



*Analysis of Internal Revenue Service
Employees' Use of
Tax Preparation Assistance*

January 9, 2012

Reference Number: 2012-40-001

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 9, 2012

**MEMORANDUM FOR THE TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION**

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Analysis of Internal Revenue Service Employees' Use of Tax
Preparation Assistance (Audit # 201140043)

This report presents the results of our analysis of Internal Revenue Service (IRS) employees' use of tax preparation assistance. This review was conducted in response to House Conference Report 112-331,¹ which required TIGTA to submit a report to the House and Senate Committees on Appropriations on the extent to which IRS employees use tax preparation software or hire tax preparation professionals and how those rates compare to the general public.

This analysis was performed using the IRS data that provide the method that individuals and IRS employees used to file their individual income tax returns for Tax Years 2009 and 2010 through May 21, 2011.

Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

¹ Division C of the Joint Statement of Managers, a subpart of House Conference Report 112-331, which accompanied H.R. 2055, the Consolidated Appropriations Act, 2012, approved the reporting requirement contained within the House Committee Report on H.R. 2434, the Financial Services and General Government Appropriations Act, 2012.



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Background

According to Internal Revenue Service (IRS) Publication 4822, *Taxpayer Filing Attribute Report*, almost 60 percent of taxpayers pay a tax return preparer to prepare their tax return and 32 percent use tax preparation software. Taxpayers have several options when preparing their tax return, including paying a tax return preparer to prepare and file their tax return, receiving assistance at a volunteer tax assistance site, using electronic tax preparation software¹ to file their tax return electronically, or self-preparing their tax return on paper. For the purpose of our analysis, we categorized the various tax return preparation/filing methods into two categories:

The IRS estimates that almost 60 percent of taxpayers use a tax return preparer and 32 percent use tax preparation software to prepare their individual income tax return.

- **Paid Preparer:** This category consists of individuals who had tax return preparer information included on their tax return and filed either a paper or electronic tax return. This category also includes tax returns that could have been prepared by IRS employees at a Taxpayer Assistance Center, the Volunteer Income Tax Assistance Program, and the Tax Counseling for the Elderly Program.
- **Self Prepared:** This category consists of individuals who prepared their own tax return or who used electronic tax preparation software to prepare and file their own tax return.

Our data analysis was performed in the Treasury Inspector General for Tax Administration's office in Kansas City, Missouri, during the period May through August 2011. We conducted this analysis in response to House Conference Report 112-331, which accompanied H.R. 2055, the Consolidated Appropriations Act, 2012, to determine the extent that IRS employees hire tax return preparers or use electronic tax preparation software and how this compared to the taxpaying public. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ Tax preparation software can be purchased either over-the-counter or online. The software's question and answer format makes doing taxes easier than filling out forms.



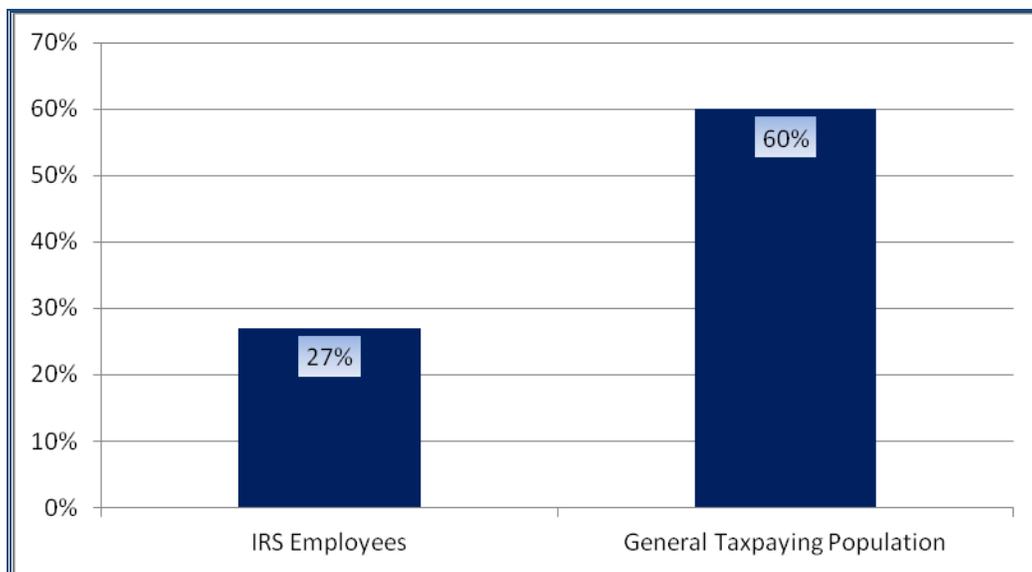
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Results of Review

Internal Revenue Service Employees' Use of Tax Return Preparation Assistance

Overall, IRS employees are less likely to use a paid preparer to prepare their tax returns when compared to the general taxpaying population. Figure 1 provides a comparison of tax returns prepared by a paid preparer for IRS employees and the general taxpaying population.

