

PERCEPTION AND ADOPTION OF OCCUPATIONAL LICENSURE BY ENTREPRENEURS

THE CASE OF TAX PREPARERS IN THE U.S.

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ENTREPRENEURSHIP AND OCCUPATIONAL LICENSURE

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 - ▶ Engine of job creation
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- ▶ Entrepreneurship is a *labor market* phenomenon
 - ▶ Engine of job creation
 - ▶ Results from individual *career* decisions
- ▶ Occupational licensure is a large labor market institution—a structural determinant of wages and employment
 - ▶ Affects about a third of all U.S. workers
 - ▶ Raises barriers to entry into an occupation
 - ▶ Predicts about 18% higher wages

**WHAT IS THE RELATIONSHIP BETWEEN
ENTREPRENEURSHIP AND
OCCUPATIONAL LICENSURE?**

**LICENSING MAY PLACE SPECIAL BURDENS ON
[...] THOSE WITH CRIMINAL RECORDS,
MILITARY SPOUSES, TELEWORKERS,
ENTREPRENEURS, AND LOW-WAGE WORKERS**

The White House Report "Occupational licensing," July 2015

**OCCUPATIONAL LICENSING “FENCES OUT”
ENTREPRENEURS, LIMITS BUSINESS
INNOVATION, RAISES CONSUMER COSTS, AND
EXACERBATES INCOME INEQUALITY**

Kauffman Foundation *Growthology* blog, Feb. 4, 2016

THE BURDEN OF OCCUPATIONAL LICENSING IS STIFLING ENTREPRENEURSHIP IN AMERICA

Slivinski, S. 2013 “Bootstraps tangles in red tape”

