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Report to Congressional Requesters

November 2022

PAID TAX RETURN PREPARERS

IRS Efforts to Oversee Refundable Credits Help Protect Taxpayers but Additional Actions and Authority Are Needed

Accessible Version

GAO-23-105217

GAO Highlights

Highlights of GAO-23-105217, a report to congressional requesters

November 2022

PAID TAX RETURN PREPARERS

IRS Efforts to Oversee Refundable Credits Help Protect Taxpayers but Additional Actions and Authority Are Needed

Why GAO Did This Study

Millions of taxpayers claim refundable tax credits each year. About half of taxpayers use a paid preparer, according to the Department of the Treasury. However, these credits have complex eligibility rules that can be difficult to follow. This can result in errors and improper claims. For fiscal year 2021, IRS estimated that it paid $115 billion in refundable tax credits, but $26 billion were improperly paid.

GAO was asked to examine IRS's Refundable Credits Return Preparer Strategy program. This report assesses (1) the extent to which the program incorporates key elements of program design, and (2) how, if at all, IRS could broaden the effect of its strategy to reduce improper payments, among other objectives.

GAO reviewed IRS program data and documentation. GAO also interviewed IRS officials, paid preparers, and industry groups. Further, GAO compared IRS's efforts to guidance on key program elements from the Office of Management and Budget's Circular No. A-11 and IRS's Strategic Plan.

What GAO Recommends

GAO is making six recommendations to IRS. They include IRS developing a long-term plan and finalizing the IRS-wide preparer strategy. GAO is also recommending that Congress grant IRS the authority to establish professional requirements for paid preparers. IRS agreed with five of the recommendations. IRS neither agreed nor disagreed with the recommendation to finalize the IRS-wide preparer strategy, stating that other reorganization efforts must be completed first.

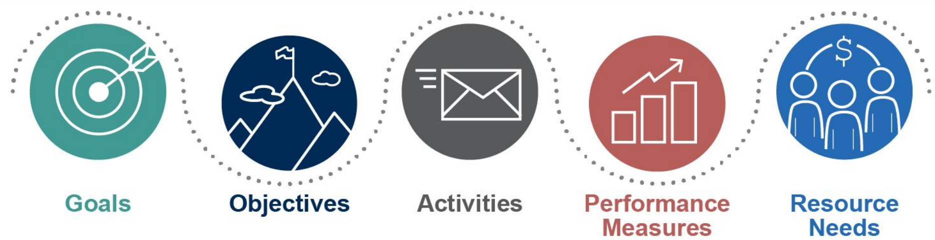
View GAO-23-105217. For more information, contact James R. McTigue Jr. at (202) 512-6806, mctiguej@gao.gov.

What GAO Found

The Internal Revenue Service (IRS) designed the Refundable Credits Return Preparer Strategy program to address improper payments associated with refundable tax credits and other benefits. This program includes tailored education and enforcement actions for paid preparers identified as having returns filed with a high probability of errors. The program aims to change the behavior of paid preparers and their clients and improve the accuracy of returns claiming these credits.

IRS has yet to develop a long-term plan that identifies and links long-term goals, objectives, activities, and performance measures for this program. Instead, program officials have focused on the operation of the program on a year-to-year basis. This includes ensuring preparers at risk of noncompliance are assigned to appropriate compliance actions. However, a long-term plan would provide a road map to help ensure that decisions align with program goals and inform budget requests and resource decisions. Without a long-term plan, program officials will continue to be limited in their ability to plan strategically.

Long-term plans help to link program elements and reach desired outcomes



Source: GAO. | GAO-23-105217

IRS identified a need for an IRS-wide tax return preparer strategy that would ensure consistent treatment of all preparers across different compliance programs. However, progress on the IRS-wide strategy stalled. Thus, how the Refundable Credits Return Preparer Strategy program fits into a broader service-wide strategy remains unclear. IRS officials noted that the strategy cannot be finalized until the IRS-wide reorganization is completed. IRS received significant additional funding as part of the Inflation Reduction Act of 2022. The agency is developing a detailed spend plan for these funds. Officials reported that the IRS-wide strategy was still under consideration within IRS's reorganization. However, until the IRS reorganization is complete and the IRS-wide preparer strategy is implemented, IRS may be missing opportunities to capitalize on prior planning efforts.

While the Refundable Credits Return Preparer Strategy program helps encourage preparer compliance with due diligence requirements, the challenge with preparer accuracy is much broader. IRS data show the program can reach a small fraction—less than 2 percent in 2021—of preparers with education and enforcement activities. Further, tax preparers are not held to uniform standards because IRS lacks the authority to establish professional requirements for all types of preparers. This puts some taxpayers at risk of receiving insufficient or incompetent tax preparation services and potentially burdensome enforcement actions. Providing IRS with the authority to establish requirements for all paid preparers would allow IRS to target its resources more efficiently on noncompliant preparers.

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Abbreviations

ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
EITC	Earned Income Tax Credit
FY	fiscal year

GPRA	Government Performance and Results Act of 1993
IRS	Internal Revenue Service
NTA	National Taxpayer Advocate
OMB	Office of Management and Budget
PTIN	Preparer Tax Identification Number
RCPM	Refundable Credits Program Management
SB/SE	Small Business/Self Employed
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

November 30, 2022

The Honorable Jon Ossoff
Chair
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Carper
United States Senate

Millions of Americans benefit from refundable tax credits designed to help offset the costs of working, raising children, and pursuing higher education. These tax credits reduce a taxpayer's liability and, if the credit exceeds the amount of taxes due, can result in a refund. For fiscal year (FY) 2021, the Internal Revenue Service (IRS) estimated that three refundable tax credits—the Earned Income Tax Credit (EITC), the Additional Child Tax Credit (ACTC), and the American Opportunity Tax Credit (AOTC)—provided taxpayers with $115 billion in tax benefits.[1]

However, these credits have complex eligibility rules that can be difficult for taxpayers or their representatives to follow. It can also be difficult for IRS to confirm eligibility. These credits can also be subject to fraud schemes and efforts to intentionally misstate taxpayer eligibility and over-claim these credits. Of the total amount of these credits for FY 2021, IRS estimated that $26.1 billion (approximately 23 percent) were made improperly—that is, made in the wrong amount or lacked sufficient documentation.[2]

[1]26 U.S.C. §§ 24 (Child Tax Credit), 25A (AOTC), 32 (EITC); Department of the Treasury, *Agency Financial Report, Fiscal Year 2021* (Nov. 15, 2021).

[2]Department of the Treasury, *Agency Financial Report, Fiscal Year 2021* (Nov. 15, 2021). Improper payments can result from inaccurate claims—both under-claims and over-claims—that are neither recovered nor corrected by IRS through enforcement or other activities. The Payment Integrity Information Act of 2019 requires agencies to annually report on all programs and activities that may be susceptible to significant improper payments, and estimate the amount of those payments, including payments lacking sufficient documentation. 31 U.S.C. § 3352(a)(3)(C), (c).

In FY 2021, the Department of the Treasury reported that half of all taxpayers who claim refundable credits seek help from paid preparers to navigate the credits' complex requirements.[3] However, unenrolled preparers, who are not subject to IRS registration, competency testing, and educational requirements prepare a substantial number of these returns. They have higher error rates than taxpayers who choose to prepare their own returns.[4] As we have previously reported, unenrolled preparers also have higher error rates than taxpayers who use preparers licensed by state licensing boards, such as certified public accountants, preparers who have enrolled with IRS, or volunteers in the IRS-sponsored Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs.[5]

IRS designed a program—the Refundable Credits Return Preparer Strategy—to help address issues related to high-risk preparers and improve compliance.[6] The program identifies groups of preparers who submit significant numbers of returns with over-claims of refundable credits and errors related to filing status. IRS applies targeted education and enforcement actions, also called treatments, to selected preparers and their clients to help change their behavior. These efforts to treat paid preparers can be a cost-efficient way of helping IRS avoid more costly audits of taxpayers.

You asked us to review IRS's Refundable Credits Return Preparer Strategy program. This report assesses (1) how IRS implements various education and compliance activities as part of this program; (2) to what extent IRS measures areas such as preparer compliance, revenue

[3]Department of the Treasury, *Agency Financial Report, Fiscal Year 2021* (Nov. 15, 2021).

[4]Department of the Treasury, *Agency Financial Report, Fiscal Year 2021* (Nov. 15, 2021), and GAO, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Address Noncompliance,* GAO-16-475 (Washington, D.C.: May 27, 2016).

[5]GAO-16-475.

[6]In its program documentation, IRS has referred to this program in several ways including the Refundable Credits Return Preparer Strategy, the Return Preparer Strategy, and the Earned Income Tax Credit Return Preparer Analysis. The Refundable Credits Program Management administers the program as a separate effort from other IRS service-wide efforts involving paid preparers. However, the program's activities address preparer due diligence for both refundable tax credits and other tax benefits. Because a large portion of the program's activities focus on claims of refundable credits, including EITC, ACTC, and AOTC from tax returns prepared by paid preparers, we refer to this IRS program as the Refundable Credits Return Preparer Strategy program.

protection, operational costs saving, and effects on taxpayer behavior; (3) the extent to which the program incorporates key elements of program design; and (4) how, if at all, IRS could broaden the effect of its program to reduce improper payments and the tax gap.

To address all of these objectives, we reviewed IRS's documentation related to the Refundable Credits Return Preparer Strategy program, such as annual planning and year-end reports. We interviewed program officials to obtain information about the program and the steps IRS takes to achieve its goals. We focused the scope of our analysis on FYs 2017 to 2021, which are the most recent 5 years for which full program data and documentation were available.

To assess how IRS implemented education and compliance activities, we reviewed the range of treatments IRS initiated with preparers. We reviewed data related to the number of actions taken from FYs 2017 through 2021 and their results. Based on reviews of IRS documentation, interviews with IRS officials, and manual data testing, we found program data to be sufficiently reliable for our purposes of analyzing and describing trends in IRS's selection of preparers and actions taken. We also reviewed IRS's plans for testing new methods of communicating with paid preparers, such as through digital means. We assessed these efforts and areas for improvement and compared them to goals set out in IRS's Strategic Plan for FYs 2022-2026 and other strategic planning documents, such as the *Taxpayer First Act Report to Congress* and IRS's *Taxpayer Experience Strategy Roadmap*.[7]

To assess the extent to which IRS is measuring progress toward outcomes, we assessed performance measures and data related to revenue protection, program return on investment, and measures of effectiveness, efficiency, and accuracy of IRS's preparer selections and actions. We analyzed aggregate statistics for FYs 2017 through 2021 to assess program performance in these areas. Based on reviews of IRS documentation, interviews with IRS officials, and manual testing, we found program data on estimated revenue protected, return on investment, and other performance measures to be sufficiently reliable for the purposes of assessing the effectiveness of the program. We also assessed how IRS tracks and evaluates preparer compliance and

[7]IRS, *Strategic Plan Fiscal Years 2022 to 2026* (Washington, D.C.: July 2022); *Taxpayer Experience Strategy Roadmap* (September 2021); and *Taxpayer First Act Report to Congress* (Washington, D.C.: January 2021).

accuracy over time and compared those efforts to key characteristics we previously identified of successful performance measures.[8]

To assess the extent to which the Refundable Credits Return Preparer Strategy program includes key elements of program design, we compared the program's design to federal guidance on planning, the Government Performance and Results Act of 1993 (GPRA), as amended by the GPRA Modernization Act of 2010, and as operationalized by the Office of Management and Budget (OMB), Circular No. A-11.[9] Based on OMB Circular No. A-11, we also used a logic model approach to help us understand additional elements of the program and how they work together.[10] We developed descriptions of both sets of program elements by interviewing IRS staff and reviewing program documentation. We validated our understanding of the program's design with IRS program officials and iteratively made refinements. We then assessed the validated descriptions to identify areas of the program that had not been clearly defined or documented, as called for in *Standards for Internal Control* and performance management guidance.[11] We also assessed how the program's current planning process aligns with OMB Circular No. A-11 guidance on planning by interviewing IRS program officials and reviewing program documentation.

To assess how, if at all, IRS could broaden the effect of the program in improving the accuracy of prepared returns and reduce improper payments, we assessed how IRS tracks internal recommendations year over year. We compared those steps to key practices of a lessons

[8]GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures,* GAO-03-143 (Washington, D.C.: Nov. 22, 2002), and *Executive Guide: Effectively Implementing the Government Performance and Results Act,* GAO/GGD-96-118 (Washington, D.C.: June 1996).

[9]Pub. L. No. 103-62, 107 Stat. 285 (1993); Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011); OMB, Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, pt. 6, §§ 210, 230 (August 2021).