Figure 1: Comparison of Tax Returns Prepared by Paid Preparers for Tax Year² 2009



Source: Treasury Inspector General for Tax Administration analysis of the IRS Individual Master File,³ Individual Return Transaction File,⁴ and Tax Return Database for Tax Year 2009.⁵

² A tax year is a 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

³ The IRS database that maintains transactions or records of individual tax accounts.

⁴ This file contains data transcribed from initial input of the original individual tax returns during return processing.

⁵ A system that stores original tax return information submitted by the taxpayer within 24 hours of receipt within the IRS.

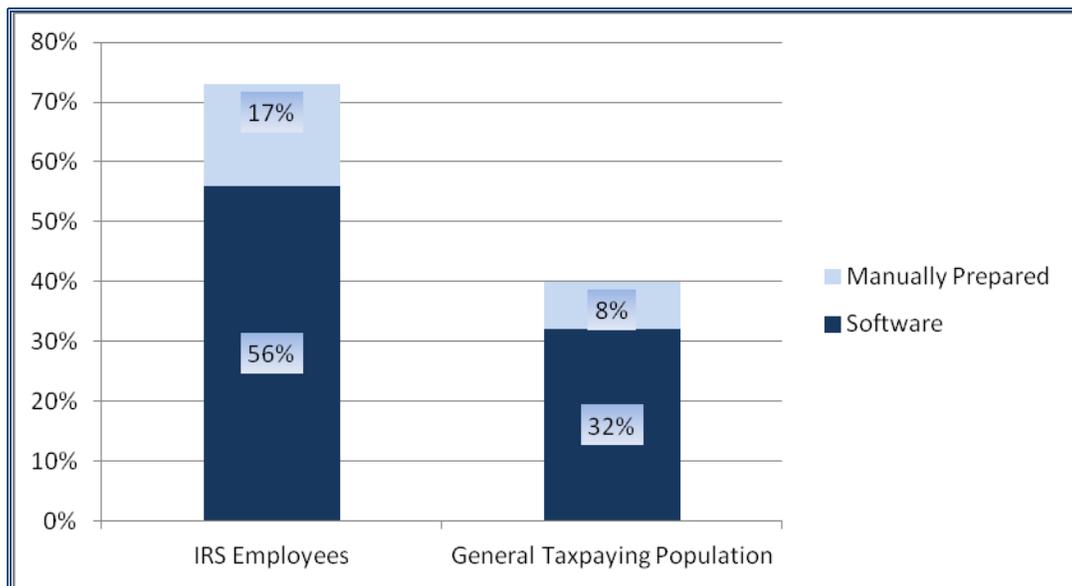


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We performed a similar analysis for tax returns filed for Tax Year 2010 as of May 21, 2011. We identified similar results—IRS employees used a paid preparer to prepare their tax returns 26 percent of the time compared to 59 percent for the general taxpaying population.

The results of the analysis showed that IRS employees were more likely to prepare their own tax return manually or use electronic tax preparation software (73 percent of the time) when compared to the general taxpaying public (40 percent of the time). Figure 2 provides a comparison of IRS employees who prepared their own tax return manually or used electronic tax preparation software to the general taxpaying public.

Figure 2: Comparison of Tax Returns That Were Self-Prepared Manually or Using Tax Preparation Software for Tax Year 2009



Source: Treasury Inspector General for Tax Administration analysis of the IRS Individual Master File, Individual Return Transaction File, and Tax Return Database for Tax Year 2009.

We performed a similar analysis for tax returns filed for Tax Year 2010 as of May 21, 2011. We identified similar results—IRS employees prepared their own tax return manually or used electronic tax preparation software 74 percent of the time compared to 41 percent for the general taxpaying population.



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Appendix I

Detailed Objective, Scope, and Methodology

We conducted this analysis in response to House Conference Report 112-331, which accompanied H.R. 2055, the Consolidated Appropriations Act, 2012, to determine the extent that IRS employees hire tax return preparers or use electronic tax preparation software and how their use of these services compared to that of the taxpaying public.

We obtained a data extract of all tax returns filed for Tax Years 2009 and 2010. We included fields from the IRS's Individual Master File, the Individual Returns Transaction File, and the Tax Return Database. We validated 10 records from each tax year and confirmed that the information obtained matched the information on the IRS computer systems.

- I. We analyzed the information for Tax Years 2009 and 2010 in order to obtain information on the overall population's use of tax preparation professionals and the use of software.
 - A. We separated the population file into those tax returns that were filed on paper and those that were filed electronically.
 - B. We determined which paper tax returns were filed via software and if they included tax preparer information.
 - C. We determined whether the electronically filed tax returns were filed via software and whether they included tax preparer information.
- II. We extracted all employee filed tax returns for Tax Years 2009 and 2010 in order to obtain information on IRS employee use of tax preparation professionals and the use of software.
 - A. We separated the IRS employee file into those tax returns that were filed on paper and those that were filed electronically.
 - B. We determined which paper tax returns were filed via software and if they included tax preparer information.
 - C. We determined whether the electronically filed tax returns were filed via software and whether they included tax preparer information.



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Appendix II

Major Contributors to This Report

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