ENTREPRENEURSHIP AND OCCUPATIONAL LICENSURE

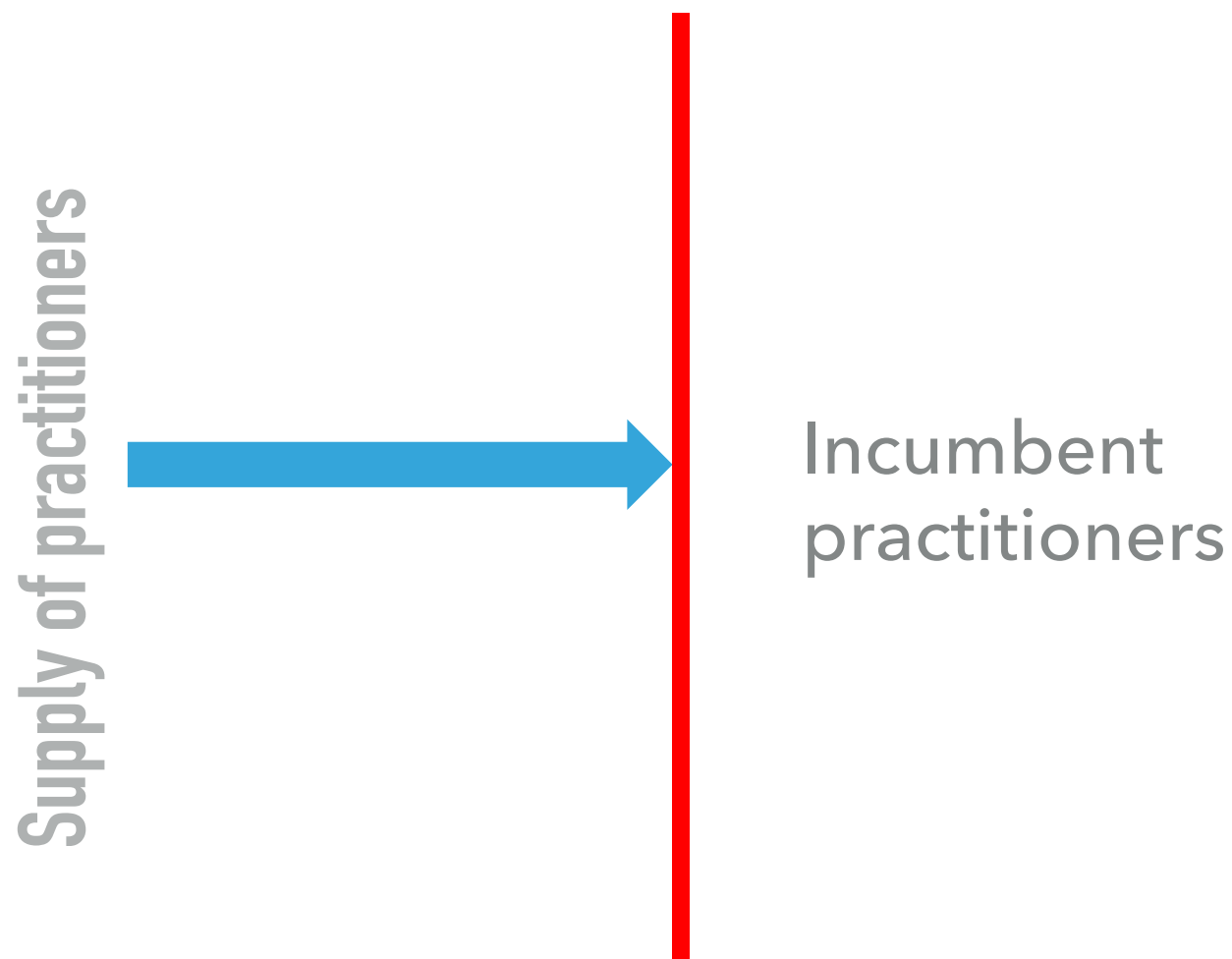
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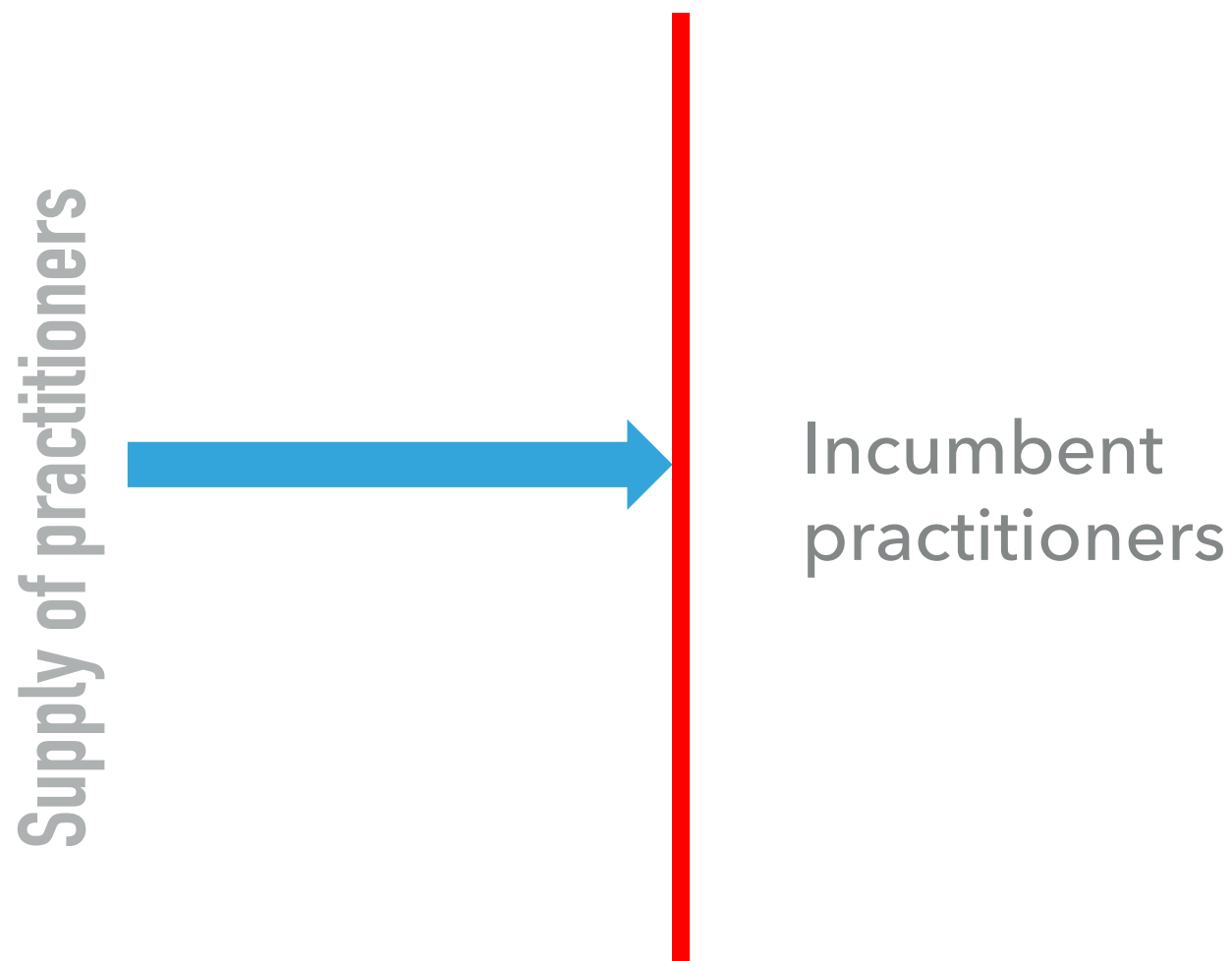
