



Treasury Inspector General for Tax Administration Office of Audit

IT WILL TAKE YEARS TO IMPLEMENT THE RETURN PREPARER PROGRAM AND TO REALIZE ITS IMPACT

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Highlights

Highlights of Report Number: 2010-40-127 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Every year, more than one-half of all taxpayers pay someone else to prepare their Federal income tax returns. In Calendar Year 2009, the Internal Revenue Service (IRS) processed approximately 83.1 million individual Federal income tax returns prepared by paid preparers.

WHY TIGTA DID THE AUDIT

This audit was initiated because the IRS recently made reforms to return preparer oversight. The reforms include requirements for registration, competency testing, continuing professional education, ethical standards, and enforcement.

The overall objective of this review was to monitor and evaluate the IRS's implementation of the Return Preparer Strategy. The scope of this audit was limited to the planning, design, and implementation of the Return Preparer Registration System and planning for the implementation of future phases of the Return Preparer Strategy.

WHAT TIGTA FOUND

Immediately after announcing the Return Preparer Review, the IRS established a Return Preparer Implementation Project Office. The Project Office will support the IRS in implementing key Return Preparer Program functions for Filing Season 2011 and lay the foundation for long-term Program institutionalization.

When the decision was made to register preparers in September 2010, the IRS had only begun to implement the Return Preparer Program and had not established all Program requirements, established the organizational structure of the Return Preparer Program, or determined how to test to ensure all preparers met the requirements. It has also not determined how the IRS will enforce Program requirements, and it has not developed the

system(s) and processes necessary to administer and oversee the Program.

The new preparer requirements will take several years to implement, and it will not be until Calendar Year 2014 that all preparers will be subjected to all suitability and competency tests. During that time, the IRS will be developing and implementing an enforcement strategy. Currently, the IRS does not have a sufficient management information system to gather data on preparers. Further, the IRS will need to ensure taxpayers understand the new requirements and the importance of only using registered preparers to prepare their tax returns.

WHAT TIGTA RECOMMENDED

TIGTA made several recommendations for improvement. Specifically, the IRS should complete the study comparing the four preparer programs to gain an understanding of the basis for the requirements and to ensure consistencies in the requirements and suitability testing among the programs.

In its response to the draft report, IRS management stated that it plans to complete the study comparing the four preparer programs and to leverage existing best practices when appropriate.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201040127fr.pdf>.