



Treasury Inspector General for Tax Administration Office of Audit

INADEQUATE DATA ON PAID PREPARERS IMPEDES EFFECTIVE OVERSIGHT

Issued on July 14, 2009

Highlights

Highlights of Report Number: 2009-40-098 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

More than one-half of all tax returns filed are prepared by paid preparers. However, the Internal Revenue Service (IRS) cannot determine the population of preparers or if the preparers are compliant with their own tax obligations, as well as compliant with all tax laws and regulations. Tax return preparers have a significant effect on taxpayer compliance. A unique identifying number to control each preparer and an effective management information system are necessary for the IRS to facilitate tax administration and provide effective oversight of preparers.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS has complete, accurate, and reliable data on tax return preparers for efficient and effective tax administration. Currently, there are no national standards that a preparer is required to satisfy before selling tax preparation services to the public.

WHAT TIGTA FOUND

IRS management information on paid preparers is incomplete and inconsistent. The IRS maintains significant data on paid preparers, but it is not feasible to use the data to track, monitor, or control preparers' activities and compliance because preparers use multiple identifying numbers when dealing with the IRS, data on preparers are decentralized to more than 20 different systems, and the systems are not integrated.

The IRS does not currently require paid preparers to have a unique identifying number. Our analyses of tax returns prepared by preparers and submitted in Calendar Year 2008 showed preparers used approximately 1.1 million unique identifying numbers and prepared more than 80 million tax returns.

Test results from a statistical sample of 139 preparers demonstrated multiple identifying numbers were used by

93 (67 percent) of 139 preparers. Six percent of the preparers provided invalid identifying numbers.

Seven (5 percent) of the 139 preparers in the statistical sample were not compliant with their own tax obligations. They had either not paid all taxes owed, had not filed a 2006 tax return, and/or been assessed a penalty.

Using current IRS systems, it is possible to identify the tax returns prepared by preparers and identify those preparers who have been granted authorization to represent taxpayers before the IRS.

However, the IRS does not currently have a sufficient management information system to effectively ensure that preparers adhere to professional standards and follow the law, including a control to require that preparers have one unique identifying number.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS 1) establish a requirement that paid preparers be compliant with their own Federal tax filing requirements in order to be allowed to prepare tax returns for others for a fee, 2) revise the target completion date for its study on requiring preparers to use a single identification number when filing tax returns, 3) develop a method to enforce Internal Revenue Code Section 6695(c) that imposes a penalty on preparers who do not provide an identification number on tax returns they prepare, and 4) develop a comprehensive data management system that allows the IRS, at a minimum, to determine the population of preparers by eliminating discrepancies and duplicates between systems.

In their response to the report, IRS management agreed in principal with the first and second recommendations and believes these recommendations will be addressed by the Commissioner's Tax Return Preparer Review team as well as a guidance project being conducted in coordination with the Department of the Treasury. IRS management agreed with the third and fourth recommendations and plans to take corrective action.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200940098fr.pdf>.

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