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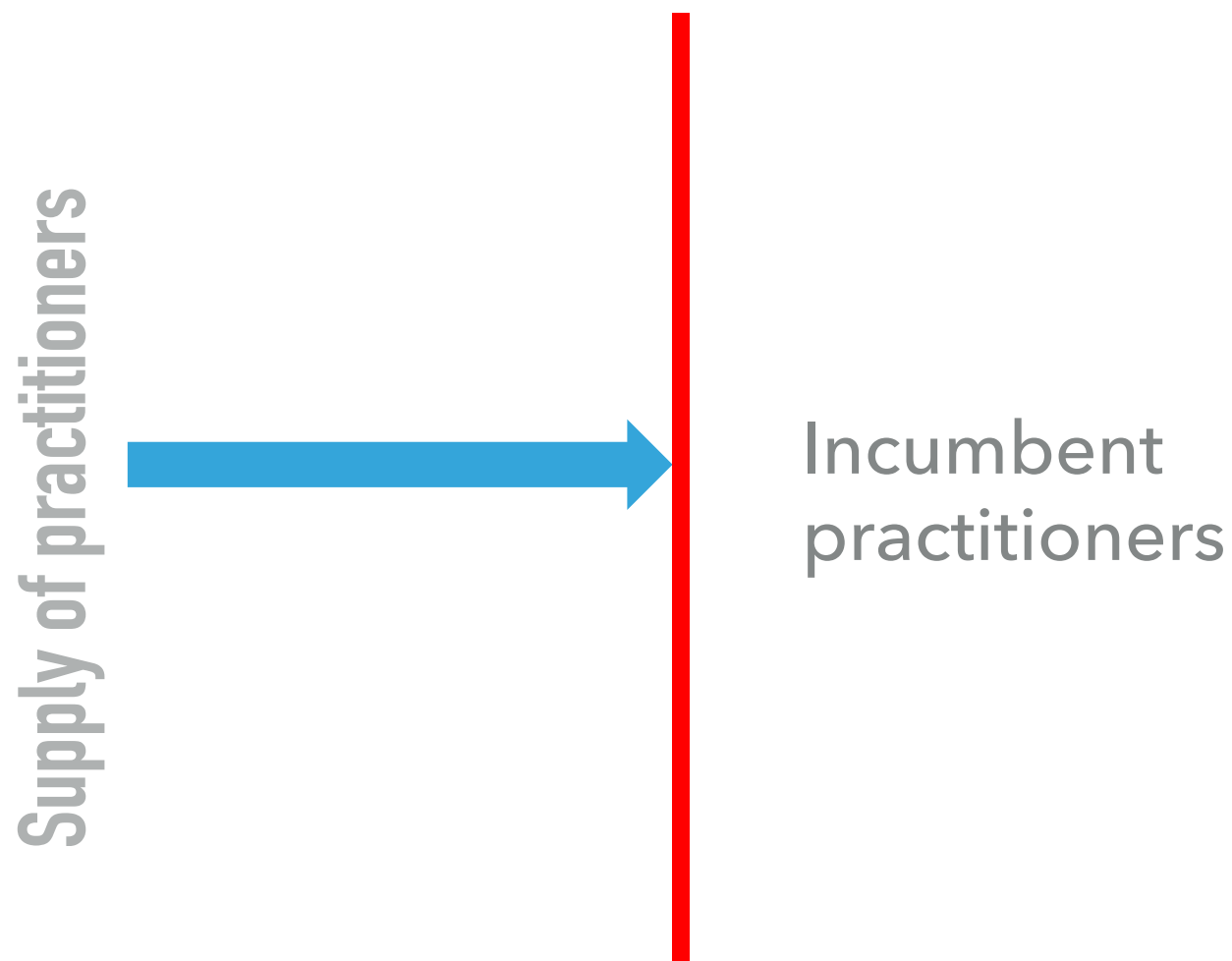
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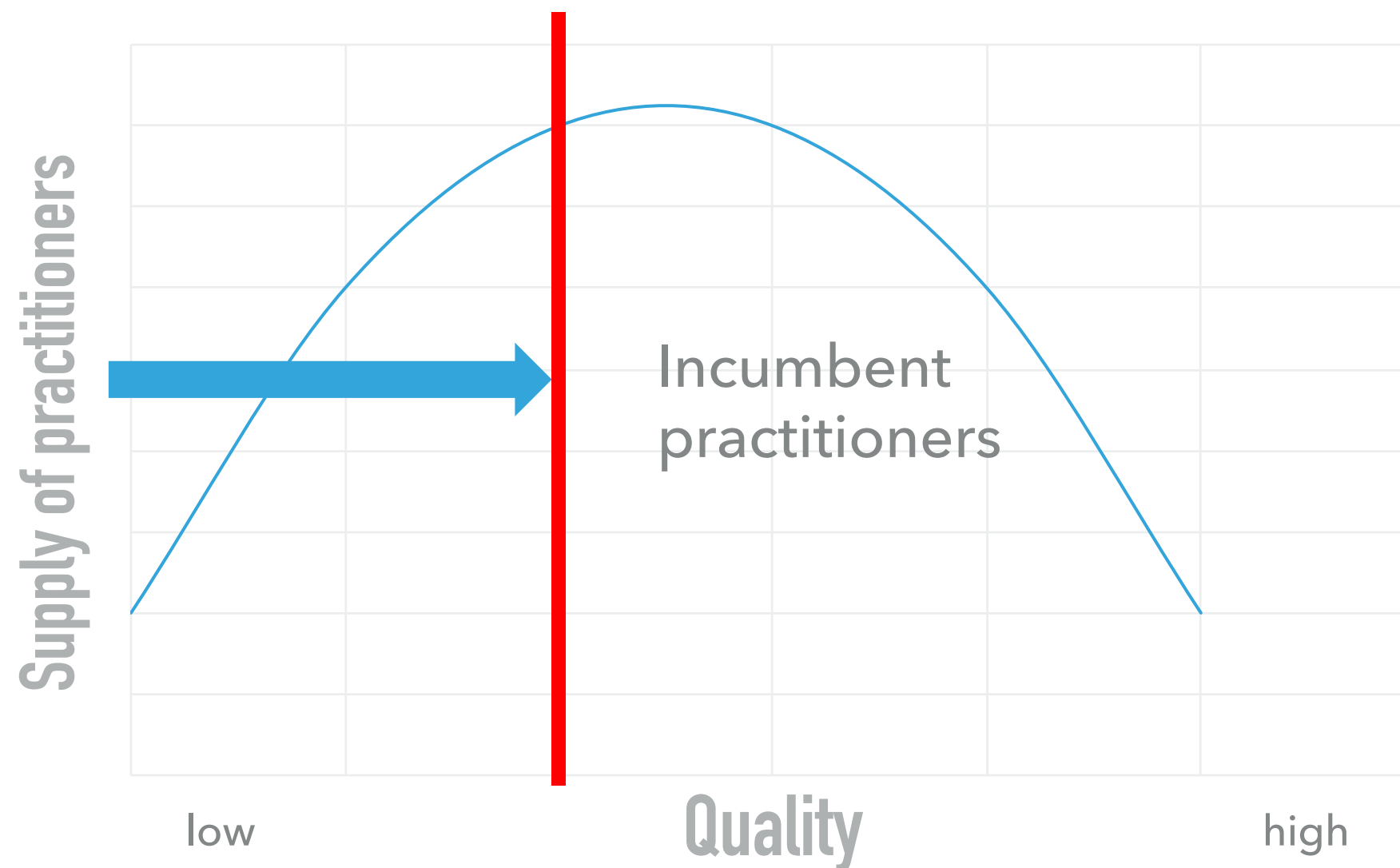