[10]A logic model is a program planning and evaluation tool used to describe program components and desired results, which explains the strategy by which the program is expected to achieve its goals. It can help program managers and other stakeholders identify assumptions and expectations that can in turn be used to define measures of the program's performance and progress toward its ultimate goals.

[11]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: Sept. 10, 2014); and Internal Revenue Manual 1.11.1. Internal Management Document Program and Responsibilities.

learned process we previously developed.[12] We also reviewed IRS documentation to determine how lessons learned from the Refundable Credits Return Preparer Strategy program are incorporated into other IRS-wide compliance strategies, such as the Service-wide Return Preparer Strategy. We compared IRS's efforts to relevant internal control standards and evaluated the efforts against the goals in IRS's Strategic Plan for FYs 2022-2026. Finally, we assessed how IRS's efforts were contributing to broader compliance goals to reduce the tax gap by comparing IRS's efforts to laws related to regulation of paid preparers.[13]

We also conducted semistructured interviews with members of eight industry groups and national tax preparation firms. While the responses from the groups are nongeneralizable, these groups were selected to represent a cross section of the various third-party stakeholder groups to understand their experience with the IRS Refundable Credits Return Preparer Strategy program. The groups include:

- Association of International Certified Professional Accountants
- Council for Electronic Revenue Communication Advancement
- Latino Tax Pro
- National Association of Tax Professionals
- National Society of Tax Professionals
- H&R Block
- Intuit
- Jackson Hewitt

We conducted this performance audit from May 2021 to November 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

[12]GAO, *Project Management: DOE and NNSA Should Improve Their Lessons-Learned Process for Capital Asset Projects*, GAO-19-25 (Washington, D.C.: Dec. 21, 2018); and *Federal Real Property Security: Interagency Security Committee Should Implement a Lessons Learned Process*, GAO-12-901 (Washington, D.C.: Sept. 10, 2012).

[13]The tax gap is the difference between tax amounts that taxpayers should pay and what they actually pay voluntarily and on time. For tax years 2014-2016, IRS estimated the tax gap to be $428 billion after late payments and enforcement efforts.

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Refundable Credits Return Preparer Strategy program focuses primarily on due diligence requirements related to three refundable credits—EITC, ACTC, and AOTC—and a few other tax credits and benefits, such as the Head of Household filing status. These credits have a number of complicated requirements related to income, filing status, residency, and relationship status. Figure 1 shows a snapshot of select characteristics of these refundable tax credits for tax year 2020, which was similar to other years we reviewed for our report.[14]

[14]Amendments to the law altered the credits' characteristics for subsequent tax years.

Figure 1: Overview of Select Characteristics of the Earned Income Tax Credit (EITC), Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC), Tax Year 2020

	Refundable Tax Credit	Earned Income Tax Credit	Additional Child Tax Credit	American Opportunity Tax Credit
	Description	Helps low- and moderate-income workers and families reduce the amount of taxes they owe and potentially increase their refunds.	Helps taxpayers who claim a qualifying child or children as dependents and cannot otherwise claim the full amount of the child tax credit by increasing their refunds.	Helps taxpayers offset qualified education related expenses for eligible students for the first 4 years of higher education.
Requirements (2020)	Income	Earned income and adjusted gross income must fall below certain thresholds (depending on filing status and number of qualifying children).	Earned income must be at least $2,500 and modified adjusted gross income must fall below certain thresholds to receive the full credit. Credit is phased out at higher incomes.	Modified adjusted gross income must be under $80,000 for single or $160,000 for married filing jointly taxpayers to receive full credit. Credit is phased out at higher incomes.
	Filing status	Not available to those filing as "married filing separately."	No filing status restrictions.	Not available to those filing as "married filing separately."
	Relationship of qualifying children, if any	Taxpayer's son, daughter, stepson, step-daughter, eligible foster child, brother, sister, half-sibling, stepsibling, or descendant of those individuals.	Taxpayer's son, daughter, stepson, step-daughter, eligible foster child, brother, sister, half-sibling, stepsibling, or descendant of those individuals.	Taxpayer, spouse, or dependent.
	Residency	The residence of the taxpayer and any qualifying child must be in the United States. Any qualifying child must have the same principal residence as the taxpayer for more than half the year.	Child must have same principal residence as the taxpayer for more than half the year. Dependents can include residents of countries contiguous to the U.S. Such dependents are not qualifying children for purposes of the Child Tax Credit.	None
	Identification	Taxpayer, spouse, and any qualifying children must have a valid Social Security Number (SSN) issued by the return due date.	Child must have a valid SSN issued before the due date for filing the return.	Valid SSN or Taxpayer Identification Number issued on or before the due date for filing the return needed for the student. Educational institution also provides Employer Identification Number.
	Miscellaneous	Taxpayer must be between 25 and 65 or have an EITC qualifying child. Child must be under 19, or 24 if a full-time student and be younger than the taxpayer (or the taxpayer's spouse if filing jointly). Child cannot file a joint return (other than to a claim of refund of income tax withheld or estimated tax paid) with the taxpayer's spouse. If the child is permanently and totally disabled, there is no age limit. Restrictions may apply for taxpayers who improperly claimed EITC in prior years.	Child must be under 17 and a dependent. Restrictions may apply for taxpayers who improperly claimed ACTC in prior years.	Students must (1) be enrolled in a program that results in a degree or certificate; (2) be enrolled at least half time; (3) not have finished 4 years of higher education; (4) not have claimed the credit for more than 4 tax years; and (5) not have a felony drug conviction. The taxpayer (or a dependent) receives Form 1098-T, Tuition Statement, from an eligible educational institution. Restrictions may apply for taxpayers who improperly claimed AOTC in prior years.
	Maximum amount available (2020)	● No qualifying children: $538 ● One qualifying child: $3,584 ● Two qualifying children: $5,920 ● Three or more qualifying children: $6,660	$2,000 per qualifying child. The refundable part of the credit, ACTC, is worth up to $1,400 for each qualifying child.	$2,500 per eligible student, of which up to $1,000 is refundable.
	Number of recipients (2020)	25 million	18.3 million	6.4 million
	Total cost (2020)	$60.3 billion	$33.6 billion	$5.5 billion

Source: GAO analysis of Internal Revenue Service documents and 26 U.S.C. §§ 32, 24, 25A. | GAO-23-105217

Accessible Data for Figure 1: Overview of Select Characteristics of the Earned Income Tax Credit (EITC), Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC), Tax Year 2020

Refundable Tax Credit	Earned Income Tax Credit	Additional Child Tax Credit	American Opportunity Tax Credit
Description	Helps low- and moderate-income workers and families reduce the amount of taxes they owe and potentially increase their refund.	Helps taxpayers who claim a qualifying child or children as dependents and cannot otherwise claim the full amount of the child tax credit by increasing their refund.	Helps taxpayers offset qualified education related expenses for eligible students for the first four years of higher education.
Requirements (2020): Income	Earned income and adjusted gross income must fall below certain thresholds (depending on filing status and number of qualifying children).	Earned income must be at least $2,500 and modified adjusted gross income must fall below certain thresholds to receive the full credit. Credit is phased out at higher incomes.	Modified adjusted gross income must be under $80,000 for single or $160,000 for married filing jointly taxpayers to receive full credit. Credit is phased out at higher incomes.
Requirements (2020): Filing status	Not available to those filing as “married filing separately.”	No filing status restrictions	Not available to those filing as “married filing separately
Requirements (2020): Relationship of qualifying children, if any	Taxpayer’s son, daughter, stepson, stepdaughter, eligible foster child, brother, sister, half-sibling, stepsibling, or descendant of those individuals.	Taxpayer’s son, daughter, stepson, stepdaughter, eligible foster child, brother, sister, half-sibling, stepsibling, or descendant of those individuals.	Taxpayers, their spouse, or their dependent
Requirements (2020): Residency	The residence of the taxpayer and any qualifying child must be in the United States. Any qualifying child must have the same principal residence as the taxpayer for more than half the year.	Child must have same principal residence as taxpayer for more than half the year. Dependents can include residents of countries contiguous to the U.S. Such dependents are not qualifying children for purposes of the Child Tax Credit.	None
Requirements (2020): Identification	Taxpayer, spouse, and any qualifying children must have a valid Social Security Number (SSN) issued by the return due date.	Child must have a valid SSN issued before the due date for filing the return.	Valid SSN or Taxpayer Identification Number issued on or before the due date for filing the return needed for the student. Educational institution also provides Employer Identification Number.

Refundable Tax Credit	Earned Income Tax Credit	Additional Child Tax Credit	American Opportunity Tax Credit
Requirements (2020): Miscellaneous	Taxpayer must be between 25 and 65 or have an EITC qualifying child. Child must be under 19, or 24 if a full-time student and be younger than the taxpayer (or the taxpayer's spouse if filing jointly). Child cannot file a joint return (other than to a claim of refund of income tax withheld or estimated tax paid) with the taxpayer's spouse. If the child is permanently and totally disabled, there is no age limit. Restrictions may apply for taxpayers who improperly claimed EITC in prior years.	Child must be under 17 and a dependent. Restrictions may apply for taxpayers who improperly claimed ACTC in prior years.	Students must (1) be enrolled in a program that results in a degree or certification; (2) be enrolled at least half time; (3) not have finished four years of higher education; (4) not have claimed the credit for more than four tax years; and (5) not have a felony drug conviction. The taxpayer (or a dependent) receives Form 1098-T, Tuition Statement, from an eligible educational institution. Restrictions may apply for taxpayers who improperly claimed AOTC in prior years.
Maximum amount available (2020)	• No qualifying children: $538 • 1 qualifying child: $3,584 • 2 qualifying children: $5,920 • 3 or more qualifying children: $6,660	$2,000 per qualifying child. The refundable part of the credit, ACTC, is worth up to $1,400 for each qualifying child.	$2,500 per eligible student, of which up to $1,000 is refundable.
Number of recipients (2020)	25 million	18.3 million	6.4 million
Total cost (2020)	$60.3 billion	$33.6 billion	$5.5 billion

Note: The maximum available credit amount and income requirement amount can vary by year. Legislation may modify requirements from year to year.

There have been a number of changes to refundable tax credits over the years. For example, the American Rescue Plan Act of 2021 raised the maximum EITC credit for childless single workers from $538 in 2020 to $1,502 in 2021. The adjusted gross income threshold was also raised from $15,820 in 2020 to $21,430 in 2021.[15] Similarly, for tax year 2021, eligibility was temporarily expanded for the Child Tax Credit and ACTC by eliminating the requirement that individuals have earned income to be eligible.[16]

[15]Pub. L. No. 117-2, § 9621(a), 135 Stat. 4, 153 (2021), *codified at* 26 U.S.C. § 32(n)(3), (4).

[16]Pub. L. No. 117-2, § 9611(a), 135 Stat. at 144, *codified at* 26 U.S.C. § 24(i)(1)(A).

Tax Preparation Assistance

Taxpayers have several options to prepare and file their returns, in addition to doing it themselves. For example, in calendar year 2021 taxpayers used the following preparation options:

- **Paid preparers.** Almost 84 million (43 percent) taxpayers used a paid preparer to help prepare and file their returns.

  According to IRS data, about 784,000 paid preparers had a current Preparer Tax Identification Number (PTIN) in 2021. Of these, about 416,000 preparers—or approximately 53 percent—are unenrolled preparers. This means they are not subject to IRS regulation, including testing and education requirements. The other 47 percent of preparers possess some level of qualification or credentials issued by either IRS or states such as enrolled agents, certified public accountants, and attorneys.[17]

- **Self-preparation using software.** More than 62.5 million taxpayers used software to prepare their own returns. IRS also partners with a coalition of software companies to provide a free online preparation method for taxpayers who meet certain criteria.[18] About 4.7 million taxpayers used this option.
- **Volunteer Income Tax Assistance and Tax Counseling for the Elderly.** The volunteer clinic program offers free tax help to people who meet certain criteria.[19] Tax Counseling for the Elderly offers free tax help, particularly for those who are 60 years of age and older. About 2 million taxpayers used these options in FY 2021.

[17]Certified public accountants, attorneys, enrolled agents, enrolled actuaries, and enrolled retirement plan agents are considered tax practitioners. Tax practitioners differ from unenrolled preparers in that they can practice before IRS. This includes the right to represent a taxpayer before IRS, prepare and file documents with IRS for the taxpayer, and correspond and communicate with IRS. See *Regulations Governing Practice before the Internal Revenue Service*, 31 C.F.R. §§ 10.1-10.93.

[18]Taxpayers with an adjusted gross income of $73,000 or less in tax year 2021 were generally eligible for this program. For more information on the Free File program, see GAO, *IRS Free File Program: IRS Should Develop Additional Options for Taxpayers to File for Free,* GAO-22-105236 (Washington, D.C.: Apr. 28, 2022).

[19]Taxpayers who generally make $58,000 per year or less, people with disabilities, and limited-English-speaking taxpayers are generally eligible for this program.

