



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Will Work to Ensure Better Training of Paid Tax Preparers,
Better Electronic Filing Options at IRS

WASHINGTON – The inaccurate, sometimes illegal advice from paid tax preparers to taxpayers as found through a government investigation highlights the need for minimum training requirements for tax preparers, Sen. Chuck Grassley, chairman of the Committee on Finance, said at a tax season hearing he convened today.

“Any Joe can hang a shingle and prepare income tax returns. There are no requirements at all,” Grassley said. “It’s incredible that we have legal requirements for a barber to cut your hair, but there are no requirements for someone to prepare your taxes. The worst that can happen when you get a lousy barber is a bad hair day. But if you get bad tax advice, you may be audited, owe thousands of dollars, and even face jail time. Americans have a right to expect that when they hire a tax preparer they’re going to get honest, straightforward advice. Unfortunately, too often that isn’t the case. We need to fix that.”

Grassley said paid preparers complete more than 60 percent of all tax returns – more than 78 million individual tax returns. At Grassley’s request, the Government Accountability Office (GAO) visited 19 offices of national tax return preparers in a single major metropolitan area. The GAO found:

- More than half of those preparers declined to include cash income that was disclosed by the GAO investigator on the tax return. Taxpayers are required to disclose cash income.
- When the return involved the earned income credit, nine out of ten preparers initially left the cash income off of the return. Eight out of ten claimed child-related benefits for children who did not live with the taxpayer during the tax year.
- One of these preparers redid the return upon the request of the GAO investigator, but not without charging more than two times the upfront cost estimate.

Grassley said taxpayers’ reliance on paid tax preparers is compounded by the poor electronic filing options available to taxpayers. Under the current system, some taxpayers are able to file electronically through an IRS-private industry program called the Free File Alliance. That filing option is supposed to be free for taxpayers. However, Grassley’s staff found a series of problems:

- Many of the companies place restrictions on the types of income and deductions taxpayers

may claim using their free online tax preparation services.

- Taxpayers are inundated with additional charges that may accrue and the sale of ancillary services. Charges include fees for state return preparation and filing, resetting passwords, printing and mailing services, professional tax return review, audit protection, live chat help, telephone technical support, per-question fees for consultation with a tax professional, and more.
- Taxpayers entitled to a refund receive offers for anticipation loans, to have fees deducted from their refunds, or offers to get their refunds by cashier's check, prepaid Visa card, or retail gift card – all with hidden costs to the taxpayers.
- One free file site even contains a link where the taxpayer can sign up for a tax preparation franchise – no experience necessary – for \$15,500.

"The IRS needs to have an aggressive game plan to increase electronic filing in the near future," Grassley said. "In the Congress, we really need to consider whether having the IRS provide a basic means of electronic filing should be seen as an extension of its obligation to taxpayers to provide them with forms and instructions. The tax code is complex enough without making it harder for working families. If the IRS can run a paper-based system, surely it can manage an electronic filing set-up."

Grassley said the lack of minimum-training standards for tax preparers, and the poor electronic filing options, provide new momentum to consider and possibly revise the *Taxpayer Protection and Assistance Act of 2005*, a bill pending in the Senate that he has co-sponsored. The bill would:

- establish that the IRS Office of Professional Responsibility would administer the regulation of paid income tax preparers;
- begin requiring examinations for and imposing continuing education requirements on any advisor who prepares federal income tax returns; and
- require non-monetary sanctions (i.e., suspension or termination) for failure to comply with these regulations.

"Clearly, there's a lot we need to do make life easier on taxpayers," Grassley said. "We need to ensure that when taxpayers use a preparer, they can trust that preparer to be a knowledgeable professional who will do the right thing and put the taxpayers' interest first. That preparers needs to be mindful that it's their duty to make sure taxpayers pay the right amount of tax, not a penny more, not a penny less."

The hearing testimony is posted at finance.senate.gov.