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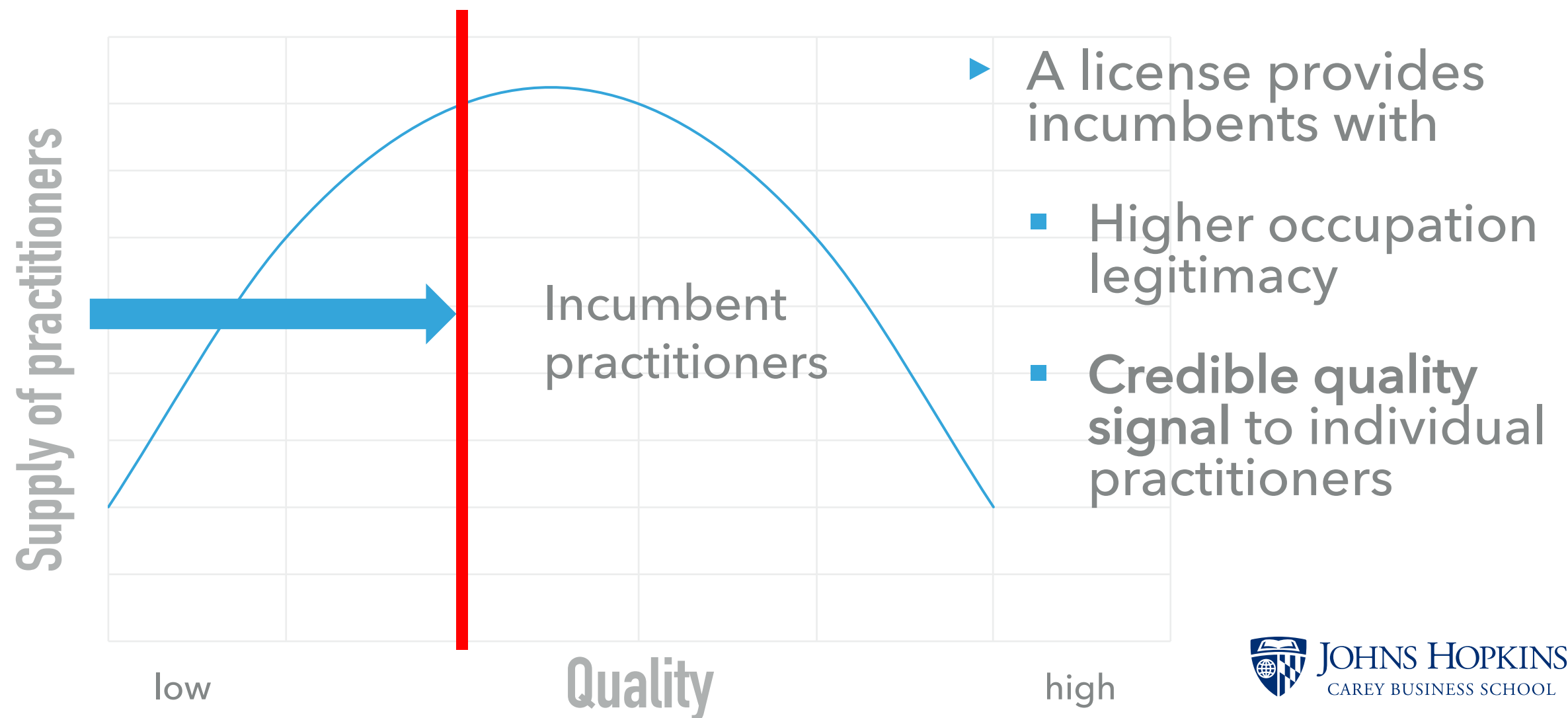
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We may therefore expect two opposing effects:

- The **cost of obtaining** a license → **negative** relationship between entrepreneurship and adoption of license
- The value as a **quality signal** → **positive** relationship

PAST EMPIRICAL EVIDENCE

- ▶ No studies test this directly or even consider the two opposing effects
- ▶ Slivinski (2013) report is the only empirical study of the negative effect
 - Correlates the **extent of licensure** in a state with **entrepreneurial entry** in low-wage occupations
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 - Finds a **negative relationship**
- ▶ Measuring the **value of license as a quality signal** for nascent entrepreneurs is especially tricky
- ▶ Licensure is usually implemented as a universal requirement for an entire labor market
- ▶ Difficult to observe whether nascent entrepreneurs value it, e.g., through their proclivity to adopt it

THE CASE OF TAX PREPARERS IN THE U.S.

REGISTERED TAX RETURN PREPARER (RTRP) INITIATIVE

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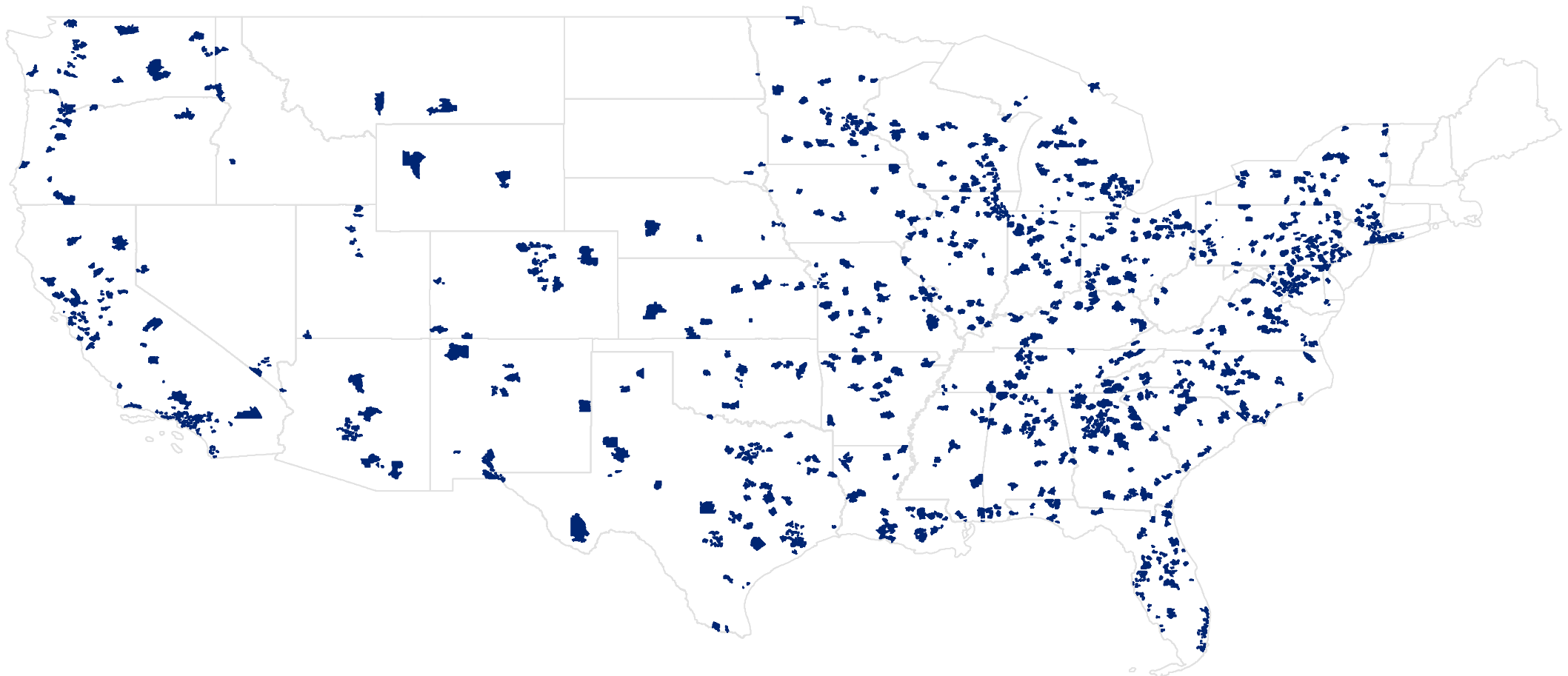
- ▶ Tax preparation does not require *any* license or credential in all but four U.S. states
- ▶ Following a GAO report, the IRS moved to institute a federal-level, mandatory credential (RTRP) in 2012
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- ▶ We analyze who were the **voluntary early adopters**, and whether the *adoption by nascent entrepreneurs* is consistent with **cost** and **value** perspectives on licensure