- **Ghost preparers.** IRS uses the term ghost preparers to refer to individuals who complete tax returns on behalf of their clients without providing the required identifying information on the return indicating that the return was prepared by someone other than the taxpayer. According to IRS officials, ghost preparer returns are not included among the 84 million returns identified as being completed by paid preparers for taxpayers.[20]

Due Diligence Requirements

Paid preparers—both enrolled and unenrolled—must follow due diligence requirements when helping clients file tax returns claiming certain tax credits and other tax benefits, as shown in table 1.[21] A preparer must meet all the requirements listed in the table. IRS can penalize paid preparers for noncompliance; the penalty is $545 per failure, per return filed in calendar year 2022.[22]

Table 1: Refundable Tax Credits Due Diligence Requirements for Paid Preparers

Requirement	Preparer responsibility
Complete and submit Form 8867, *Paid Preparer's Due Diligence Checklist*	Complete and submit Form 8867, *Paid Preparer's Due Diligence Checklist*, with the filing.
Compute the credits	Complete the applicable worksheets or otherwise record the paid preparer's computation of the credits, including the method and information used to make the computations.
Knowledge	Make reasonable inquiries and, at the same time, document the inquiries to support the computation of the credits.
Keep records for 3 years	Retain for 3 years a copy of the completed Form 8867 and applicable worksheets, along with documents provided by the client and a record of how, when, and from whom the information was obtained to prepare the tax return.

Source: GAO analysis of Internal Revenue Code § 6695(g) and Treas. Reg. § 1.6695-2(b)(1)-(4). | GAO-23-105217.

[20]Paid tax return preparers must be at least 18 years old, have valid PTINs, and include their PTINs on returns they prepare. 26 U.S.C. § 6109(a)(4); 26 C.F.R. § 1.6109-2. According to IRS officials, ghost preparers generally fail to provide the required identification information in the paid preparer block on the taxpayer's return. As a result, the taxpayer's return appears to be self-prepared. IRS uses various data and methodologies to identify returns that are likely to have been prepared by ghost preparers.

[21]26 U.S.C. § 6695(g); 26 C.F.R. § 1.6695-2.

[22]The penalties for noncompliance with due diligence requirements are adjusted for inflation annually. See IRS Rev. Proc. 2020-45, 2020-46 I.R.B. 1016.

Refundable Credits Return Preparer Strategy Program

IRS developed the Refundable Credits Return Preparer Strategy program (the program) in 2012 to identify potentially noncompliant preparers with refundable tax credits due diligence requirements and encourage them to change their behavior to comply with the requirements.[23] Return Integrity and Compliance Services oversees the program while stakeholders from offices across IRS assist in conducting program activities. Appendix I provides more detail about the program.

During and after each tax filing year, IRS uses automated filters and algorithms to identify preparer-submitted returns with a high probability of errors, such as over-claims of refundable credits. To select preparers to receive education and compliance actions, IRS identifies preparers by considering several factors, including:

- percent of refundable credit returns with inaccuracies or missing information, such as returns that are missing an attached Form 8867, *Paid Preparer's Due Diligence Checklist*;
- total number of refundable credit returns;
- average credit amount claimed per return; and
- other indicators, such as misreported income or business expenses to maximize the credit, or errors with filing status or qualifying children.

Based on the results of its scoring and selection, IRS assigns different education and compliance actions—also called treatments—to paid preparers.[24] Some treatments involve IRS contacting the preparer, while others involve IRS contacting a preparer's clients—the individual taxpayers who use the paid preparer. IRS's treatments escalate from warning letters and phone calls to preparers, to more serious actions such as audits of preparers' clients and IRS staff visits to preparers. IRS first assigns lower-escalation treatments to preparers and then gradually escalates the treatments if the preparer continues to submit returns with a

[23]According to documentation, IRS started to study ways in which it could test the effectiveness of alternative selection methods and compliance treatments on paid preparers in FY 2005. However, according to officials, FY 2012 was the first year the real-time treatments were piloted, and the strategy was formalized.

[24]IRS randomly assigns preparers who meet similar risk selection criteria to a test group that receives an IRS action, and a control group that does not. IRS then compares changes in tax credit over-claims between the test group and the control to estimate the tax revenue protected by its treatments (see app. II).

high risk of noncompliance. Various IRS treatments happen prior to the filing season and are assigned based on prior-year returns. IRS officials also said they execute some treatments in real time during the filing season, such as warning letters and phone calls. See table 2 for an overview of treatments. IRS also pilots new treatments or variations in treatments (see app. I for examples of recent pilots and their results).

Table 2: Refundable Credits Return Preparer Strategy Program Treatments

Treatment	Escalation level	Purpose	Description
Warning letters	Low	Educational	Letters sent to paid preparers warning them that they may not have met their due diligence requirements.
Warning phone calls	Low	Educational	Telephone calls to paid preparers warning them that they may have not met their due diligence requirements.
Client warning letters	Medium	Educational	Letters sent to clients of paid preparers warning them that they may have incorrectly claimed refundable credits and reminding them that they are responsible for the accuracy of their tax returns, even if they use a paid preparer. The letter gives tips on how to choose a responsible paid preparer and other ways to file tax returns.
Post-refund client audits	Medium	Compliance	Audits of preparers' clients with potentially erroneous returns. IRS first identifies paid preparers who filed returns with a high likelihood of errors and then audits some of their clients. IRS may also send a letter to preparers notifying them of the audits.
Knock and talk visits	High	Educational	In-person educational visits with paid preparers conducted by IRS personnel either with or without criminal investigators. During these visits, IRS staff talk about errors on client returns, offer tips and tools for improving accuracy, answer questions, and explain the potential risks of not improving accuracy. IRS examiners will review five to 25 client returns filed by the paid preparer.
Due diligence visits	High	Compliance	IRS examiners will review 25 to 50 client returns for preparer compliance with due diligence documentation requirements, such as questionnaires and worksheets or documents that support eligibility for certain tax benefits. IRS may propose penalties if it finds that the preparer did not comply with due diligence requirements. Due diligence visits may be conducted in-person or via correspondence.

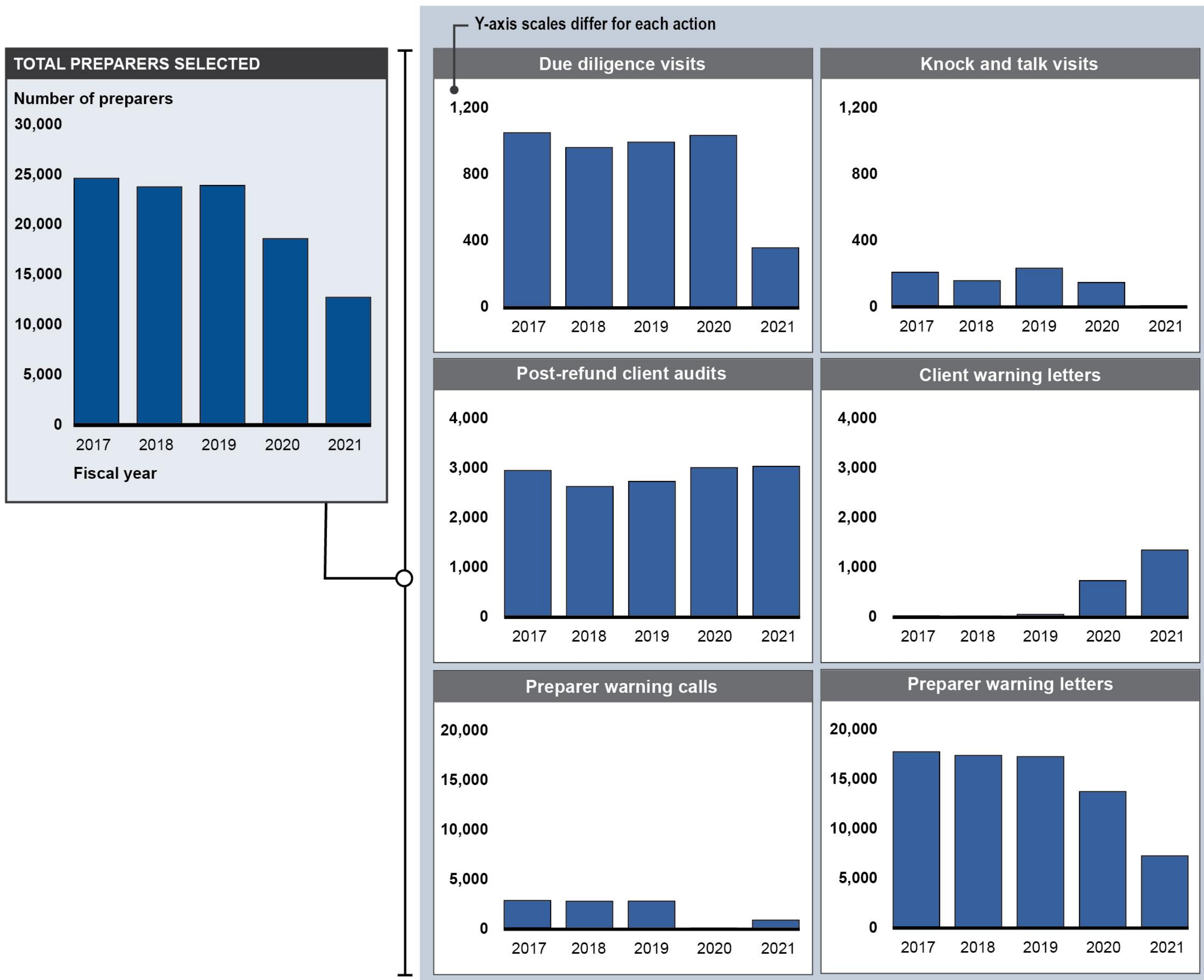
Source: GAO analysis of IRS information. | GAO-23-105217

IRS Takes Actions on Thousands of Potentially Noncompliant Paid Preparers Each Year, but Has Not Tested Digital Communication Options

IRS Has Selected Fewer Paid Preparers for Education and Compliance Actions in Recent Years

IRS selects thousands of potentially noncompliant paid preparers each year to address with education and compliance actions. However, in FYs 2020 and 2021, IRS selected fewer preparers compared to prior years. In FYs 2020 and 2021, IRS selected about 19,000 and 13,000 preparers respectively for treatment, compared to about 24,000 preparers on average from FYs 2017 to 2019 (see fig. 2). Importantly, the lower number of FY 2021 preparer selections reflects declines in due diligence visits and the suspension of knock and talk visits due to COVID-19 and other challenges, as discussed more below.

Figure 2: Number of Tax Return Preparers Selected for Education and Compliance Actions, Fiscal Years 2017 to 2021



Source: GAO analysis of Internal Revenue Service data. | GAO-23-105217

Accessible Data for Figure 2: Number of Tax Return Preparers Selected for Education and Compliance Actions, Fiscal Years 2017 to 2021

Category	2017	2018	2019	2020	2021
Due diligence visits	1,050	962	994	1,035	356
Knock and talk visits	201	151	227	141	
Post-refund client audits	2,928	2,609	2,712	2,990	3,015
Client warning letters			32	714	1,331
Preparer warning calls	2,763	2,700	2,714		801
Preparer warning letters	17,614	17,274	17,154	13,634	7,153
Total preparers selected	24,556	23,696	23,833	18,514	12,656

Notes: Due diligence visits and knock and talk visits involve IRS staff visiting paid preparers to review their files for some client returns claiming refundable tax credits and other tax benefits. Due diligence visits focus on preparer compliance and can result in IRS proposing penalties for noncompliance. Knock and talk visits focus on educating preparers about ways to improve accuracy and explaining the consequences of not improving accuracy.

Post-refund client audits are IRS audits of preparers' clients whose returns may contain errors. Client warning letters inform preparers' clients that their returns may contain errors, remind them that they are responsible for the accuracy of their returns even if they use preparers, and offer tips on selecting a paid preparer.

Preparer warning calls and letters inform paid preparers that they may have not met their due diligence requirements.

According to program officials and documents, IRS (1) suspended knock and talk visits in fiscal year 2021 due to COVID-19 in-person restrictions; (2) did not select any preparers to receive warning calls in fiscal year 2020, in part due to limited resources; and (3) began sending client warning letters in fiscal year 2019.

