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Credit Karma, the ad-driven online provider of free credit scores, has announced a new, free, online tax preparation service that will be just in time for the 2017 tax filing season.

While other tax software makers have offered free *federal* tax filings since as early as 2003 for some individuals with lower income and generally non-complex situations, adding state income tax filing and even common tax credits or deductions could increase the “free” filing to more than \$100. The company says its Credit Karma Tax service will not charge such fees and will not have income limits and will include free e-filing.

Most U.S. adults are required to prepare and file a tax return each year, and as many as 60 million file their own using software or online services. Credit Karma Tax will launch for the 2017 tax filing season. The service will be available to U.S. consumers.

The new service leaves many questions for taxpayers and tax professionals, however, noted Gail Perry, CPA, who in addition to being Editor-in-Chief of *CPA Practice Advisor*, also runs a small tax practice and is the author of several small business management books. Among these concerns, she notes:

- Tax professionals and accountants provide much deeper insight and expertise than a do-it-yourself tax prep system can offer;
- Tax preparation and filing is the culmination of the year, and is simply an after-the-fact report;

- Full-service accounting professionals are business partners invested in helping

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The professional tax software makers are not viewing Credit Karma as a direct threat.

“The announcement that Credit Karma will begin offering complimentary, consumer-oriented DIY 1040 online income tax filing software is but the latest indicator of the importance for the profession to evolve to meet the changing expectations of clients,” said Scott Fleszar, vice president product management, tax and accounting professional at Thomson Reuters. “The trend of traditional, compliance oriented accounting firm services becoming more commoditized and viewed as being lower on the overall value chain continues. The tax return, financial statement, and payroll report are certainly still important for firms to meet the needs of their clients, but any longer these services are table stakes. Beyond client needs, firms need to proactively serve client wants. Practitioners have a tremendous opportunity to harness their expertise and knowledge in innovative ways to help clients manage uncertainty and complexity, and proactively guide their financial performance and future outlook in ways that deliver high value. Developing these advisory services will add new firm revenue streams, drive increased client satisfaction, and position the firm to be less reliant on traditional, compliance services.”

“We don’t offer nor do we compete with DIY software,” said Laura Gingiss, director of public relations and communications with [Wolters Kluwer Tax and Accounting](#). “At Wolters Kluwer, we are laser focused on delivering solutions for tax and accounting professionals. Whether a small tax firm who may use ATX or TaxWise software, to mid, large or corporate businesses requiring the complex capabilities of CCH ProSystem *fx* or CCH Axcess, Wolters Kluwer focuses on integrating capabilities within our tax and accounting solutions that help firms achieve accuracy with tax laws, efficiency in workflow and access to complex insight from our research and learning solutions.”

Intuit, which makes TurboTax, the leading self-preparation tax system on the

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industry that makes free online tax prep and e-filing available to lower and middle-income taxpayers – this includes free state filing in more than 20 states that participate. More than 70 percent of all U.S. taxpayers are eligible for the IRS Free File program. Intuit is one of 13 companies that participates in the program.”

How is this tax service free? Advertising and partnerships.

As Credit Karma openly acknowledges in its television ads and online (<https://www.creditkarma.com/faq/howitworks>), the company generates revenue from its free credit score service by identifying potential bank, credit card, and other financial offers that a user may be qualified for. If the user signs up for one of those offers, Credit Karma gets a fee from that bank, etc. The company says it does not directly sell or share personal identifying information with those third parties. The tax service will follow the same business model.

“Today almost half of all Americans can’t afford a \$400 financial emergency, yet many spend more than \$70 — and in many cases, far more — just to prepare and file their taxes. That shouldn’t be the case,” said Credit Karma Founder and CEO Kenneth Lin. “Just as we’ve done by providing free credit scores, credit reports and credit monitoring, Credit Karma Tax will help people make financial progress, without any trial periods, hidden fees or gimmicks.”

Credit Karma is making this move after the acquisition of AFJC Corporation, a provider of online tax preparation, filing solutions and related services for individuals, certified tax preparers, financial institutions and affinity marketers. That company’s products are often co-branded or white-labeled, so the name AFJC is not likely recognizable to consumers or even most tax professionals.

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