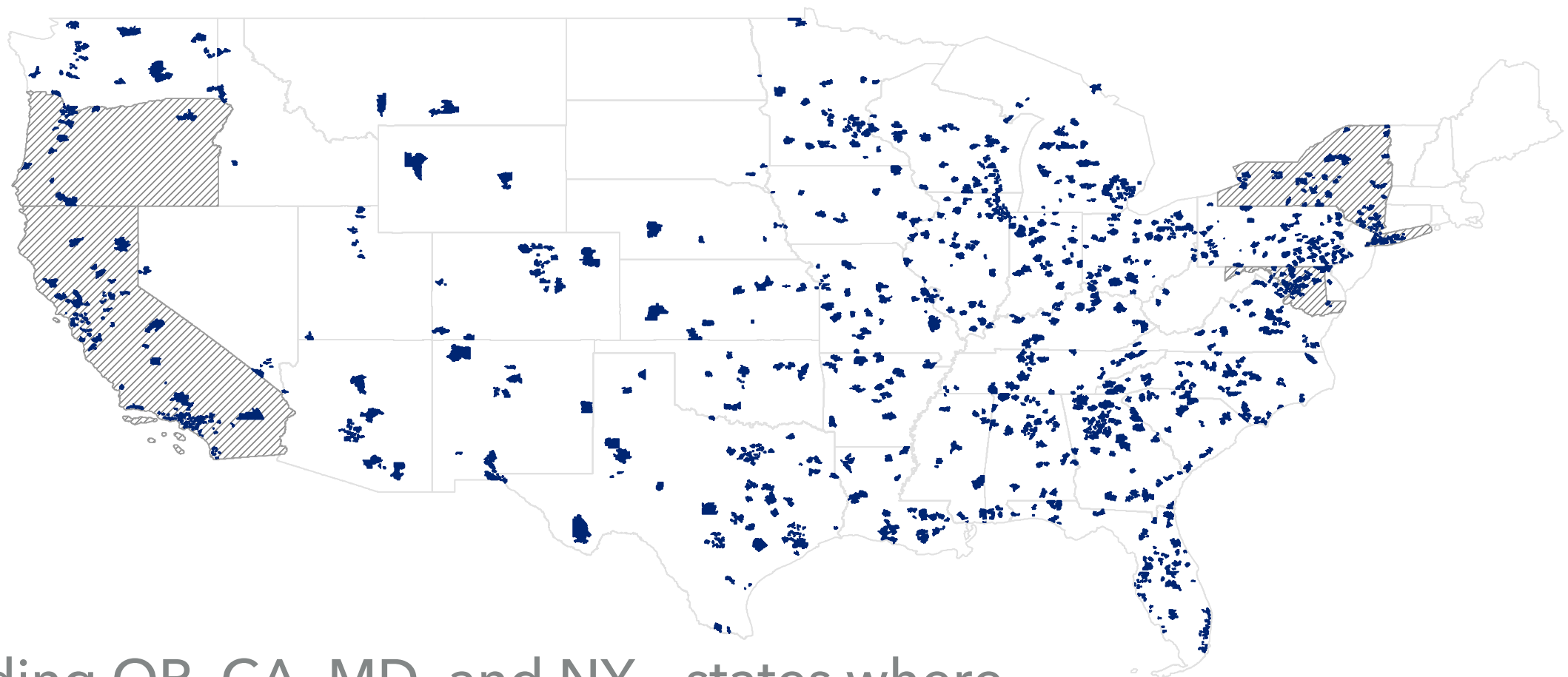
ZIP CODE AREAS WITH EARLY RTRP ADOPTERS

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Including OR, CA, MD, and NY – states where tax preparers were licensed prior to RTRP

ESTIMATION STRATEGY: ADOPTION CONDITIONAL ON NEED FOR SIGNAL

► **Model:**

$$\begin{aligned} Pr(Adoption_i) = & \beta_0 + \beta_1(Entrep_i \times NoStateLicense_s) \\ & + \beta_2 Entrep_i + \beta_3 NoStateLicense_s \\ & + \mathbf{X}'_i \delta + \mathbf{C}'_z \gamma + \mu_s + \varepsilon_{is} \end{aligned}$$

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- ▶ **Controls:** age, gender, professional credentials, competition in ZIP code

DESCRIPTIVE STATISTICS

	State requires license	No state licensure	Total
Adopts RTRP in 2012	33% (by design)	33% (by design)	33% (by design)
Mean age in 2012	50	49	49
Mean number of tax returns filed in ZIP code in 2011	15,853	11,281	12,262
Tax returns filed with a paid preparer in ZIP code in 2011	9,929	5,972	6,821
Mean number of tax preparers in ZIP code	114	75	83
Percent of tax preparers with credentials in ZIP code	49%	35%	38%
Male	56%	46%	48%
No professional credentials	56%	74%	70%
Will start own practice by 2014	25 (2.19%)	87 (2.08%)	112 (2.10%)
Will leave occupation by 2014	197 (17%)	959 (23%)	1156 (22%)
Observations	1,144	4,190	5,334

DO PROFESSIONAL CREDENTIALS MATTER?