Program officials and program documents note that several factors have contributed to the decline in preparer selections. These factors include:

- **COVID-19-related disruptions.** In FY 2021, IRS did not conduct any knock and talk visits or in-person due diligence visits with preparers due to pandemic-related in-person restrictions.[25] According to IRS, it also selected fewer preparers to receive filing-season warning letters during FY 2021 due to the delayed start of the tax filing season and legislative changes to refundable credits that created selection

[25]IRS was able to conduct some due diligence visits remotely via mail and telephone. The COVID-19 pandemic likely affected IRS's preparer visits in FY 2021 more so than in FY 2020 because IRS plans to conduct its preparer visits between October and April each year. COVID-19 was declared a national emergency in March 2020. For more information on IRS challenges with preparer visits during COVID-19, see GAO, *Management Report: IRS Should Test Videoconference Visits with Paid Preparers,* GAO-22-105978 (Washington, D.C.: July 14, 2022).

difficulties.[26] In FY 2021, IRS selected 1,355 preparers to receive warning letters during the filing season, compared to 5,538 in FY 2020.

- **Limited staff availability.** In FY 2021, IRS selected 356 preparers for due diligence visits compared to around 1,000 each year from FYs 2017 to 2020. Officials said that in FY 2022 they selected a similarly low number of preparers for due diligence visits. According to officials, fewer experienced examiners have been available to conduct due diligence visits because they have been training new hires. Similarly, in FY 2020, IRS did not select any preparers to receive prefiling season warning calls, in part due to limited resources. In prior years, IRS selected about 2,700 preparers annually for warning calls.
- **Changes to preparer scoring and selection processes.** Multiple refinements to IRS methodologies have contributed to fewer preparer selections. For example, in FY 2020, IRS adjusted a risk filter's dollar threshold for inflation for the first time in 13 years. According to program documents, this adjustment resulted in substantially fewer returns being flagged. This, in turn, may have contributed to fewer preparers meeting IRS's risk criteria.

  Also in FY 2020, officials decided to stop selecting some preparers to receive warning letters if they had received multiple letters in prior years. According to program documents, these preparers were unlikely to improve with additional warning letters, but also did not meet the criteria for escalated treatments. These changes contributed to IRS selecting about 3,500 fewer preparers to receive warning letters in FY 2020 compared to FY 2019. Nevertheless, IRS estimated that the return on investment for its warning letters increased, possibly because it focused on selecting newer preparers who were more likely to improve their returns.

- **Fewer preparers submitting refundable credit returns.** According to data provided by IRS officials, the amount of preparers submitting refundable credit returns has declined in recent years. For example, from FYs 2017 to 2021, the number of paid preparers who filed at

[26]The Consolidated Appropriations Act, 2021, gave taxpayers the option to use prior-year earned income to claim EITC and ACTC. Pub. L. No. 116-260, § 211, 134 Stat. 1182, 3066 (2020). According to IRS, many returns that used this option were sent directly to the Error Resolution System, making them unavailable for IRS selection. We previously reported that IRS dealt with millions more errors related to refundable credit returns during the 2021 tax filing season compared to 2019. See GAO, *Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges,* GAO-22-104938 (Washington, D.C.: Apr. 11, 2022).

least 25 Earned Income Tax Credit (EITC) returns declined by 20 percent from about 153,000 to about 122,000.

IRS Does Not Plan to Test Digital Services for its Preparer Treatments

IRS conducts tens of thousands of mail-based interactions with preparers each year via warning letters and correspondence due diligence visits. For example, in FY 2020, IRS sent at least 20,000 warning letters and attempted about 300 correspondence due diligence visits. These “visits” involve preparers submitting documentation to IRS staff by mail or fax.

IRS’s *Strategic Plan for Fiscal Years 2022-2026* includes an objective to expand digital services and other paperless initiatives. According to the plan, increased digitalization will streamline processes and help transform IRS operations to improve the taxpayer experience and narrow the tax gap.[27] IRS also set a separate strategic objective to improve operations to effectively and efficiently identify and address noncompliance.

However, program officials have yet to develop specific plans to test digital services for its paid preparer education and compliance actions. In July 2022, we reported that videoconference visits with paid preparers could help IRS mitigate in-person restrictions caused by COVID-19 in the near term. Videoconferencing could also help IRS modernize program activities, increase flexibility, and reduce operational costs over the long term.[28] We recommended that IRS test videoconferencing for its preparer visits and evaluate the costs, benefits, and challenges. IRS agreed with this recommendation.

In addition to videoconference visits, other preparer treatments could be strengthened by digital services. However, IRS does not have concrete plans to test these opportunities. For example, IRS could reach preparers faster by sending preparer warning letters electronically. According to IRS officials and year-end program reports, warning letters sent at the beginning of the filing season are more effective when they reach preparers quickly, since many refundable credit returns are submitted early in the tax filing season. Officials also said that electronic warning letters are more scalable than mailed letters and do not incur postage

[27]IRS, *Strategic Plan Fiscal Years 2022-2026* (Washington, D.C.: July 2022).

[28]GAO-22-105978.

costs. IRS year-end reports also note that electronic letter distribution may allow IRS to provide more targeted information to preparers. However, testing electronic delivery alone would not bring immediate changes to the content and language of the warning letters.

IRS could also offer preparers the option to upload documents online. This service might streamline the process for correspondence due diligence visits or other interactions where IRS staff remotely review preparer documentation. Currently, preparers selected for a correspondence due diligence visit must mail or fax to IRS several supporting forms and evidence for at least 25 of their clients. Some tax preparation firms and industry groups noted that it is burdensome to gather and submit this documentation. Some also said that they use tax software to complete returns and already store due diligence-related documents electronically. While in-person visits to preparers may be the quickest way to exchange and review preparer documentation, correspondence visits and remote review of preparer documentation remain an important option. IRS has conducted at least a portion of its due diligence visits via correspondence since FY 2017. Officials noted that correspondence visits carry additional benefits, such as expanded geographic coverage and reduced examiner travel costs.

In 2021, IRS introduced the online Tax Pro Account, which is designed for digital communication with tax professionals. While Tax Pro Accounts currently have limited functionality, IRS has plans to enhance their features, including adding the ability to provide digital notifications and facilitate secure document uploads. According to Refundable Credits Return Preparer Strategy program officials, preparers can currently access refundable credit due diligence educational materials via their Tax Pro Account under the “Stay Compliant” tab.

While IRS officials agreed that the idea of reaching preparers quicker with electronic warning letters was promising, they questioned whether the other opportunities for digital services we identified would improve their processes. For example, officials said that the content of warning letters would likely remain the same, regardless of delivery method. They added that they would need additional resources to follow up by mail with preparers whom they failed to reach via digital methods. Regarding document upload options, officials said that preparers would spend the same amount of time gathering and submitting documentation online as they do via mail or fax. However, several interviewees said they would support IRS offering an online document upload function or similar digital services to improve communication.

The agency's strategic move toward digital services underscores the case for officials to look for opportunities now to strengthen treatments with digital components. By testing digital services for its preparer treatments that leverage IRS online tools, such as Tax Pro Accounts, IRS could identify ways to enhance the program's effectiveness and efficiency by reaching preparers quicker, improving preparer interactions, and streamlining program processes.

IRS Has Developed Several Program Performance Measures, but Does Not Track Long-Term Trends in Preparer Compliance

IRS Measures Program Performance in Several Ways

IRS has developed performance measures that help officials assess the Refundable Credits Return Preparer Strategy program's effectiveness, efficiency, and accomplishments each year.[29] These measures indicate that the program is effective at protecting tax revenue, is cost-efficient, and makes accurate preparer selections for client audits and due diligence visits. However, they also reflect the challenges faced by the program in recent years, such as COVID-19 and staffing issues. These issues have contributed to weaker performance on some measures compared to prior years.

According to IRS documents and officials, important program performance measures include:

- The total estimated tax revenue protected by preparer treatments;[30]

[29]We refer to the data IRS collects to assess its program's performance broadly as performance measures. However, to assess some parts of its program's performance, IRS uses rigorous evaluation methods to isolate the effect of its program's treatments on preparer compliance. This is uncharacteristic of typical performance measurement. While IRS conducts some systematic data collection and analysis of program activities that indicates the effectiveness and efficiency to some extent, these metrics may present an incomplete picture of whether IRS's program is working as intended. For more information on the differences between program performance measurement and program evaluation, see GAO, *Program Evaluation: Key Terms and Concepts,* GAO-21-404SP (Washington, D.C.: Mar. 22, 2021).

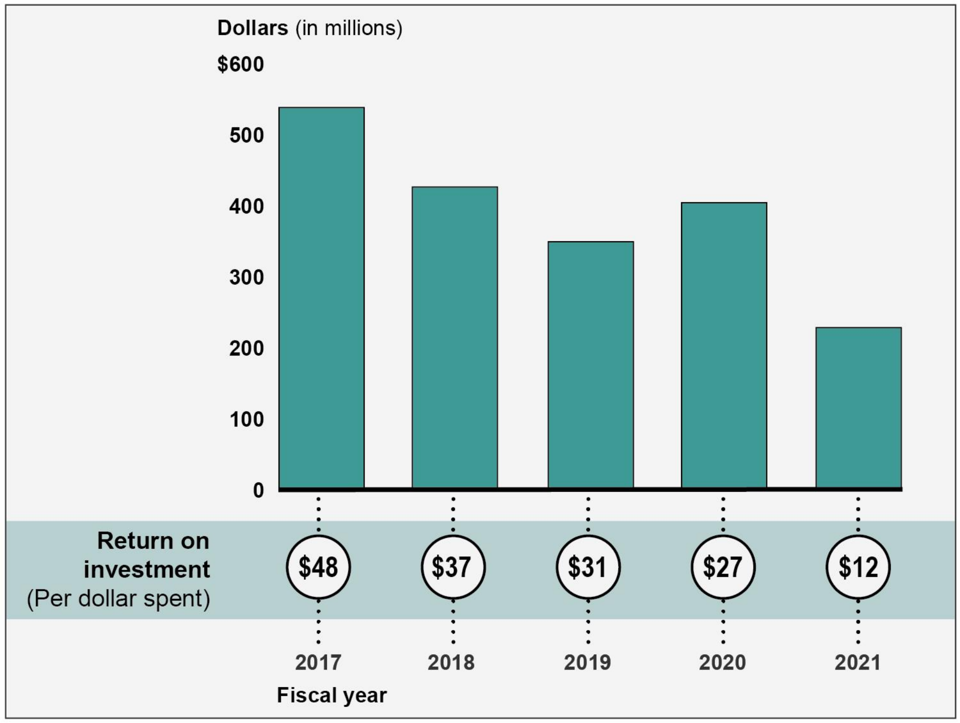
[30]IRS estimates revenue protected by comparing the annual change in over-claims of tax credits between a randomly assigned test group of preparers that receives an IRS action, and a control group of preparers that does not. See appendix II for more information.

- The program's return on investment—which measures the amount of tax revenue protected, proposed preparer penalties, and client audit assessments generated—for every dollar of operational costs spent administering the program; and
- The due diligence penalty and the client audit no-change rates, which, according to officials, measure the accuracy of IRS's preparer selections for due diligence visits and post-refund client audits.

Officials also collect other data that may give information on how preparer treatments affect taxpayer behavior. Appendix II discusses all of these performance measures in more depth.

Officials estimate that the program's education and compliance actions protect hundreds of millions of dollars in tax revenue each year and provide IRS a positive return on investment (see fig. 3). However, revenue protected and return on investment have gradually declined since FY 2017. This trend culminated in FY 2021, which had the lowest revenue protected and return on investment figures of the years we analyzed. As described above, in FY 2021, IRS faced challenges due to COVID-19 and other issues. According to IRS officials, these challenges disrupted IRS's capacity and ability to treat preparers, which likely contributed to lower revenue protected. Officials also noted that program activities and revenue protected were negatively affected in FY 2018, due to hurricanes that occurred in late FY 2017, and in FY 2019, due to a government shutdown.

