

Db 4-2

Business



Running Head: TAX PREPARATION INDUSTRY - H&R BLOCK Tax preparation industry in context of U. S. - H&R Block]

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Tax preparation industry is a very attractive business in U. S. It is necessary for every U. S. households to file tax return with the IRS (Internal Revenue Service). In the year 2008 approximately 130 million tax payers filed their returns. Most of the filers seek professional help due to complexity in tax code with numerous rules, credits, restrictions, variable tax rates, deductions, etc. According to statistics furnished by the Internal Revenue Service, approximately 61% of filers adopt professional help.

There are large national firms as well as small firms working in this sector. Among these small and big firms H&R Block is the largest firm filing over 21 million tax returns in the year of 2008. Next to them is Jackson-Hewitt filing approximately 3 million returns. The factor which is unavoidably making this industry lucrative is that practically each and every working household of U. S. has to file annual tax return. This helps to create a stable stream of revenue for these tax preparing firms. This industry is almost free from the effect of economic environment and it is a low capital investment business. Another factor which catalyzed the performance of the company named H&R Block was the Refund Anticipation Loans (RALs). These short-term loans enabled the tax-payers to get immediate cash which they used to repay during the time of tax refund. The interest calculated on the RAL is very steep, the annual interest rate ranges from 50-300% (Has The Tax Preparation Industry Lost its Luster?, 2010). A fair part of the interest paid by the tax-payers used to be earnings of the company. It indirectly enabled the <https://assignbuster.com/db-4-2/>

tax preparing firms to earn huge revenues. These two are the prime factors which helped these two companies to thrive.

In U. S. tax preparing industry is drastically changing due to intrusion of technology. Software products namely, Intuit's Turbo Tax were released in the U. S. market and it is creating a dent in the revenues of traditional tax preparing firms. It enables the users to prepare their tax by combination of e-filing option from the IRS. The electronic tax filing grown drastically and about 31 million returns were filed through this technology; it is 24% of the total volume of tax filers. The most important fact is that still H&R Block does not have e-filing option due to absence of tax filing software. This is affecting their revenues as most of their customers are filing their taxes by themselves through this e-filing process. This technology helped to decrease the perceived value of the tax filing work from \$200 to \$40 (Has The Tax Preparation Industry Lost its Luster?, 2010). A second factor which can cause a negative impact on this industry that is anytime legislation can take steps to stop the RALs.

The consumer groups deem RALs to be deceptive. Government is however not in favor of RALs. But the major part of revenue of the firm mentioned comes from the interests on RALs. So limiting RALs will decline their profit margins. This shows that these two factors. Hence, firstly the tax e-filing software and secondly, the limitation of RALs would bring a strong negative impact on the tax preparation industry of U. S. ad specially on the H&R Block

Reference

Has The Tax Preparation Industry Lost its Luster? (2010), MagicDiligence,

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