



Highlights of [GAO-08-781](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

Millions of taxpayers use paid tax return preparers and many of these paid preparers are not subject to any qualification requirements. Paid preparers in California and Oregon are exceptions in that these states have set paid preparer qualification standards. Additionally, two bills before Congress would require national paid preparer regulations.

To help Congress better understand the potential costs and revenue effects of regulating paid preparers, GAO was asked to study (1) how IRS, California, Oregon, and other states regulate paid preparers, (2) how the accuracy of federal tax returns from California and Oregon compare to other returns, and (3) state-level costs and benefits of the California and Oregon programs and insights they provide for a possible national program. GAO analyzed IRS research data on tax return accuracy; interviewed IRS officials, state administrators, and preparer community representatives; and reviewed relevant documents.

What GAO Recommends

If Congress judges that the Oregon paid preparer regulations account for even a modest portion of the higher accuracy of Oregon federal tax returns at a reasonable cost, it should consider adopting a similar regime nationwide. If Congress enacts paid preparer legislation, it should also require IRS to evaluate its effectiveness. IRS provided technical comments on a draft of this report which were incorporated.

To view the full product, including the scope and methodology, click on [GAO-08-781](#). For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

TAX PREPARERS

Oregon's Regulatory Regime May Lead to Improved Federal Tax Return Accuracy and Provides a Possible Model for National Regulation

What GAO Found

No federal registration, education, or testing requirements apply to all paid preparers before they can prepare tax returns. California and Oregon have requirements that preparers must meet before preparing returns in those states. California paid preparers who are not attorneys, certified public accountants, enrolled agents (or employed by one of these types of tax practitioners) must complete an education requirement, obtain a bond, pay a fee, and register. In following years, they must complete continuing education requirements, and renew their registration. Oregon has similar, but more stringent requirements. Oregon has a two-tiered licensing system, with an education requirement and examination for Licensed Tax Preparers and work experience and a second examination for Licensed Tax Consultants. Oregon exempts certified public accountants and their employees, as well as attorneys, from these requirements. Oregon requires enrolled agents to take a shorter version of the consultant examination. Fifty-four percent of Oregon applicants passed the state's basic examination. Recently, Maryland enacted legislation to regulate paid preparers and at least three other states have similar pending legislation.

According to GAO's analysis of the Internal Revenue Service's (IRS) tax year 2001 National Research Program data, Oregon returns were more likely to be accurate while California returns were less likely to be accurate compared to the rest of the country after controlling for other factors likely to affect accuracy. In dollar terms, the average Oregon return required approximately \$250 less of a change in tax liability than the average return in the rest of the country. For Oregon's 1.56 million individual tax filers, this equates to over \$390 million more in federal income taxes paid in Oregon than would have been paid if the returns were as accurate as similar returns in the rest of the country. These results are consistent with, but do not prove, that Oregon's regulations lead to some increased tax return accuracy. GAO's analysis could not account for all factors that might affect the accuracy of these tax returns. Because some states without preparer regulation also had tax returns that, on average, were more accurate than the national average, some portion of the increased accuracy of Oregon returns likely is due to other factors.

The California and Oregon programs' costs varied with differences in the programs' scope. Both programs' administrative costs are funded primarily from program fees. California's costs were about \$29 per preparer and Oregon's about \$123. GAO estimates that the total annual cost of the ongoing Oregon program, including state costs and the cost to preparers for their time and expense in acquiring required education, likely is about \$6 million. Officials in both states believe program benefits like reducing the number of incompetent preparers outweigh costs, although neither state had data on benefits. IRS officials said that a national program's costs likely would depend on the program's objectives and features.