IRS online free filing based on their income, yet only 21% of these qualifying tax filers reported using IRS free file services. While many workers legally qualify for free file services, companies that partner with the IRS program have been known to [add on hidden fees and push taxpayers to alternate websites that make it difficult to access the free services](#).

The IRS also provides grants through the [VITA](#) program to support volunteer-run tax filing assistance services in local communities. Individuals making \$58,000 or less annually qualify for VITA services. We estimate that 98% percent of single workers in our sample working one job should qualify for free tax filing through VITA, but less than 1% of qualifying service-sector workers at these 88 firms used VITA. The [IRS](#) similarly finds that nationally only 0.9 percent of all filing comes through VITA services. While the majority of our sample should qualify for some form of free tax filing, very few taxpayers use these services.

Workers who qualify for free tax filing services are rarely using these services, and they are still paying high amounts to file taxes. The fact that so many

workers are paying unnecessarily for tax preparation indicates either a lack of information about state and federal free filing programs, indicates poor quality service at these sites, or indicates misinformation promoted by companies that partner with IRS free file.

Discussion

Annual tax refunds and EITC refunds are important yearly windfalls for service-sector workers. We find that these refunds equate to 5% of workers' annual income. For parents, refunds are even more valuable, representing 12% of their yearly income. [The Child Tax Credit](#), implemented as part of The American Rescue Plan in 2021, provided an additional income boost to families regardless of employment status and [significantly alleviated child poverty](#) and improved family well-being. But as the Child Tax Credit comes to an end this tax season, parents will no longer have the additional support from the CTC. While [the EITC remains crucial](#) for low-income working parents in the service-sector, the benefit corresponds to wages earned. Consequentially, for service-sector workers with [high levels of unemployment](#) due to the pandemic, this year's refunds may be smaller but matter more.

Paying for tax filing cuts into workers' tax refunds. On average workers pay \$100 to file taxes, losing seven percent of their refund in the cost of tax filing. When aggregating the cost across all workers at the firm level, this adds to hundreds of millions of dollars spent each tax season. At the individual level, this translates into nearly a day's work, and for service-sector workers facing schedule instability, [a day's work is not always guaranteed](#).

And for many service-sector workers, the expenses of tax preparation are unnecessary. Of single filers working one job, only 21% of IRS Free File qualifiers used the service, and only 0.6% of VITA qualifiers used the service. The Treasury Inspector General for Tax Administration reported [free file is underused](#) due to complex requirements and confusing information regarding the operations and access to the program.

It doesn't have to be this way. Some states have taken additional measures to make tax filing more

accessible. Modeled off of return-free tax filing in countries like Germany and Japan, California took tax filing support even further by creating [the "ReadyReturn" program](#) in 2005, in which the California government provided already completed tax forms to qualifying taxpayers. VITA and other state sponsored free tax filing programs have been shown to [increase EITC receipt for low-income tax filers](#).

Evidenced by the findings of this brief, more widely accessible and available free filing services would ensure workers receive the full tax refund they are entitled without the burdensome expense.

Evelyn Bellew is Pre-doctoral Fellow at The Shift Project.

evelynbellew@hks.harvard.edu

Annette Gailliot is Pre-doctoral Fellow at The Shift Project.

agailliot@hks.harvard.edu

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Methodological Appendix

Data were collected by The Shift Project between March and May 2021. The Shift Project has collected survey data from hourly service sector workers employed at large retail and food establishments since the fall of 2016. This brief focused on a subsample of 6,977 hourly service sector workers employed at 88 of the largest food service and retail firms who were interviewed between March and May 2021. The surveys were completed in March, April, and May of. The survey data collection was national in scope and the survey sample includes respondents from all 50 U.S. states and Washington, D.C. Uniquely, The Shift Project data identify the firm at which each respondent works and contains substantial numbers of respondents at each of the 88 firms described here.

The Shift Project recruits survey respondents using online Facebook/Instagram advertisements, targeted to workers employed at large retail and food service employers. Those who responded to the Shift survey invitation were automatically routed to a survey landing page where they were asked to consent to participate in the study, then began the online self-administered survey using the Qualtrics platform. As an incentive, those who completed the survey and provided contact information were entered into a drawing for a \$500 Amazon gift card. The survey included modules on job characteristics, work schedules, demographics, economic stability, health, parenting, and child outcomes. To screen out invalid survey responses, we used an attention filter (a question that instructed respondents to select a particular response category to verify the accuracy of their responses).

For a detailed discussion of The Shift Project data collection, methodology, and data validation, see:

Schneider, D. and K. Harknett. 2019. "What's to Like?" Facebook as a Tool for Survey Data Collection." *Sociological Methods & Research*. <http://doi.org/10.1177/0049124119882477>

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