Figure 3: Estimated Revenue Protected by IRS Education and Compliance Actions, Fiscal Years 2017 to 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-105217

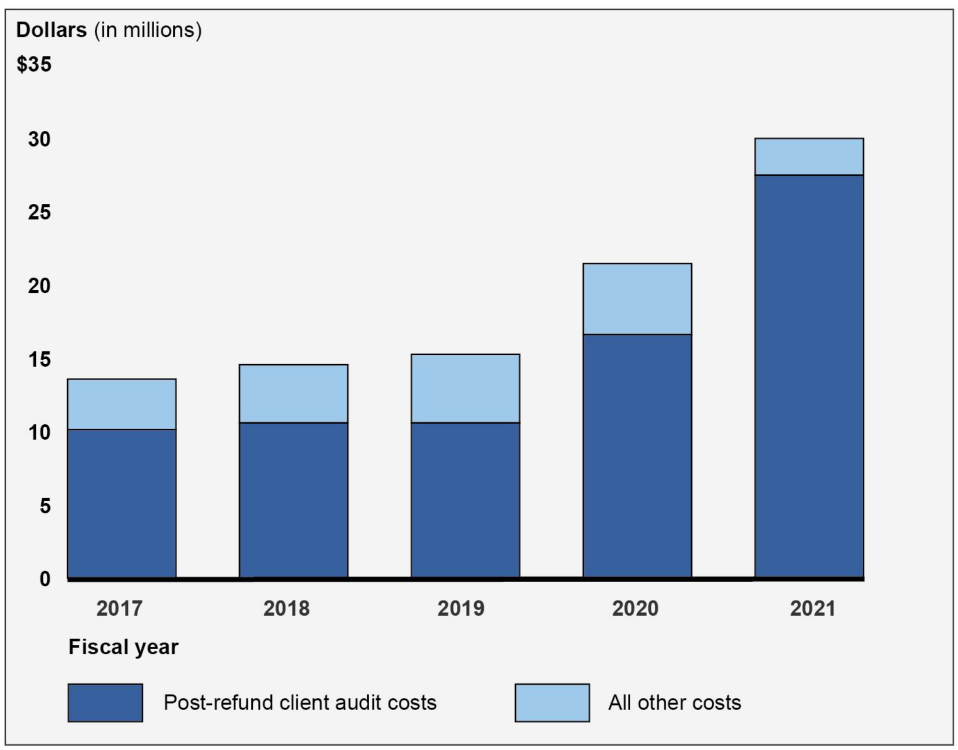
Accessible Data for Figure 3: Estimated Revenue Protected by IRS Education and Compliance Actions, Fiscal Years 2017 to 2021

Category	2017	2018	2019	2020	2021
Revenue protected	$536,079,698	$424,104,762	$332,491,192	$402,364,670	$226,350,161
Return on investment (per dollar)	$48	$37	$31	$27	$12

Note: Revenue protected and return on investment are IRS estimates and subject to some uncertainty. IRS estimates revenue protected by comparing the annual change in estimated over-claims of refundable tax credits between a randomly assigned test group of paid preparers that receives an IRS action to a control group of preparers that does not. IRS performs statistical tests to compute a range of estimated revenue protected using a 95 percent confidence interval. Estimated revenue protected for preparer treatments was only counted in the annual total if IRS's tests indicated the treatment had a statistically significant effect. To calculate return on investment, IRS adds estimated revenue protected to proposed due diligence penalties and client audit assessments, and divides this subtotal by total program costs.

According to IRS estimates, return on investment has also fallen because program operational costs have increased while revenue protected has declined. Program operational costs are largely driven by post-refund client audits, which typically account for more than 70 percent of program costs, as shown in figure 4. In FY 2021, post-refund client audit costs rose sharply, which pushed up total program costs. However, program officials said they have limited ability to influence these costs because they are calculated using IRS-wide figures, which are a function of overall agency trends in examiner workload and costs. According to program documents from FY 2021, IRS-wide challenges with COVID-19 caused the agency's overall audit costs to increase substantially, which in turn increased the program's audit costs.

Figure 4: Refundable Credits Return Preparer Strategy Program Costs, Fiscal Years 2017 to 2021



Source: GAO analysis of Internal Revenue Service data. | GAO-23-105217

Accessible Data for Figure 4: Refundable Credits Return Preparer Strategy Program Costs, Fiscal Years 2017 to 2021

Category	2017	2018	2019	2020	2021
Post-refund client audit costs	$10,117,569	$10,577,894	$10,578,490	$16,589,307	$27,454,313
All other costs	$3,436,587	$3,954,792	$4,669,428	$4,836,949	$2,500,014

Note: All other costs includes, among other things, postage and labor associated with mailing preparer and client warning letters, time spent making preparer warning phone calls, staff time spent conducting due diligence and knock and talk visits with preparers, and work hours contributed by researchers and analysts.

IRS also monitors performance measures related to the efficiency and accuracy of its preparer selections for due diligence visits and post-refund client audits. First, IRS monitors the proposed due diligence penalty rate. This rate is the percentage of due diligence visits that result in IRS examiners proposing penalties for noncompliance with due diligence requirements. Since FY 2019, the proposed due diligence penalty rate has been more than 90 percent. According to IRS, the high penalty rate suggests that program processes are effective at identifying and selecting noncompliant preparers for due diligence visits.

Second, IRS monitors the no-change rate of its post-refund client audits. This rate is the percentage of IRS audits of preparers' clients that result in no change to taxes owed. A low no-change rate means most client audits selected by the program identify tax changes and may result in recommended additional assessments. In FYs 2020 and 2021, the program's no-change rate was lower than the IRS-wide no-change rate for all EITC audits.

Program officials also collect some data related to taxpayer behavior. These data come from the program's alternative method to estimate revenue protected, which officials have developed in recent years, called the client-centric model. The client-centric model focuses on how its preparer treatments affect individual taxpayers, or the clients of paid preparers, rather than preparers. For example, the client-centric model analyzes how individual taxpayers change their returns, if at all, after their preparer receives treatment, even if the client does not use the same preparer the next year and instead chooses a different filing method.[31]

Because the client-centric model tracks a range of taxpayer outcomes, it may give IRS more information on how taxpayers behave after their preparer has been treated, such as the extent to which they stay with their current preparer, find a new preparer, opt to self-prepare, or stop filing altogether. See appendix II for a more detailed discussion of the different models IRS uses to estimate revenue protected.

IRS Does Not Measure Preparer Compliance over Time

While the Refundable Credits Return Preparer Strategy program has developed performance measures that help officials assess program efficiency and effectiveness each year, it does not systematically monitor the extent to which preparers improve the accuracy of their returns in the years after treatment. For example, IRS does not track how many preparers are not selected for additional education and compliance actions after initial treatment, which may indicate improved compliance, versus how many preparers are selected to receive additional actions, which may indicate continued compliance issues.

Developing such indicators could give program officials additional insights on how its treatments may improve preparer compliance over the longer term. While IRS's current measures, like revenue protected and return on investment, help quantify the program's effect in a given year, these metrics, in isolation, do not present a full picture of its progress toward improving preparer compliance. For example, if some treatments only have a temporary effect on preparer compliance, then any initial improvements and revenue protected in the short term may dissipate in later years as preparers return to noncompliant behavior. Similarly, if treatments have a lasting effect on preparer compliance, IRS's revenue protected and return on investment figures may understate the total benefits from any sustained improvements. Thus, these measures may

[31]For the purposes of this report, we analyze and discuss estimates from IRS's original model of revenue protected because they are reliable for all the years we analyzed. Conversely, IRS's FYs 2017 and 2018 client-centric estimates likely contain errors and are unreliable, according to officials. In FY 2019, IRS did not calculate client-centric revenue protected estimates. Recent data from FYs 2020 and 2021 show that revenue protected estimates from the client-centric model are similar to estimates from IRS's original model.

be misleading as to how effective the program is at promoting compliance over the longer term.

Program officials agreed that tracking preparer improvements in the years following treatment would potentially be useful. The program may already have the data to do this, because it maintains a database of every preparer who has ever received an education or compliance action. Program officials shared several potential ways to design analyses that may yield helpful insights:

- Measuring preparer improvement after multiple years have passed to give preparers more time to change their behavior.
- Tracking preparer improvement separately for each education and compliance action (i.e., due diligence visits, knock and talk visits, warning letters, etc.) and comparing each treatment's performance over time.
- Developing multiple indicators of preparer improvement. For example, officials could track this if a preparer is (1) not assigned any further actions after initial treatment, which may indicate a large improvement; or (2) assigned a lower escalation action after initial treatment, which may indicate an incremental improvement.

We have previously reported that successful performance measures should inform an organization about how well it is achieving its goals.[32] For example, performance measures should show an organization's accomplishments and progress, particularly toward pre-established goals. This, in turn, allows organizations to track how well the program is performing and gives managers information to make decisions for improving the program.[33]

In our interviews, IRS officials articulated long-term program goals about improving preparer compliance, reducing errors, and reducing the tax gap. While long-term indicators of the program's effect on preparer compliance may align with the goals that officials mentioned, IRS program documentation neither included these goals, nor clearly defined how program performance measures linked to these long-term goals, as

[32]GAO/GGD-96-118.

[33]GAO-03-143.

we discuss below. Therefore, IRS may need to take additional action to assess what performance measures best meet the program's needs.

According to program officials, it is difficult to measure how its actions affect compliance among the broader preparer community over time. Officials said that their current performance measures provide a solid level of assurance that their actions are improving compliance among the preparers that the program addresses. However, they acknowledged that additional performance measures could provide more context to the program's effectiveness.

In addition, program officials told us they previously conducted a longitudinal study that tried to measure the effect of its preparer treatments over several years, but officials ultimately determined that the costs of maintaining the study outweighed the benefits.[34] Despite those challenges, program officials have options for tracking changes in preparer improvement over time. This may still produce helpful insights but minimize the opportunity costs and complexity associated with the prior longitudinal study. However, officials said they have not reconsidered developing performance measures that track preparer behavior over multiple years.

Without a performance measure that helps track how its actions affect paid preparer compliance over time, program officials do not have full assurance that the program is improving preparer compliance with due diligence requirements. While the program's current annual performance measures provide useful information about the program's effectiveness and efficiency, an additional measure of preparer compliance over multiple years may provide more information about the program's progress and accomplishments on improving compliance, protecting taxpayers, and reducing the tax gap. Such a measure may also allow officials to more clearly communicate the benefit of the program to Congress, IRS management, and the public.

[34]The prior study treated some preparers in 1 year and excluded them from further treatments in subsequent years. The study attempted to measure if preparers continued to submit fewer over-claims in the years after initial treatment, even though they were not subject to further action. Officials concluded that it was too difficult to preserve the reliability of the study. This is partially because IRS ended up treating some preparers who were supposed to be excluded from treatment for the purposes of the study. Officials also weighed the opportunity costs in choosing to exclude some preparers from treatment for the purposes of the study.

IRS Has neither Fully Documented Program Elements nor Developed a Long-Term Plan

IRS Has Not Fully Defined and Documented Several Key Program Elements

IRS's Refundable Credits Return Preparer Strategy program has neither fully defined nor documented several key program elements. We used a logic model approach to develop an overview of the program's elements (see app. I for details on the program elements). We identified the following selected program elements that could benefit from increased clarity:

- **Goals** are the long-term expectations of what should happen as a result of the program's activities. Program officials articulated broad program goals, such as improving compliance, reducing errors, and reducing the tax gap. Program officials also told us the goals of the program are aligned with the goals of Refundable Credits Program Management (RCPM) office, the higher-level organization within IRS that oversees the program, and IRS's strategic goals. However, program documentation does not include these goals.
- **Objectives** identify the program's path to reaching long-term goals. According to officials, the program supports RCPM's objectives to manage the administration of refundable credits through a balanced approach that encourages participation and reduces improper payments. However, program documentation does not include objectives that specify the program's role in achieving goals.
- **Activities** are the actions designed to make progress on objectives. According to officials, the program consists of education, compliance, and outreach activities. IRS provides information to the general preparer population on how to meet due diligence requirements through webinars, publications, and the IRS.gov website. Program documentation describes a range of education and compliance treatments. However, program documentation does not mention outreach activities. For example, program officials have not included any outreach-related accomplishments, performance measures, or recommendations in the year-end reports.
- **Performance measures** identify how the program plans to make progress toward its objectives. While program officials have developed a set of performance measures, as discussed above, it is

unclear how they link to program goals or objectives since those had neither been developed nor articulated. In addition, program documentation does not include targets or time frames related to program goals.

According to federal internal control standards and key elements of performance management guidance, programs should set goals, objectives, plans to achieve its objectives through its activities, and performance measures to measure progress.[35] Internal control standards further discuss the importance of documentation because it helps to increase the likelihood that its objectives will be communicated, understood, and achieved.

Documentation assists in establishing and communicating the who, what, when, where, and why of the program. It is also required to demonstrate the program's design, implementation, and effectiveness. In addition, documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge to external parties. IRS's policies and procedures establish requirements for adequate program documentation.[36]

Officials reported that while the program's scope has evolved over the years, it has been difficult to define program elements. For example, two legislative changes expanded the types of returns subject to due diligence requirements:

- The Protecting Americans against Tax Hikes Act of 2015 (2015) added returns claiming the Child Tax Credit and the American Opportunity Tax Credit.[37]

[35]GAO-14-704G; Government Performance Results Act of 1993 (GPRA), as updated by the GPRA Modernization Act of 2010, can serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives, Pub. L. No. 103-62, 107 Stat. 285 (1993), Pub. L. No. 111-352, 124 Stat. 3866 (2011), and GAO, *Managing for Results: Government-wide Actions Needed to Improve Agencies' Use of Performance Information in Decision Making,* GAO-18-609SP (Washington, D.C.: Sept. 5, 2018).

[36]Internal Revenue Manual §§ 1.11.1.1.2; 1.11.1.2.1; 1.11.2.2; 1.11.2.2.5.

