



TAX ADMINISTRATION

Most Taxpayers Believe They Benefit from Paid Preparers, but Oversight Is a Challenge for IRS

Highlights of GAO-04-70, a report to the Chairman and Ranking Minority Member, Committee on Finance, United States Senate

Why GAO Did This Study

Over 55 percent of the nearly 130 million taxpayers in tax year 2001 used a paid tax preparer. However, using a preparer may not assure that taxpayers pay the least amount due. Last year, GAO estimated that as many as 2 million taxpayers overpaid their 1998 taxes by \$945 million because they failed to itemize deductions and half of these used preparers.

GAO was asked to (1) obtain the views of taxpayers about paid preparers and examples of preparer performance including any problems and (2) describe the Internal Revenue Service's (IRS's) oversight of problem preparers; the challenges facing IRS in dealing with problem preparers, especially the Office of Professional Responsibility; and the efforts to address those challenges. To obtain the views of taxpayers who used preparers, GAO surveyed a national representative sample of taxpayers.

What GAO Recommends

Because making decisions about IRS's role is a policy matter and data to determine the efficacy of current oversight efforts would be difficult to develop, whether to expand IRS's role in regulating paid preparers is a judgment that Congress and IRS must make and GAO is not making recommendations in this report. In commenting on a draft of this report, the IRS Commissioner generally concurred with our findings.

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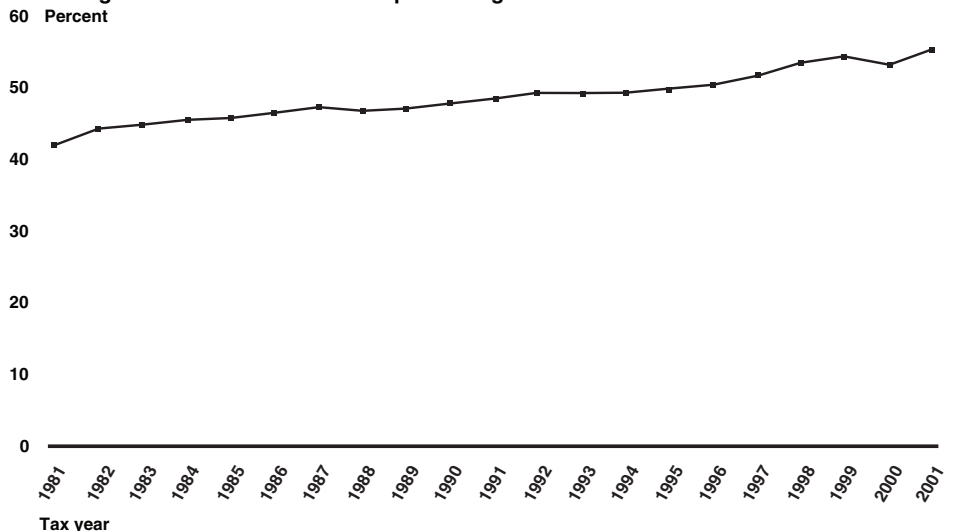
To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim White at (202) 512-5594 or Whitej@gao.gov.

What GAO Found

GAO estimates that most of the taxpayers who used a paid preparer believe they benefited from doing so. Many taxpayers told us they believed they would have great difficulty filling out their own tax forms because they do not understand their filing requirements. At the same time, some taxpayers are poorly served when paid preparers make mistakes, causing taxpayers to over-or underpay their taxes or pay for services, such as short-term loans called Refund Anticipation Loans (RALs), without understanding their costs and benefits. The evidence available does not allow a precise estimate of the extent of problems caused by paid preparers, but nothing suggests that the percentage of taxpayers affected is large. Nevertheless, even a small percentage of the over 72 million taxpayers who used paid preparers in 2001 translates into millions of taxpayers who are potentially adversely affected.

IRS has several offices responsible for taking action against problem paid preparers, including the newly formed Office of Professional Responsibility. These offices sanction preparers for violating standards of conduct; assess monetary penalties for violating tax laws when preparing returns; monitor and, if justified, sanction problem preparers offering electronic filing and RALs; and investigate fraudulent preparer behavior. However, balancing resources devoted to such efforts against those devoted to other IRS priorities is a challenge. In addition to IRS, other federal agencies, state and local governments, and professional organizations have a role in regulating paid preparers. At least two proposals exist to expand IRS's oversight of paid preparers. Consideration of such proposals is complicated by the difficulty of developing reliable estimates of the number of taxpayers affected by problem preparers or the effectiveness of the actions taken against them.

Percentage of Returns with a Paid Preparer's Signature



Source: IRS.