



Treasury Inspector General for Tax Administration Office of Audit

MORE TAX RETURN PREPARERS ARE FILING ELECTRONICALLY, BUT BETTER CONTROLS ARE NEEDED TO ENSURE ALL ARE COMPLYING WITH THE NEW PREPARER REGULATIONS

Issued on December 20, 2011

Highlights

Highlights of Report Number: 2012-40-010 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. During the 2011 Filing Season, the IRS processed approximately 66.9 million individual Federal income tax returns prepared by paid tax return preparers; 90 percent of these returns were electronically filed (e-filed).

WHY TIGTA DID THE AUDIT

This audit was initiated because in Fiscal Year 2011, new regulations changed the way many preparers do business with the IRS, including requirements for e-filing tax returns they prepare and implementing new IRS preparer regulations and oversight. The overall objective of this review was to monitor and evaluate the IRS's implementation of the e-file mandate for preparers.

WHAT TIGTA FOUND

The e-file mandate is helping the IRS with its goal to electronically receive 80 percent of individual tax returns by Calendar Year 2012. More than 79 percent of tax returns were e-filed in Calendar Year 2011 as of June 9, 2011. However, the continued use of multiple preparer identification numbers makes it difficult to match all tax returns to the preparers.

For the first few years, the IRS plans to use a "soft" approach to enforcement with emphasis on educating and collaborating with preparers in implementing e-file requirements. However, improvements are underway to ensure controls and system validations over the preparer registration process are effective.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) monitor preparers' compliance with the e-file mandate and, should it begin to decline, consider a) expanding the requirement for the submission of Form 8948, *Preparer Explanation for Not Filing Electronically*, to all tax returns prepared by a paid preparer and submitted on paper, and b) requiring that PTIN applicants provide the Employer Identification Numbers for any business entities for which the PTIN holder is preparing tax returns; and 2) ensure suitability tests of PTIN applicants include matching PTIN applicants to IRS information to identify preparers who are not allowed to prepare tax returns;

Management agreed with our recommendations and stated that corrective actions to address the recommendations have been taken or are planned.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201240010fr.pdf>