[37]Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. Q, § 207(a), 129 Stat. 2242, 3082 (2015).

- Public Law 115-97 (2017), commonly known as the Tax Cuts and Jobs Act, added tax returns claiming Head of Household filing status.[38]

Without fully defined program elements and documentation, institutional knowledge of the program is at risk. This could lead to program disruptions. Therefore, by focusing on defining and documenting the program, officials can strengthen it, more effectively communicate with stakeholders and IRS leadership, and increase the likelihood of achieving goals and objectives.

Program Officials Have Not Developed a Long-Term Plan

Program officials established an annual planning process to ensure (1) preparers at risk of noncompliance are assigned to appropriate compliance actions; (2) program modifications and initiatives are tested for effectiveness; and (3) areas for improvement are identified. However, program officials have yet to develop a long-term plan that articulates the program's vision for future years. Importantly, a long-term plan can show how a program's design aligns to the agency's strategic goals.

As we have previously reported, long-term planning is a key step in effective program management in government.[39] A long-term plan can serve as a road map that helps program officials use resources effectively by contributing to progress toward goals and objectives through program activities and related performance measures. Long-term plans can provide the context for budget requests and allocation decisions that are particularly important when resources are limited. Further, long-term plans developed in consultation with stakeholders can create a shared understanding of any competing demands and limited resources.

According to program officials, they focus on short-term planning because they can see the results of their efforts and feel confident that their efforts contribute to broader goals. Program officials told us that by maximizing efficiency and the program's return on investment, they believe the

[38]Pub. L. No. 115-97, § 11001(b), 131 Stat. 2054, 2059 (2017).

[39]See GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, GAO-13-435 (Washington, D.C.: Apr. 16, 2013); *Veteran-Owned Small Businesses: Planning and Data System for VA's Verification Program Need Improvement,* GAO-13-95 (Washington, D.C.: Jan. 14, 2013); and *Environmental Justice: EPA Needs to Take Additional Actions to Help Ensure Effective Implementation,* GAO-12-77 (Washington, D.C.: Oct. 6, 2011).

program will help to reduce improper payments. Yet, program officials also noted that it may not be possible to measure how the program affects improper payments because the estimated amount of revenue protected by the program ($226 million in FY 2021) is small in relation to IRS's overall improper payment estimates ($26.1 billion in FY 2021). However, our work shows that goals that are challenging to measure can still benefit from the development of short-term and intermediate milestones.

In addition, program officials noted that the program's scope and ability to help reduce improper payments is limited by stakeholders' competing priorities and resource constraints. For example, officials told us that while the program relies on the Small Business/Self Employed (SB/SE) unit to conduct due diligence visits each year, the number of due diligence visits depends on the unit's available budget and competing priorities. However, consistent with our past work, a long-term plan could help the program strategically coordinate its efforts with those stakeholders to make program plans and decisions in ways that contribute to long-term goals.

Developing a long-term plan would enable program officials to more effectively advocate for needed resources, particularly in a resource-constrained environment. By identifying the linkage between program elements such as program goals, objectives, activities, performance measures, and resource needs, program officials can have greater assurance that program decisions and activities will result in the desired results. However, without developing a long-term plan, program officials will continue to limit their ability to plan proactively and strategically.

IRS Refines the Refundable Credits Return Preparer Strategy Program Annually, but Could Have a Broader Effect

Program Officials Do Not Systematically Track Internal Recommendation Status

The Refundable Credits Return Preparer Strategy program engages in an annual lessons learned process to continually improve the program. Each year from FYs 2017 through 2021, program officials have identified and implemented changes to improve efficiency and effectiveness, evaluated results, and made recommendations. In year-end reports, program officials documented the lessons learned and recommendations developed from that year's activities. Between FYs 2017 and 2021, program officials made 94 recommendations across the five year-end reports.

However, program officials do not have a systematic process to retain and review the implementation status of internal recommendations made in prior years. Further, little documentation exists that discusses why some recommendations remain unimplemented. Rather, officials generally document programmatic decisions in meeting notes, but do not document how the decisions may address prior recommendations. A process to track and review unimplemented recommendations could be, for example, an appendix in the year-end reports or a centralized system that tracks recommendations and their statuses. Such a process could document the merits of recommendations from prior years and establish accountability for action or the rationale for why a recommendation was not implemented or may no longer be relevant.

Because program officials have not developed a central tracking mechanism, it is unclear which recommendations have been implemented. For example, the FY 2018 year-end report recommends tracking preparers who email IRS after receiving warning letters. One of the accomplishments in the FY 2020 year-end report notes how the program support team assists with preparer emails. However, it is unclear if the support team is also tracking the preparers, per the recommendation.

In contrast, program officials have provided detailed responses to program recommendations made by other entities. For example, in 2015, the National Taxpayer Advocate (NTA) reviewed the program and made seven recommendations to program officials.[40] IRS provided formal responses and action plans to the recommendations, which NTA published in a 2017 report.[41] Similarly, in response to recommendations made in a FY 2018 Treasury Inspector General for Tax Administration (TIGTA) review of the program, IRS provided formal responses, which

[40]National Taxpayer Advocate, *Annual Report to Congress: Volume One, 2015,* Publication 2104 (Washington, D.C.: Dec. 31, 2015).

[41]National Taxpayer Advocate, *Objectives Report to Congress: Volume Two, 2017,* Publication 4054 (Washington, D.C.: June 30, 2016).

were included in the report.[42] However, program officials do not document comparable responses to the internal program recommendations.

We have previously reported on key practices of a lessons learned process.[43] Lessons learned serve to communicate knowledge more effectively and ensure that beneficial information is factored into planning, work processes, and activities. Identifying corrective actions or making recommendations for future activities is another key practice. This includes ensuring that the information is stored in a logical, organized manner. As such, tracking the status of recommendations is a central component of a successful lessons learned process.

Program officials said their lessons learned process is sufficient for their needs. Officials reported that once the recommendations are made, program officials generally implement anything within their direct control. However, they also reported they have no direct control over recommendations that rely on other IRS offices. Consequently, those recommendations are less likely to be implemented. According to program officials, they make efforts to consider any unimplemented recommendations on an ongoing basis as resources change or other changes are made to programs or processes.

However, without a systematic method of tracking recommendation status and sharing that information, program officials receive limited benefit from the time and effort invested in identifying the lessons learned. By implementing a systematic method to track and address recommendations, program officials would be better positioned to ensure that the important lessons learned from past work are considered and incorporated into planning efforts. Program officials would be able to communicate decisions and challenges related to implementing internal recommendations. Furthermore, tracking unimplemented recommendations would provide program officials with information to advocate for additional resources to reach more paid preparers and potentially protect more revenue.

[42]TIGTA, *Improvements Are Needed to Better Document the Return Preparer Refundable Credit Compliance Treatment Identification and Selection Process*, 2018-40-001 (Washington, D.C.: Oct. 19, 2017).

[43]GAO-19-25 and GAO-12-901.

Agency-Wide Plans for a Coordinated Return Preparer Strategy Are Stalled

In July 2020, RCPM's Refundable Credits Compliance Strategy referenced a need for an IRS-wide strategy to help ensure consistent treatment of return preparers across compliance activities. According to program officials, SB/SE was leading a team to develop an IRS-wide preparer strategy. They said that a plan had been approved by the Deputy Commissioner for Services and Enforcement in November 2020.

SB/SE developed a proposed Service-wide Preparer Compliance and Enforcement organization and strategic goals related to IRS's preparer efforts across the agency. One of the goals was to reduce opportunities for preparer misconduct and identify noncompliance. IRS also cited its January 2021 *Taxpayer First Act Report to Congress* to illustrate the agency's proposal for reorganization.[44] However, it was unclear how the new Service-wide Preparer Compliance and Enforcement organization will fit into the proposed reorganization, if at all. In April 2022, IRS officials reported that due to a lack of funding, IRS had paused its full reorganization efforts.

In August 2022, Congress passed and the President signed into law the Inflation Reduction Act of 2022, which provided IRS with about $80 billion over 10 years.[45] As of September 2022, IRS is developing a detailed spending plan for these additional resources, according to officials. Also in August 2022, IRS announced that the agency was ready to pursue several key initiatives aimed at making incremental progress toward its reorganization of compliance activities. IRS officials also reported that the Service-wide Return Preparer Strategy was still under consideration within IRS's reorganization, and high-level working groups were being formed to design and implement the reorganization. However, IRS officials previously noted that the Service-wide Return Preparer Strategy could not be finalized until the IRS-wide reorganization is completed.

IRS's *Fiscal Years 2022-2026 Strategic Plan* includes goals aimed at strengthening relationships with external partners to improve tax administration and proactively address emerging trends and challenges.

[44]IRS, *Taxpayer First Act Report to Congress* (Washington, D.C.: January 2021).

[45]Pub. L. No. 117-169, §§ 10301, 13802, 136 Stat. 1818, 1831-1833, 2013 (2022).

Other IRS oversight organizations, such as NTA and TIGTA, have reported on the need for IRS to develop a service-wide strategy related to paid preparers:

- For example, in 2019, NTA reported on the lack of a coordinated approach to the oversight of return preparers.[46] NTA recommended that IRS develop a comprehensive plan that differentiates across types of paid preparers. IRS agreed with the recommendation.
- In 2018, TIGTA found that IRS did not have a coordinated strategy among the different functions with the authority to address preparer misconduct.[47] TIGTA recommended that IRS develop a preparer misconduct strategy that encourages programs with the authority to address preparer misconduct to coordinate with one another to establish program goals and track progress toward those goals. IRS agreed with the recommendation.

A more coordinated approach could benefit taxpayers and their representatives by helping them prepare more accurate returns and avoid costly compliance efforts. A service-wide strategy could help IRS determine the resources needed in relation to other programs that focus on paid preparer compliance. Until the IRS reorganization is complete and the Service-wide Return Preparer Strategy is implemented, IRS may be missing opportunities to capitalize on the planning efforts it has already made. IRS may also be missing an opportunity to scale up a program that is producing cost-efficient compliance activities, as shown by the program's return on investment figures.

There Are No Professional Requirements for Paid Tax Preparers

While the Refundable Credits Return Preparer Strategy program helps encourage preparer compliance with due diligence requirements, the challenge with preparer accuracy is much broader. According to IRS data, it can reach a small fraction—less than 2 percent in 2021—of preparers with an IRS-issued Preparer Tax Identification Number (PTIN) to provide

[46] National Taxpayer Advocate, *Annual Report to Congress 2018*, Publication 2104-C (Washington, D.C.: February 2019).

[47] TIGTA, *The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct*, 2018-30-042 (Washington, D.C.: July 25, 2018).

education and enforcement through the Refundable Credits Return Preparer Strategy program. For example, in 2021, IRS selected about 13,000 preparers to receive either an education or compliance action out of the approximately 784,000 paid preparers with a PTIN.[48] Even with IRS intervention, some preparers continue to be noncompliant.

At present, paid tax preparers are not held to uniform standards. IRS has some authority over some types of paid preparers, such as attorneys, certified public accountants, enrolled agents, and enrolled retirement plan agents.[49] However, this authority does not govern unenrolled preparers. This can put some taxpayers at risk of receiving insufficient or incompetent tax preparation services. As a result, some taxpayers may be exposed to potentially burdensome enforcement actions.

According to the Department of the Treasury, paid tax return preparers serve an important role in tax administration because they assist taxpayers in complying with their tax obligations.[50] However, Treasury noted that incompetent and dishonest tax return preparers increase collection costs, reduce revenues, disadvantage taxpayers, and undermine confidence in our tax system.[51] As such, they can harm innocent taxpayers who are trying to be compliant with tax laws.

We have previously recommended that if Congress agreed that significant preparer errors exist, it should consider granting IRS the authority to regulate paid tax preparers.[52] Our findings in this report, along with numerous independent studies, provide additional information about the existence of preparer errors. In prior work, we also found that registration, competency testing, and educational requirements for all categories of paid preparers would help provide high-quality service to

[48]IRS officials noted that, in practice, the number of paid preparers who submit tax returns is lower than the number of registered PTINs. For example, officials said that about 600,000 preparers filed at least one return in 2021.

[49]Department of the Treasury, Regulations Governing Practice before the Internal Revenue Service, 31 C.F.R. §§ 10.1-10.93 (Circular No. 230).

[50]Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals* (Washington, D.C.: March 2022).

[51]Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals* (Washington, D.C.: March 2022).

[52]GAO, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors,* GAO-14-467T (Washington, D.C.: Apr. 8, 2014).

taxpayers and avoid the additional burden to taxpayers of the time and cost of an IRS audit. We continue to believe that the accumulated evidence of preparer errors supports the need for establishing professional requirements for paid tax preparers to help reduce errors and protect taxpayers.

