

Highlights of [GAO-11-336](#), a report to the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

Paid preparers prepare about 60 percent of all tax returns filed, and their actions significantly affect the Internal Revenue Service's (IRS) ability to administer tax laws. Previously, GAO found that some preparers made significant errors in preparing tax returns and proposed stricter regulation of preparers. IRS is implementing new requirements for paid preparers that it believes will increase tax compliance, which will reduce the gross tax gap between taxes owed and taxes paid, last estimated at \$345 billion for 2001.

GAO was asked to (1) describe IRS's plans for implementing and ensuring paid preparer compliance with the requirements; (2) assess IRS's resource estimates for the requirements; and (3) assess IRS's plans to use the requirements to improve taxpayer compliance and evaluate their effect. To meet these objectives, GAO reviewed IRS planning documents and interviewed IRS officials and representatives and members of paid preparer associations.

What GAO Recommends

GAO recommends that IRS document a framework for using the paid preparer requirements to improve taxpayer compliance and evaluate their effect on taxpayer compliance. In commenting on a draft of this report, IRS agreed with the recommendation.

To view the full product, including the scope and methodology, click on [GAO-11-336](#). For more information, contact James White at (202) 512-9110 or whitej@gao.gov.

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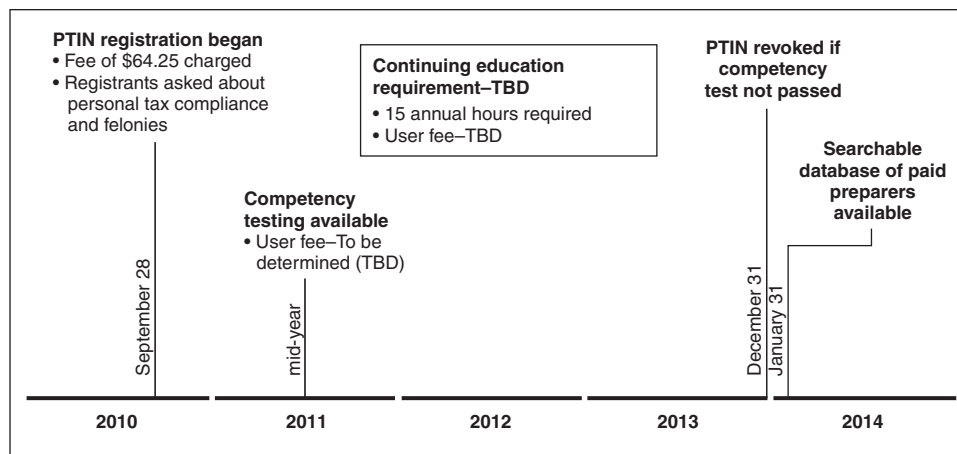
TAX PREPARER REGULATION

IRS Needs a Documented Framework to Achieve Goal of Improving Taxpayer Compliance

What GAO Found

IRS has implemented a registration requirement for paid preparers that includes obtaining a preparer tax identification number (PTIN) and plans to implement competency testing and continuing education requirements, as shown in the figure below. IRS also plans to require paid preparers to adhere to standards of practice and the revisions are currently being reviewed by the Office of Management and Budget. In addition, IRS has conducted an outreach campaign consistent with key practices to inform paid preparers of the new requirements. For example, IRS developed a standardized message that it distributed in different formats. IRS is developing strategies for how to ensure that paid preparers comply with the new requirements, according to the director of IRS's Return Preparer Office.

Proposed Timeline for IRS's Implementation of Paid Preparer Requirements



Source: IRS.

IRS is funding the paid preparer requirements through user fees, which it is setting consistent with established criteria for cost estimating. For example, in setting the PTIN user fee to ensure it covered program costs, IRS identified key costs associated with registration, estimated fixed costs, and based some variable costs on similar registration efforts.

IRS has discussed but not documented a framework for how it plans to use the requirements to improve taxpayer compliance. For example, IRS plans to develop a comprehensive database containing information on paid preparers and related tax returns. Also, IRS has yet to document how it will assess the requirements' effect, for example, by identifying what baseline data IRS needs. Without a documented framework, IRS may have difficulty (1) assessing whether it has adequately planned for what data it needs to collect and (2) deciding how to allocate resources given competing priorities. A framework could also help assure paid preparers, who bear the burden of complying with the requirements, that IRS will assess whether the requirements provide their intended benefit.