



Highlights of [GAO-06-563T](#), a statement before the Committee on Finance, U.S. Senate

PAID TAX RETURN PREPARERS

In a Limited Study, Chain Preparers Made Serious Errors

Why GAO Did This Study

Despite the importance of paid tax return preparers in helping taxpayers fulfill their obligations, little data exist on the quality of services they provide. Paid preparers include, for example, enrolled agents, who are approved by the Internal Revenue Service (IRS) once they pass an examination on tax matters or demonstrate past IRS employment experience, and unenrolled preparers, who include self-employed individuals and people employed by commercial tax preparation chains.

GAO was asked to determine (1) what the characteristics were of tax returns done by paid preparers, (2) what government regulation exists for paid preparers, and (3) what specific issues taxpayers might encounter in using paid preparers. To do its work, GAO analyzed IRS data, reviewed paid preparer regulatory requirements, and had tax returns prepared at 19 outlets of several tax preparation chains.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue conduct necessary research to determine the extent to which paid preparers live up to their responsibility to file accurate and complete tax returns based on information they obtain from their customers.

www.gao.gov/cgi-bin/getrpt?GAO-06-563T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

Many taxpayers choose to pay others to prepare their tax returns rather than prepare their own returns. According to the most recent reliable data, about 56 percent of all the individual tax returns filed for tax year 2002 used a paid preparer, with higher paid preparer usage among taxpayers with more complicated returns such as those claiming the earned income credit (EIC).

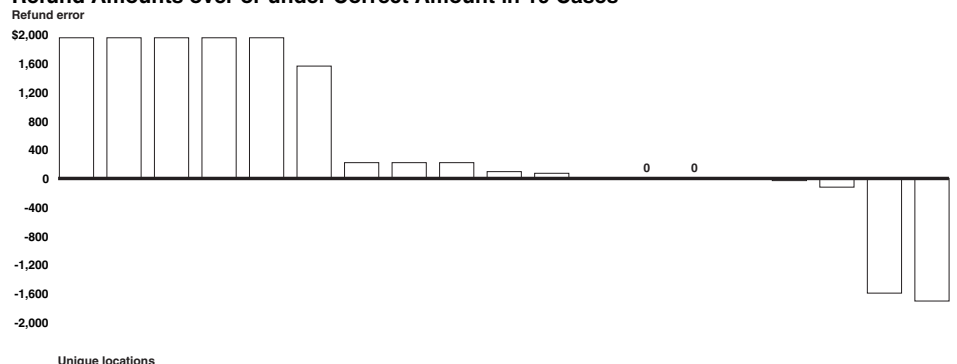
All paid preparers are subject to some IRS regulations and may be penalized if they fail to follow them. For example, all paid preparers must identify themselves on the returns they prepare and must not deliberately understate a taxpayer's tax liability. When the EIC is involved, paid preparers must also ask specific questions to determine a taxpayer's eligibility for the credit.

In GAO visits to commercial preparers, paid preparers often prepared returns that were incorrect, with tax consequences that were sometimes significant. Their work resulted in unwarranted extra refunds of up to almost \$2,000 in 5 instances, while in 2 cases they cost the taxpayer over \$1,500. Some of the most serious problems involved preparers

- not reporting business income in 10 of 19 cases;
- not asking about where a child lived or ignoring GAO's answer to the question and, therefore, claiming an ineligible child for the EIC in 5 out of the 10 applicable cases;
- failing to take the most advantageous postsecondary education tax benefit in 3 out of the 9 applicable cases; and
- failing to itemize deductions at all or failing to claim all available deductions in 7 out of the 9 applicable cases.

GAO discussed these findings with IRS and referred to it problems that were found. Had these problems been discovered by IRS on real returns, IRS officials said that many of the preparers would have been subject to penalties for such things as negligence and willful or reckless disregard of tax rules.

Refund Amounts over or under Correct Amount in 19 Cases



Source: GAO.