In 2011, IRS issued regulations to require registration, competency testing, and continuing education for paid tax return preparers, and to subject these new registrants to standards of conduct in their practice.[53] However, in 2014, the Court of Appeals for the D.C. Circuit ruled that IRS lacked the statutory authority to regulate these preparers.[54] Since the court's ruling, Congress has yet to provide IRS with the authority to regulate paid tax preparers.

Establishing professional requirements of paid preparers benefits taxpayers and helps IRS address a number of risks. For example, oversight could help ensure paid preparers secure taxpayers' sensitive personal information. In 2019, we found that taxpayer information held by third-party providers—such as paid tax return preparers and tax preparation software providers—generally falls outside of the federal laws and guidance requiring IRS to protect the confidentiality, integrity, and availability of the sensitive financial and taxpayer information that resides on its systems, according to IRS officials.[55] We found that IRS was unable to ensure the adequate protection of taxpayer information. Therefore, in May 2019, we recommended that Congress consider providing IRS with explicit authority to establish security requirements for the information systems of paid preparers and other e-file providers.

Treasury has included legislative proposals aimed at granting IRS the authority to oversee paid return preparers. The *General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals* identified negative effects stemming from the lack of enforcement:

- Taxpayers who use incompetent preparers or preparers who engage in unscrupulous conduct may become subject to penalties, interest, or avoidable costs of litigation.

[53]76 Fed. Reg. 32286 (June 3, 2011).

[54]Loving v. IRS, 742 F.3d 1013 (D.C. Cir. 2014).

[55]GAO, *Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices,* GAO-19-340 (Washington, D.C.: May 9, 2019).

- The federal government can lose revenue when the resulting noncompliance is not mitigated during return processing.

According to the *General Explanations of the Administration's Fiscal Year 2023 Revenue Proposal*, regulation of paid tax return preparers, in conjunction with diligent enforcement, will help promote high-quality services from paid tax return preparers, improve voluntary compliance, and foster taxpayer confidence in the fairness of the tax system. Multiple bills have been introduced in Congress that would authorize Treasury to establish professional requirements for paid tax preparers. While bills have been introduced and referred to committees, as of November 2022, no additional action has been taken on these bills.[56]

Others have also called for additional oversight of paid preparers. For example, NTA has made numerous legislative recommendations supporting competency standards for preparers and standards for tax return software providers.[57] The IRS Advisory Council has also supported granting IRS statutory authority to establish and enforce minimum standards of competence for all tax practitioners.[58] Additionally, the Electronic Tax Administration Advisory Committee supports granting IRS authority to establish and enforce security standards.[59]

Most of the industry stakeholders with whom we spoke favored requiring paid preparers to take more education courses or to meet minimum competency standards.[60] Several industry stakeholders said regulated preparers are less likely to have issues with noncompliance because competency and ethical standards help prevent noncompliance.

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[56]For example, some of the most recent bills introduced in the 117th Congress include S. 2782, S. 2856, H.R. 7341, H.R. 5375, H.R. 4184, H.R. 3737, and H.R. 3738.

[57]National Taxpayer Advocate, *Annual Report to Congress 2019*, Publication 2104 (Washington, D.C.: December 2019); and *Special Report to Congress: Earned Income Tax Credit*, Publication 4054-D (Washington, D.C.: June 2019).

[58]Internal Revenue Service Advisory Council, *Public Report*, Publication 5316 (Washington, D.C.: November 2020).

[59]Electronic Tax Administration Advisory Committee, *Annual Report to Congress*, Publication 3415 (Washington, D.C.: June 2019).

[60]Two industry stakeholders did not comment, positively or negatively, on the regulation of the paid preparer industry.

Other groups oppose the licensing requirements of paid preparers stating that it could harm small businesses by driving some preparers out of business and raise costs for taxpayers, as the preparers would likely pass their increased costs onto taxpayers.[61] However, other organizations, such as Volunteer Income Tax Assistance or Tax Counseling for the Elderly, require preparers to complete training and uphold certain quality-control standards. This training and quality standards help ensure greater accuracy in their return preparation. Further, unenrolled preparers have higher error rates than other categories of preparers. Such errors could lead to inaccurate preparation, causing taxpayers to underpay their taxes, and possible exposure to IRS enforcement actions.

Providing IRS with the necessary authority to establish professional requirements for the paid preparer community, including registration, competency testing, continuing education, and security requirements for their information systems, could (1) promote high-quality services from paid preparers; (2) improve voluntary compliance; (3) protect taxpayers from unqualified and unscrupulous preparers; (4) protect taxpayers' information from unauthorized disclosures; and (5) foster taxpayer confidence in our tax system.[62] It may also allow IRS to use its enforcement resources more efficiently and focus on noncompliant preparers.

Conclusions

Of the millions of American taxpayers who claim refundable tax credits each year, about half use a paid preparer. However, preparer errors on returns claiming these credits can lead to billions of dollars in improper claims and negative consequences for individual taxpayers. The Refundable Credits Return Preparer Strategy program has strengthened compliance. Specifically, by promoting compliance with due diligence requirements and improving the quality of paid preparer service, the program helps protect taxpayers by reducing errors on tax returns and

[61]For example, see Competitive Enterprise Institute, "Re: Please Oppose H.R. 4184 and All New Tax Preparer Licensing Mandates" (Oct. 12, 2021), accessed September 7, 2022. https://cei.org/coalition_letters/coalition-letter-to-senate-re-tax-preparer-licensing.

[62]The overall effects of establishing professional requirements for tax preparers, including potential benefits and costs to taxpayers, preparers, and the government, would depend on the details of the requirements.

helps IRS reduce improper payments for refundable tax credits. Nevertheless, IRS could do more to build on the program’s successes.

While the program interacts with tens of thousands of preparers each year, IRS does not plan to use digital services to streamline these contacts. Testing digital services for key treatments like preparer warning letters and correspondence due diligence examinations could strengthen the effect of IRS’s compliance activities and position the program at the forefront of IRS’s strategic efforts to modernize how it interacts with taxpayers and professionals.

IRS has developed a useful set of performance measures that help it track the program’s effectiveness and efficiency each year, but it lacks measures to track the program’s effect on preparer compliance over time. Assessing preparers’ behavior in the years after IRS’s intervention would help officials gauge progress toward its goals and communicate the program’s long-term effect.

While the program is dynamic and often tests new activities from year to year, following key program management practices would help establish a clear and targeted vision for the future. Defining and documenting program elements such as goals and objectives, developing a long-term plan, and systematically tracking recommendations would strengthen program management. These activities would allow officials to more effectively set priorities, make decisions, and track progress toward long-term goals, even as yearly activities change. More broadly, IRS efforts to develop a coordinated service-wide return preparer strategy have stalled. Identifying the resources required to implement a more coordinated approach to paid preparers could help IRS capitalize on the planning efforts it has already made.

Finally, despite the successes of this program, its reach is limited. Currently, the majority of paid preparers are not required to meet any minimum competency standards, knowledge requirements, or other preconditions to prepare returns. Taxpayers would benefit from the establishment of professional requirements for all paid tax preparers. Without such requirements to help prevent errors, IRS is left to identify and address preparer inaccuracies after returns are filed. This could burden taxpayers even more. Although IRS strives to educate and encourage compliance among the preparers, the program reaches a fraction of problematic preparers. Providing IRS with the explicit authority to establish professional requirements for the paid preparer community would promote high-quality services from paid preparers, improve compliance with tax laws, protect taxpayers from unqualified and unscrupulous preparers, and reduce the compliance burden for taxpayers.

Matter for Congressional Consideration

Congress should grant IRS the explicit authority to establish professional requirements for paid tax preparers. (Matter for Consideration 1)

Recommendations for Executive Action

We are making the following six recommendations to IRS:

The Commissioner of Internal Revenue should test preparer education and compliance treatments in the Refundable Credits Return Preparer Strategy program that use digital services and assess the results of any tests. Examples include warning letters and secure document uploads. (Recommendation 1)

The Commissioner of Internal Revenue should develop a performance measure for the Refundable Credits Return Preparer Strategy program to assess how its preparer treatments affect compliance with due diligence requirements over time. (Recommendation 2)

The Commissioner of Internal Revenue should define and document program elements of the Refundable Credits Return Preparer Strategy program, including its goals, objectives, activities, and performance measures. (Recommendation 3)

The Commissioner of Internal Revenue should develop a long-term plan for the Refundable Credits Return Preparer Strategy program, in coordination with stakeholders, which outlines the program's vision for the future, links program elements together, and clearly aligns to agency strategic goals. (Recommendation 4)

The Commissioner of Internal Revenue should implement a systematic method of tracking internal recommendations for the Refundable Credits Return Preparer Strategy program. (Recommendation 5)

The Commissioner of Internal Revenue should finalize the Service-wide Return Preparer Strategy and identify the resources needed to implement it. (Recommendation 6)

Agency Comments

We provided a draft of this report to the Commissioner of Internal Revenue for review and comment. In comments reproduced in appendix III, IRS agreed with five recommendations and neither agreed nor disagreed with one recommendation. IRS also provided technical comments, which we incorporated as appropriate.

IRS agreed with our recommendations to test preparer digital services for preparer education and compliance treatments; develop a performance measure to assess preparer compliance over time; define and document program elements; develop a long-term plan; and implement a systematic method of tracking internal recommendations. IRS provided some additional details on the actions it plans to take to address these recommendations.

IRS neither agreed nor disagreed with our recommendation to finalize the Service-wide Return Preparer Strategy and identify the resources needed to implement it. IRS reported that it is developing an operational plan under the Inflation Reduction Act of 2022 to transform the organization. However, it added that until the plan is complete, it would be unable to identify the resources needed to implement the Service-wide Return Preparer Strategy. As stated earlier in the report, identifying the resources required to implement a more coordinated approach to paid preparers could help IRS capitalize on the planning efforts it has already made.

We are sending copies of the report to the appropriate congressional committees, the Commissioner of Internal Revenue and other interested parties. In addition, this report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or MctigueJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

James R. McTigue, Jr.
Director, Tax Policy and Administration
Strategic Issues

Appendix I: Program Elements of the Refundable Credits Return Preparer Strategy Program

The Internal Revenue Service (IRS) lacks full definitions and documentation of several key program elements. Office of Management and Budget (OMB), Circular No. A-11, provides guidance to agencies on what program elements should be included in planning.[1] These elements include goals, objectives, and performance measures. OMB guidance also recommends that agencies use a logic model approach. This approach includes additional program elements such as inputs, activities, outputs, outcomes, and contextual factors.[2]

We considered both sets of program elements to understand and describe the Refundable Credits Return Preparer Strategy program. We validated the description of the program with IRS program officials. The narrative below provides a high-level summary of the Refundable Credits Return Preparer Strategy program and may not be comprehensive.

Overview

IRS developed the Refundable Credits Return Preparer Strategy program to improve preparer compliance with due diligence requirements. These requirements apply to returns claiming certain tax benefits, such as the Earned Income Tax Credit, that are prone to high levels of improper payments. Since half of these returns are filed with the assistance of paid preparers, IRS's program focuses on the preparers who submit these

[1]OMB, Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, pt. 6, §§ 210, 230 (August 2021).

[2]A logic model is a tool for describing a program's strategy for accomplishing its goals. It contains the basic elements of a program, such as goals, inputs, activities, outputs, outcomes, and contextual factors. It can also be used to describe the links between program elements and to demonstrate how the program is expected to achieve its goals. Our past work has shown how logic models can help clarify the links between program components, focusing on measurable outcomes. See, for example, GAO, *Designing Evaluations: 2012 Revision (Supersedes PEMD-10.1.4),* GAO-12-208G (Washington, D.C.: Jan. 31, 2012), and *Security Assistance: State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals,* GAO-06-437 (Washington, D.C.: Apr. 11, 2006).

returns. By improving the services of one preparer, IRS can reduce the risk of improper payments for potentially hundreds of individual taxpayer returns.

We describe the program’s elements below.

Goals and Objectives

Goals are the long-term expectations of what should happen as a result of the program.
Objectives identify the program's path to reaching long-term goals.
Source: GAO. | GAO-23-105217

According to IRS officials, the program's long-term goals are to improve compliance, reduce errors, and reduce the tax gap. IRS officials noted that the program's goals support the Refundable Credits Program Management (RCPM) goals to (1) increase participation, (2) reduce erroneous claims, and (3) decrease improper payments. Finally, IRS officials told us that the program's goals support agency strategic goals, which include (1) enabling taxpayers to meet their tax obligations, (2) protecting the integrity of the tax system, and (3) collaborating with external partners to improve tax administration.

IRS officials described general program objectives. This includes improving the accuracy of returns claiming refundable credits through preparer education and compliance efforts. Similar to program goals, officials told us that the Refundable Credits Return Preparer Strategy program supports RCPM's objective to manage the administration of refundable credits through a balanced approach that encourages participation and reduces improper payments.

