

# Handr block case study

Business



## H&R Block Tax Services Case-Study Frank M.

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Webster University Abstract H&R Block's Tax Services segment provides income tax return preparation, electronic filing and other services and products related to income tax return preparation. Clients are offered a number of options for receiving their income tax refund, including a check directly from the IRS, an electronic deposit directly to their bank account, a prepaid debit card, a refund anticipation loan (RAL) or a refund anticipation check (RAC). Major revenue sources include; fees earned for tax preparation services performed at company-owned retail tax offices, royalties from franchise retail tax offices, fees for tax-related services, sales of tax preparation and other software, online tax preparation fees, RALs and RACs. The purpose of this paper is to research the impact of the recent decision the Office of Comptroller of the Currency (OCC), the Treasury Department agency that regulates national banks, made concerning the elimination of refund anticipation loans (RAL) funded by HSBC, H; R Block's lender.

We will also look at H&R Block's new management strategy to combat their decision. History of H; R Block H; R Block is one of the world's largest tax services providers, utilizing more than 100, 000 trained tax professionals and having prepared more than 550 million tax returns worldwide since 1955. Brothers Henry W. Bloch and Richard A. Bloch founded the company in 1955 and grew the business to become a brand and franchising icon.

The Kansas City based company also offers banking, personal finance and business consulting services. Today, H; R Block operates 12, 500 retail tax

offices in the United States plus an additional 1, 400 abroad. Competitive Environment There are a significant amount of tax return preparers, tax preparation firms and accounting firms that offer tax preparation services such as H; R Block, Jackson Hewitt and Liberty Tax. All these companies are highly competitive concerning their prices and services and all have offered RALs. RALs (and similar products) are essentially loans secured by the promise of a tax refund.

Fees for tax preparation products and tax preparation services are generally subtracted from the refund amount and the balance issued to the consumer in some form (check, debit card, direct deposit, etc. ) in advance of the taxpayer's actual refund less interest and loan fees. In a tough economy, banks and other lenders are growing wary of offering consumer loans. Complicating factors, the IRS is sticking to their guns in a statement made back in August to no longer provide tax preparers, banks and lenders with the " debt indicator" that lenders use to determine eligibility for RALs. The debt indicator is an electronic acknowledgment to tax preparers advising whether any part of a taxpayer's refund has been earmarked for offset due to outstanding tax debts or priority obligations such as unpaid child support or delinquent student loans.

In previous years, the IRS provided this information, free of charge, to third party preparers, who then made the decision to offer a variety of loan products depending on the answer. Beginning in 2011, that information will no longer be provided to third parties, prompting many lenders to pull out of the business altogether. Dec. 28-In a blow to Kansas City-based H&R Block Inc. federal regulators have ordered its banking partner to stop making <https://assignbuster.com/hr-block-case-study/>

refund anticipation loans used by millions of Block's customers. This will definitely cause H; R Block to lose customers.

Many of those customers will seek out other tax preparation firms that still offer RALs. Jackson Hewitt Tax Service Inc. said on Dec. 17 it had secured funding that allows it to offer refund anticipation loans for the upcoming tax season. Jackson Hewitt amended its agreement with Republic Bank ; Trust Co. to allow 80 percent of the expected refund anticipation loans.

That gives the No. 2 tax preparer a leg up on main competitor Block.

Strategic Management H; R Block offers franchises as a way to expand their presence in the market. Their franchise arrangements assure the protection of their brand. The franchisees receive the use of software, signs, specialized forms, local advertising, initial training and supervisory services. They pay H; R Block 30 percent of gross tax return preparation and related service revenues as a franchise royalty.

With the downturn of the economy many lower income and those that have lost employment are looking to have their taxes completed early in the tax year to receive their refund quickly. With H; R Block franchises virtually worldwide, their services are convenient and most utilized. H; R Block has developed and is currently marketing H; R Block At Home™ income tax preparation software. H; R Block At Home™ offers a simple step-by-step tax preparation interview, data imports from money management software and tax preparation software, calculations, completion of the appropriate tax forms, error checking and electronic filing. Their software products may be purchased through third-party retail stores, direct mail or online.

H; R Block offers a comprehensive range of online tax services, from tax advice to complete professional and do-it-yourself tax return preparation and electronic filing, through their website at [www.hrblock.com](http://www.hrblock.com). This website allows clients to prepare their federal and state income tax returns using the H; R Block At Home™ Online Tax Program, access tax tips, advice and tax-related news and use calculators for tax planning. H; R Block is being forced to scramble harder this tax season to compete with other filing services, mainly due to the OCC ruling to eliminate RALs by H; R Block's lender.

Another management strategy by H; R Block this year was offering free tax services during the first month of tax return filing, which runs from January 15th through February 15th. Why would H; R Block offer this? One goal is to increase foot traffic at H; R Block offices. 'Free' can be a very powerful word. Until their clients arrive for their appointment, many of these new customers might not realize they actually need more complex tax forms, and thus will wind up paying for them. Even those customers who can use a 1040EZ most will have to pay H; R Block extra to file any state income tax returns.

Another goal is to attract younger taxpayers, those who can still use the 1040EZ and win their loyalty in future years. Of those usually filing a 1040EZ 55 percent will need to file a more complex form within two to three years. Some would consider this false or deceptive advertizing because the service is limited to those tax filers that can use the 1040EZ forms. However as with most advertizing you must always read the fine print. More than one-third of H; R Block clients have no banking services, and must pay high check-cashing fees for their paychecks, as well as tax refund checks. Although H; R

Block will not be able to use RALs, they still have the capability to promote the use of their Refund Anticipation Checks (RACs).

Although less favorable they will be able to fund these checks from their own financial institution, H; R Block Bank. As with the RAL product the same holds true with RAC products, the fees for tax preparation and tax preparation services are subtracted from the refund amount and the balance issued to the consumer in the form of a check in advance of the taxpayer's actual refund. The drawbacks associated with a RAC are the additional \$30 check fee and most financial institutions require an eight day holding period before cashing the checks. Again clients indicate a lot of this information is not divulged up front before having their taxes completed. As always buyer beware! Conclusion Even though the OCC has dealt a heavy blow to the largest tax preparation firm they seem to be adapting to the way of the future. As a result of the OCC's decision, millions of taxpayers will be deprived of credit, or they will be forced to use higher priced alternatives, without the slightest benefit to the solvency of HSBC or the banking system in general," Block CEO Alan Bennett said in a statement.

" While we are very disappointed by this decision, we have been preparing for the loss of RALs, so we have several other financial products available and under development for this tax season. " In years to come other tax preparation firms will also see themselves dealing with the loss of refund anticipation loans for their clients. It appears H&R Block's reaction to the OCC's decision is more of a proactive strategic move rather than a reactive move to dynamic industry competition. References HSBC Terminates

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