

Highlights of [GAO-11-868T](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Paid preparers are a cornerstone of the U.S. tax system, as they prepare approximately 60 percent of all tax returns filed, and their actions have an enormous impact on the Internal Revenue Service's (IRS) ability to administer tax laws effectively. In previous work, GAO found that taxpayers were not always served well by their paid preparers, and GAO proposed stricter oversight of preparers. In 2010, IRS began implementing new requirements for paid preparers and believes that the requirements will increase taxpayers' compliance.

This testimony addresses (1) prior GAO work on paid preparer performance, (2) IRS's progress in implementing the new requirements, and (3) how IRS can use the requirements to improve taxpayer compliance. It is based on GAO's March 2011 report on IRS's implementation of the paid preparer requirements and other GAO reports related to paid preparers. Further, GAO identified additional steps IRS has taken to implement the requirements since the March report was issued. GAO discussed the new information with IRS officials, and they concurred with the findings.

View [GAO-11-868T](#) or key components. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

July 28, 2011

TAX PREPARER REGULATION

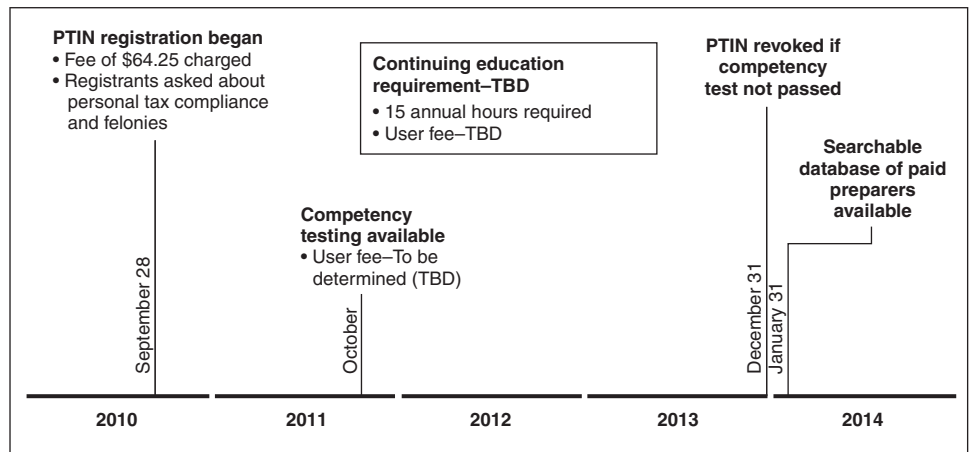
Improving Tax Return Accuracy Depends on IRS's Use of New Requirements

What GAO Found

As intermediaries between taxpayers and IRS, paid preparers can educate taxpayers about tax laws and prevent tax return errors and resulting IRS audits. However, GAO has found that paid preparers make errors. For example, in a 2006 report, GAO had tax returns prepared at 19 outlets of several commercial tax chains. All 19 returns had mistakes ranging from refund overclaims of nearly \$2,000 to underclaims of over \$1,700. In 2008, GAO reported that in Oregon, regulation of paid preparers corresponded with more accurate taxpayer returns.

To date, IRS has implemented a requirement that paid preparers obtain a preparer tax identification number (PTIN) and plans to implement competency testing and continuing education requirements. IRS also plans to require paid preparers to adhere to Department of the Treasury standards of practice. Initially, IRS plans to focus on educating paid preparers about the new requirements and not on penalizing them for noncompliance. However, it is developing and implementing strategies for ensuring paid preparers comply with the new requirements.

Proposed Timeline for IRS's Implementation of Paid Preparer Requirements



Source: IRS.

The extent to which the new paid preparer requirements will result in more accurate tax returns depends on IRS actions. In a March 2011 report, GAO recommended that IRS document a strategic framework for how it plans to leverage the requirements to improve taxpayer compliance. IRS agreed and is working on a plan. There are various ways that IRS can leverage the paid preparer requirements in order to provide better service to taxpayers and ultimately improve taxpayer compliance. For example, IRS management has discussed conducting research on which strategies are most effective for improving the quality of tax returns prepared by different types of paid preparers. Documenting this framework so it is transparent to paid preparers—who bear the burden of complying with the requirements—could assist with preparers' voluntary compliance by demonstrating the requirements' worth.