PROFESSIONAL CREDENTIALS IN THE SAMPLE

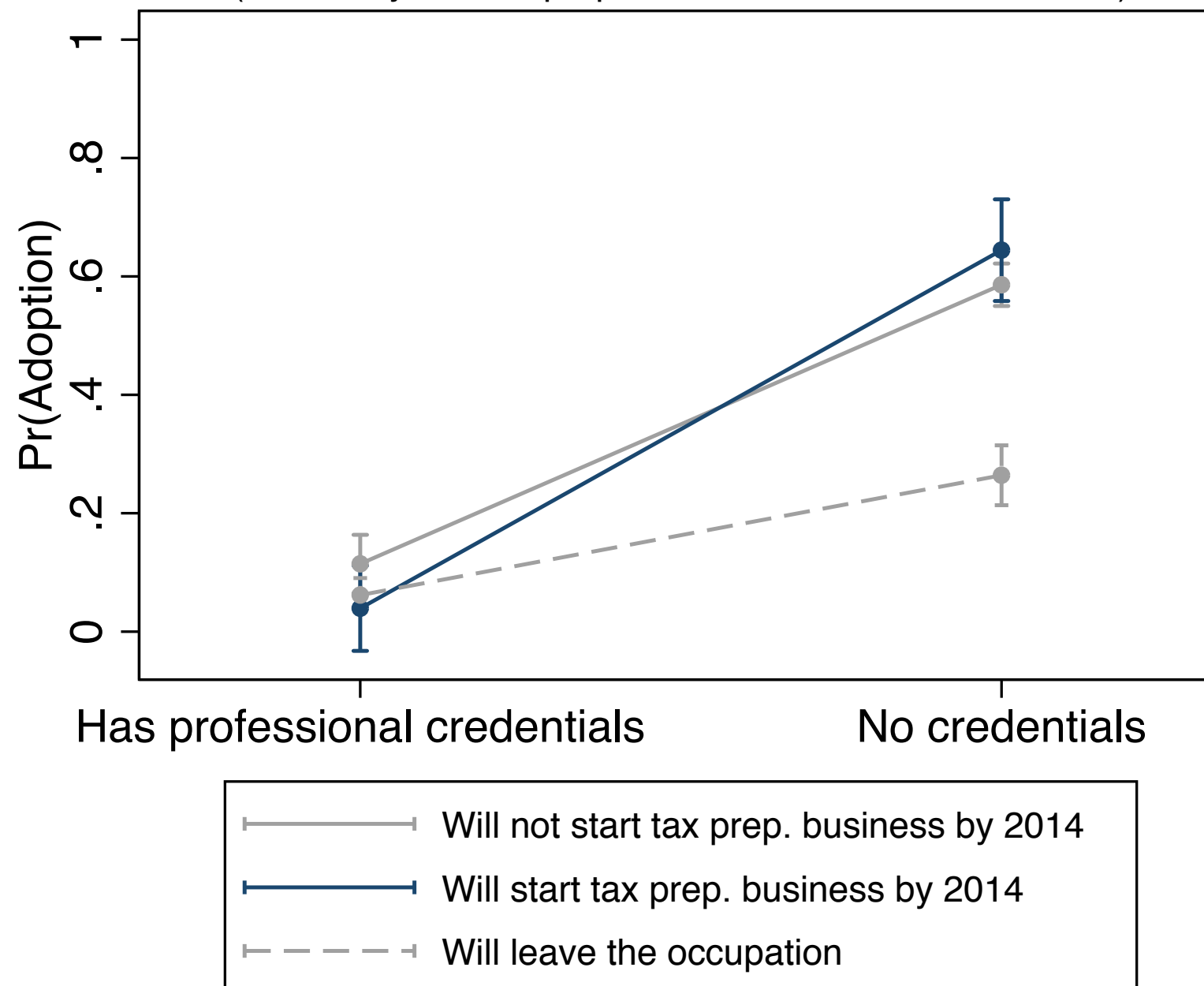
Table 1. Distribution of professional credentials across early RTRP adopters and non-adopters

Professional credentials	Adopts RTRP in 2012		
	No	Yes	Total
JD or CPA	1,138	23	1,161
EA	218	37	255
Other	92	93	185
None	2,120	1,613	3,733
Total	3,568	1,766	5,334

Note: The category “Other” includes Certified Acceptance Agents, Enrolled Actuaries, Enrolled Retirement Plan Agents, and Supervised Registered Tax Preparers.

PREDICTED VALUES: BY PROFESSIONAL CREDENTIALS

Predicted probability of RTRP license early adoption
by professional credentials and
intent to start a tax preparation business
(For a 50 y.o. male preparer in a state with no licensure)



MAIN RESULTS

EARLY ADOPTION CONDITIONAL ON NEED FOR QUALITY SIGNAL

Logit regression of **RTRP adoption in 2012** by a tax preparer on availability of state license and entrepreneurial intent

