



Treasury Inspector General for Tax Administration Office of Audit

PLANS EXIST TO ENGAGE THE TAX PREPARER COMMUNITY IN REDUCING THE TAX GAP; HOWEVER, ENHANCEMENTS ARE NEEDED

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Highlights

Highlights of Report Number: 2010-30-061 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement and the Chief Financial Officer.

IMPACT ON TAXPAYERS

Paid preparers prepare more than half of all individual tax returns filed and have a great deal of influence on taxpayer compliance levels. These preparers have a professional obligation to represent their clients effectively and play an important role in ensuring that taxpayers comply with the nation's tax laws. Because most taxpayers use preparers to file their tax returns, adherence to standards and the preparation of accurate tax returns have a significant effect on taxpayer compliance and the Internal Revenue Service's (IRS) efforts to reduce the tax gap.

WHY TIGTA DID THE AUDIT

The individual income tax is the largest single source of Federal receipts and comprises over 71 percent of the tax gap. In its Fiscal Year 2008 Annual Report, the IRS Oversight Board cited the tax gap as a serious systemic weakness that must be addressed. TIGTA initiated this review to evaluate the IRS's efforts to engage the tax practitioner community in a productive partnership to reduce the tax gap.

WHAT TIGTA FOUND

The IRS has taken actions to engage the tax preparer community that could affect tax administration and reduce the tax gap. The IRS developed a Fiscal Years 2009–2013 Strategic Plan to improve oversight of tax administration. It includes two key objectives and several strategies that pertain to reducing the tax gap by engaging the tax preparer community. However, actions were not taken to ensure previously omitted key components were included in the existing IRS Strategic Plan. Without these components, it is unclear how the IRS will effectively monitor its performance and adherence to the requirements for strategic plans.

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The IRS's Strategic Plan is supported by plans from 10 business divisions and functional offices, with numerous goals and activities to strengthen the partnership with tax practitioners. Additionally, in June 2009, the IRS Commissioner launched the Return Preparer Review, which supports the Strategic Plan to enhance compliance standards for tax preparers. The Review resulted in a report issued on January 4, 2010, that contained eight recommendations, including mandatory tax return preparer registration and competency examination requirements for tax preparers.

Our review found that the IRS's Strategic Plan does not contain sufficient measures that will be useful for monitoring its performance in achieving its goals and objectives to engage the paid preparer community. Also, the plans of the IRS business divisions and functional offices did not always include outcome measures, baselines, or targets that could be used to measure whether actions taken would achieve desired objectives in the Strategic Plan.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Financial Officer 1) take steps to update the existing IRS Strategic Plan and ensure future strategic plans have all key components and 2) define and include in the Strategic Plan sufficient measures that will provide data that can be used to monitor the IRS's efforts to achieve objectives aimed at strengthening partnerships with tax practitioners and paid preparers to ensure effective tax administration.

IRS officials agreed with our recommendations; however, the planned corrective actions did not address updating the existing Strategic Plan with omitted key components and sufficient measures to monitor the IRS's efforts regarding the paid preparer community.

TIGTA continues to believe the existing Strategic Plan should be updated to ensure the IRS is compliant with the Government Performance and Results Act of 1993. In addition, without an effective process to monitor its performance, the IRS cannot ensure its programs are achieving their objectives and desired outcomes.

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/201030061fr.pdf>.

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