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PRODUCT & SERVICE GUIDE

IRS Needs to Crack Down on Bad Tax Preparers Says TIGTA

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Jun. 16, 2020

Professional income tax return preparers serve an important role in the U.S. tax system for millions of Americans, preparing about 60 percent of all tax returns filed. As such, their actions have an enormous impact on the IRS's ability to administer the tax laws effectively. But some tax pros don't always maintain the ethical standards expected of them.

The Treasury Inspector General for Tax Administration (TIGTA), which serves as a watchdog over the Internal Revenue Service, says more action is necessary to remove tax preparers who "cannot manage their own tax affairs, or worse, if they intentionally claim credits and deductions to which they are not entitled, they could undermine the tax administration system."

As of November 2018, the IRS's Return Preparer Database showed that more than 30,000 preparers self-identified as being tax noncompliant on their Preparer

Taxpayer Identification Number (PTIN) applications during Tax Years 2011 through 2018. This audit was initiated to evaluate the IRS's actions taken to ensure that preparers are in compliance with their tax obligations.

Our analysis of the Return Preparer Database as of November 2018 identified 10,495 preparers who prepared more than 2 million tax returns for clients in Processing Year (PY) 2016, but did not file a corresponding Tax Year 2016 personal tax return to report income received.

TIGTA further identified the top 100 nonfiler preparers from the 10,495 preparers based on the number of returns prepared for clients in Tax Year 2016 using their PTIN information. These top 100 preparers prepared from approximately 1,000 to 6,000 tax returns for clients in PY 2016.

TIGTA estimates that each of the 100 preparers potentially received compensation from clients for the preparation of tax returns in PY 2016 from more than $189,000 to more than $1 million. In addition, TIGTA estimates $45.6 million in potential taxes could be assessed if the IRS worked 6,903 of preparer nonfiler cases. After reviewing a draft of this report, IRS management informed us they had taken action and had included 449 of these nonfiler preparers in their Fiscal Year 2020 Examination Plan.

Our analysis of delinquent preparer penalty and tax modules as of May 27, 2019, showed the majority were in active collection status. However, a significant portion of the modules were not in active status because they were in Currently Not Collectible (CNC) status or were in the Queue awaiting assignment to the Collection function.

Analysis of these modules showed there were high-priority preparer penalty modules in CNC shelved status, preparers in CNC hardship status likely earning significant income, and high-dollar modules aging in the Queue. In addition, the IRS's new nonfiler strategy does not include specific items to address preparers who have failed to file their own tax returns that are due, and the current preparer misconduct strategy does not provide specific direction on how the IRS might address preparers who are nonfilers or have balances due for their own tax accounts.

WHAT TIGTA RECOMMENDS

TIGTA made 11 recommendations to help the IRS identify and address preparer nonfilers and high-risk preparers with balance due tax liabilities and preparer penalties. The IRS agreed or partially agreed with six of the recommendations and plans to take corrective action such as updating the Internal Revenue Manual to include the Return Preparer Database as a recognized internal source for identification and referral of preparer nonfilers to the Examination function.

The IRS disagreed with five recommendations. TIGTA believes these recommendations will help the IRS to identify and address preparer nonfilers who do not fall into the normal work streams and hold preparers accountable for their own delinquent penalty and tax liabilities