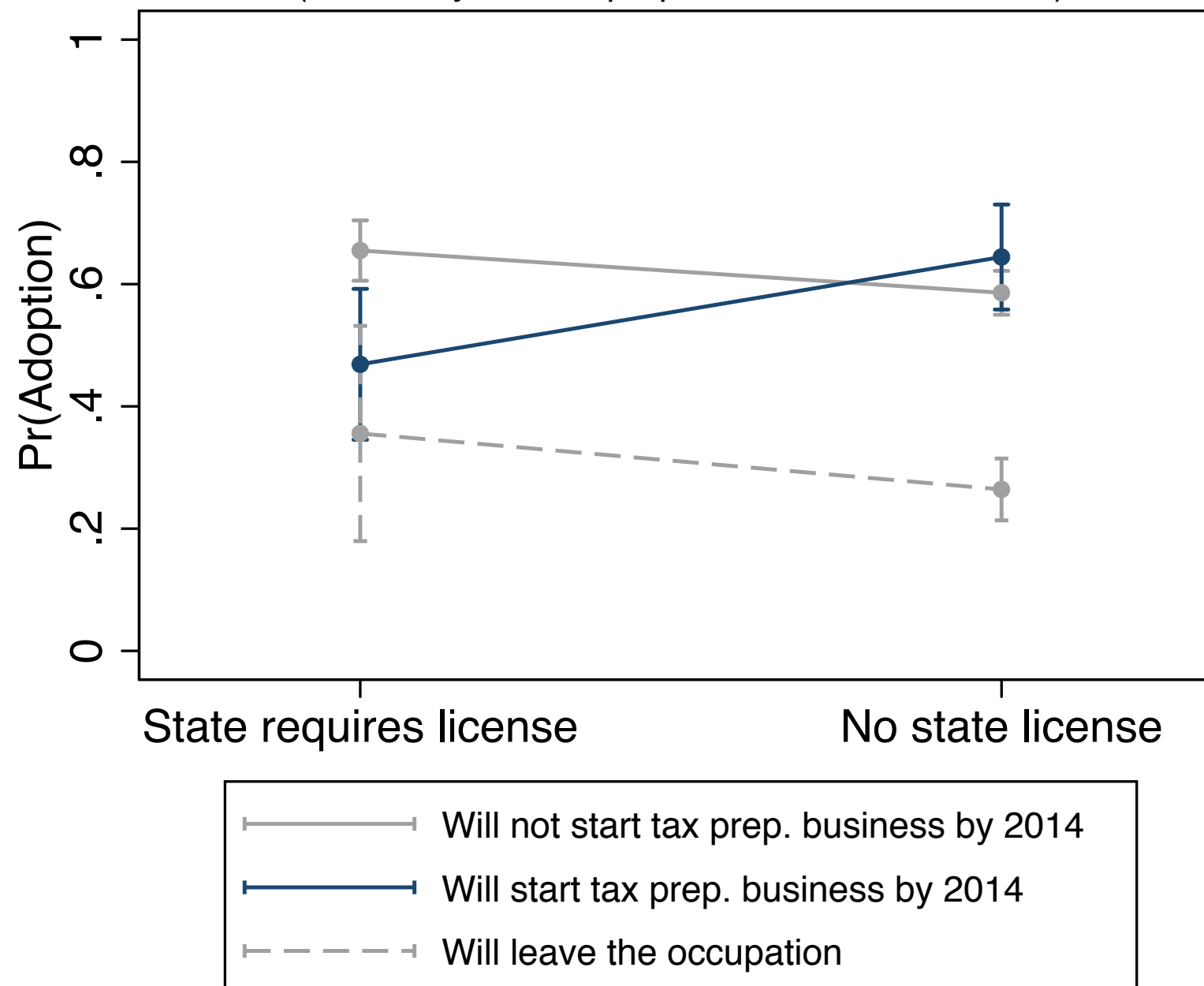
	(2)	(5)	(6)
Will start own practice by 2014	-0.054 [0.165]	-2.100* [0.971]	-2.009* [0.989]
Will leave occupation by 2014	-1.302*** [0.131]	-0.537 [0.370]	-0.541 [0.366]
No professional credentials	2.508*** [0.285]	2.542*** [0.295]	2.578*** [0.303]
No state licensure	-0.168 [0.092]	-0.173* [0.070]	
No state licensure * Will start own practice by 2014		1.014** [0.311]	0.952** [0.303]
No state licensure * Will leave occupation by 2014		-0.109 [0.339]	-0.080 [0.352]
Observations	5334	5334	5334
Number of state clusters	49	49	49
State fixed effects			Yes

Note: Logit coefficients shown. Standard errors in brackets are clustered at state level. States with tax preparer licensure are CA, MD, NY, and OR. The omitted controls include age (quartic polynomial), gender, and ZIP-code-level characteristics of competition.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

ILLUSTRATION: PREDICTED VALUES BY STATE LICENSURE

Predicted probability of RTRP license early adoption
by availability of state-level licensure and
intent to start a tax preparation business
(For a 50 y.o. male preparer without credentials)



**WHEN IT CAME OUT, I THOUGHT [THE RTRP]
WOULD BE A VERY GOOD SELLING POINT, A
VERY GOOD WAY TO SHOW [TO CLIENTS] THAT
THE IRS IS CONFIDENT THAT I HAVE THE
KNOWLEDGE LEVEL THAT I NEED**

**An early RTRP adopter who started own practice in 2012 in a
state without preparer licensure**

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- ▶ The findings are mostly descriptive, but illuminate important and heretofore **ignored** relationships
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- ▶ Licensure thus may have **competing effects on entrepreneurial entry** – as a barrier and an enabler
- ▶ A fruitful direction of future research is **assessing the trade-off** between the two effect and the **conditions** that affect it

THANK YOU!

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