Inputs

Inputs are the human and financial resources used to carry out program activities.
Source: GAO. | GAO-23-105217

Wage and Investment's (W&I) RCPM office oversees the Refundable Credits Return Preparer Strategy program, as well as other efforts related to refundable credits. A team within the office coordinates the compliance actions. A support team administers a portion of correspondence due diligence visits, conducts outbound calls, and responds to preparer correspondence. Another team within RCPM coordinates education and outreach efforts.

In addition, multiple offices within the agency act as internal stakeholders and contribute staff time or financial resources. According to program officials, internal stakeholder roles are still being defined and may fluctuate as program needs and resources change.

- **W&I Strategies & Solutions** conducts analysis and prepares the year-end reports.
- **W&I Accounts Management** responds to incoming phone calls.
- **W&I Examination Operations** conducts post-refund client audits with taxpayers who have qualifying child issues.

- **Small Business/Self Employed (SB/SE) Examination Operations** conducts all other post-refund client audits.
- **SB/SE Field Examination** conducts due diligence and knock and talk visits.
- **Criminal Investigation** and **SB/SE Stakeholder Liaison** assist with the execution of knock and talk visits.
- **Information Technology** and **Research, Applied Analytics, and Statistics** provide data on preparers.
- **Return Preparer Office** provides Preparer Tax Identification Number data.
- **National Distribution Center** prints and mails program letters.

Activities

According to program officials, the program's activities include: (1) providing informational resources to preparers, (2) identifying preparers at risk of noncompliance, (3) coordinating a suite of compliance actions, and (4) continuously improving the program.

Activities are the actions designed to make progress on objectives.
Source: GAO. | GAO-23-105217

Providing Informational Resources

According to IRS officials, a key strategy to improve preparer accuracy is to provide outreach and informational resources to return preparers. The Stakeholder Engagement office provides information to the general paid preparer population on how to meet its due diligence requirements. According to officials, the information is provided via tax forms and instructions, the IRS.gov website, summits, webinars, publications, electronic alerts, and social media outlets.

Identifying Preparers at Risk of Noncompliance

To identify paid preparers at risk of noncompliance, IRS uses automated filters and algorithms to flag preparer-submitted returns with a high likelihood of errors. Preparers are assigned scores based on certain indicators, such as total number of refundable credit returns and average credit amount claimed per return. IRS considers other variables, such as prior history with the program's compliance activities, before assigning preparers to compliance actions.

Coordinating Compliance Actions

Program officials coordinate the delivery of a suite of educational compliance actions designed to increase preparer awareness and change preparer behavior to improve return accuracy. For first-time offenders, IRS administers warning letters or phone calls. If a preparer continues to submit returns with a high risk of noncompliance, IRS administers actions that involve the preparer's clients, such as client warning letters or post-refund client audits.

For preparers with the highest risk of noncompliance, IRS visits preparers. Some visits are education-focused knock and talk visits. Others are compliance-focused due diligence visits. Program officials generally administer these compliance actions prior to and during the filing season.

Continuously Improving the Program

According to program officials, IRS annually seeks opportunities to refine its operational processes. Each summer, program officials determine how many preparers will be assigned to each type of compliance action, based on the available resources and competing priorities of internal stakeholders. Program officials also decide whether to test any new pilot programs for the upcoming year. Program officials generally implement compliance actions prior to and during the filing season. After the filing season, program officials analyze and reflect on the accomplishments and challenges of that year's cycle. The results and lessons learned are then summarized in a year-end report.

In most years, IRS tests new compliance actions or modifications and tries new approaches to promote preparer compliance. The tests are designed to compare preparers who received the new actions to a control group of similar preparers who did not receive the new action. IRS year-end program reports include pilot objectives, data collected, and results.

For example, IRS tracks results from pilot tests separately from its normal activities. This information helps IRS decide whether to implement and expand a pilot in future years. If IRS finds the test had a positive effect on return accuracy, the compliance action is expanded and becomes part of the annual compliance actions. Table 3 describes some recent pilots and their results.

Table 3: Recent Pilot Tests of New or Modified Preparer Education and Compliance Actions

Pilot name (fiscal year of test)	Description	Selected findings	Implementation results
Correspondence due diligence visits (2017)	IRS tested an alternative to in-person due diligence visits where examiners review preparer-submitted documentation and hold teleconferences with the preparer.	• Correspondence due diligence visits were more likely to result in IRS proposing penalties for due diligence noncompliance compared to all due diligence visits. • Correspondence visits took examiners about the same amount of time to complete as in-person visits.	• IRS expanded its use of correspondence due diligence from 82 in the 2017 pilot to 356 in 2021. • In 2021, all due diligence visits were by correspondence amid COVID-19 in-person restrictions.
Client warning letters (2019)	IRS tested sending warning letters directly to the clients of risky paid preparers.	• Clients who received warning letters were more likely to leave their current preparers compared to those who did not. • Clients who filed returns with potential errors with their old preparers and then left those preparers after receiving warning letters tended to claim fewer refundable credits on their next returns.	• IRS expanded its use of client warning letters from 32 preparers in the 2019 pilot to 1,331 in 2021.
Revisions to warning letters (2021)	IRS tested changes to the language and presentation of information in its preparer warning letters and client warning letters with input from internal researchers on behavioral insights.	• The revised version of the preparer warning letter had a higher estimated return on investment compared to the normal letter. • Recipients of revised client warning letters were slightly more likely to change their preparation methods (3 percent) compared to recipients of normal letters. However, IRS received negative feedback from tax preparation firms and industry stakeholders that the revised language was too intimidating and aggressive toward clients.	• IRS officials said that for fiscal year 2022 they replaced the old version of the preparer warning letter with the revised version. • IRS officials said they discontinued use of the revised client warning letter, given its only slightly positive performance and stakeholder concerns.

Source: GAO analysis of Internal Revenue Service (IRS) documents and interviews with agency officials. | GAO-23-105217

Outputs

Outputs are the volume of products or services delivered in the implementation of program activities.

Source: GAO. | GAO-23-105217

As IRS administers its compliance actions, it also tracks the volume of these activities. The volume of compliance actions attempted fluctuates from year to year because of resource limitations, the volume of selected preparers, and new or changed compliance actions, as well as external factors (see table 4). For example, in FY 2019, IRS piloted client warning letters before increasing its implementation in subsequent fiscal years.

Table 4: Total Number of Education and Compliance Actions Attempted, Fiscal Years 2017 to 2021

	Fiscal year				
Action	**2017**	**2018**	**2019**	**2020**	**2021**
Preparer warning letters	22,719	25,105	24,228	21,474	10,867
Preparer warning calls	4,403	4,423	2,428	505	1,189
Client warning letters	n/a[a]	n/a[a]	3,048	14,881	20,849
Post-refund client audits	27,041	23,981	25,916	28,873	27,518
Knock and talk visits	201	151	174[c]	141	n/a[d]
Due diligence visits	788[b]	802[b]	994	1,035	356

Legend: n/a = not applicable.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-105217

[a]IRS began mailing client warning letters in fiscal year 2019.

[b]Includes network due diligence visits and knock and talk follow-up due diligence visits. Network due diligence visits are where IRS conducts one due diligence visit involving multiple paid preparers who share common information, such as a phone number or employer identification number. In fiscal year 2017, IRS attempted 183 network due diligence visits involving 465 total preparers. In fiscal year 2018, IRS attempted 124 network due diligence visits involving 310 total preparers. Knock and talk follow-up due diligence visits are due diligence visits attempted on preparers who showed a high risk of noncompliance during an initial knock and talk visit. In fiscal years 2017 and 2018, IRS attempted 20 and 26 of these visits, respectively.

[c]IRS selected 227 preparers for knock and talk visits in fiscal year 2019 but ultimately attempted 174 visits because it cancelled 53 visits due to the government shutdown and staff furlough.

[d]According to program officials and documents, IRS did not attempt any knock and talk visits in fiscal year 2021 due to COVID-19 in-person restrictions.

For some treatments, the volume of actions IRS attempts is typically greater than the number of preparers it selects to receive that action. For example, IRS typically sends more preparer warning letters than the number of preparers it selects to receive them, because it sends additional warning letters as follow-ups during the filing season. IRS may also send letters to some preparers who are receiving other treatments. Similarly, the total number of client warning letters IRS sends and the total number of post-refund client audits IRS attempts are usually greater than the number of preparers it selects for each treatment, because IRS may treat many clients of each preparer selected.

Performance Measures

Performance measures identify how the program plans to measure progress toward its objectives.
Source: GAO. | GAO-23-105217

As discussed earlier, the program has developed multiple measures to help officials assess the program's effectiveness, efficiency, and accomplishments each year. For example, program officials track the estimated tax revenue protected by compliance actions and the program's return on investment. See appendix II for more information on program performance measures.

Outcomes

Outcomes are changes expected to result from program activities.
Source: GAO. | GAO-23-105217

According to program officials, the program has multiple outcomes. For example, they expect that their program will result in sequential outcomes, including, (1) educating preparers on their due diligence requirements, (2) improving return accuracy by raising preparer awareness of due diligence requirements, (3) reducing improper payments by improving return accuracy, and (4) reducing the tax gap by reducing improper payments. The program also has an indirect outcome to increase taxpayers' awareness of how to select a compliant preparer.

Contextual Factors

Contextual factors are external forces beyond the program's control, that could negatively or positively influence its success in meeting its goals.
Source: GAO. | GAO-23-105217

According to program officials, some contextual factors may help improve the accuracy of returns, such as tax law changes that simplify the eligibility for refundable credits. Other contextual factors may affect the timing of treatments or IRS's ability to administer treatments, such as delays to the start of the filing season, natural disasters, or government shutdowns. Yet other contextual factors could help or hinder the program's success, such as public perceptions of IRS's capacity to enforce tax laws. For example, if preparers believe that IRS can enforce tax laws effectively, they may be more likely to comply with due diligence requirements. Conversely, if preparers do not believe that IRS can do so, they may be emboldened to submit inaccurate returns.

Appendix II: Performance Measures and Performance of the Refundable Credits Return Preparer Strategy Program

The Internal Revenue Service (IRS) has developed a range of performance measures that help officials assess the effectiveness and efficiency of program activities.[1] Officials analyze these measures to quantify the benefits delivered by the program, evaluate the cost-efficiency of different treatments, and ensure that they make accurate preparer selections for client audits and due diligence visits. IRS also collects some information on how its preparer treatments may affect taxpayer behavior. However, these data may provide an incomplete picture of how taxpayers respond to IRS's preparer treatments.

Estimated Revenue Protected

According to IRS, revenue protected is an estimate of the amount of tax revenue protected by IRS's preparer education and compliance actions. Revenue protected provides a picture of the effectiveness of IRS's preparer education and compliance actions in a given year. According to officials, positive amounts of revenue protected indicate that the program is improving preparer compliance with due diligence requirements. This, in turn, leads to more accurate tax returns and reduced over-claims. Officials also said that revenue protected gives them some confidence

[1]We refer to the data IRS collects to assess its program's performance broadly as performance measures. However, to assess some parts of its program's performance, IRS uses rigorous evaluation methods to isolate the effect of its program's treatments on preparer compliance, which is uncharacteristic of typical performance measurement. While IRS conducts some systematic data collection and analysis of program activities that indicates the effectiveness and efficiency to some extent, these metrics may present an incomplete picture of whether IRS's program is working as intended. For more information on the differences between program performance measurement and program evaluation, see GAO, *Program Evaluation: Key Terms and Concepts,* GAO-21-404SP (Washington, D.C.: Mar. 22, 2021).

that program activities are helping to reduce overall improper payments of refundable credits.

IRS estimates revenue protected using two approaches or models: (1) the original model, and (2) the client-centric model (see text boxes). IRS used the original model for several years before developing the client-centric model starting in fiscal year (FY) 2017. For the purposes of this report, we analyze and discuss estimates from the original model of revenue protected, because these data are reliable for all the years we analyzed. Conversely, client-centric estimates may contain errors in some years, according to officials.[2]

Estimating Revenue Protected (original model)

Under the original model, the Internal Revenue Service (IRS) uses a multistep process to estimate the tax revenue protected by its preparer education and compliance actions, also called treatments.

First, IRS selects preparers for different treatments by using risk filters to analyze their returns. Then, for each treatment type, IRS randomly assigns the selected preparers into two groups: (1) a test group that receives an IRS treatment, and (2) a control group that does not. Officials said they take steps to ensure the test and control groups of preparers have similar characteristics.

To establish a behavior baseline, IRS estimates the average amount of over-claims of refundable tax credits submitted by both the test group and control group of preparers on last year's tax returns. IRS counts over-claims as the total amount of tax credits claimed on returns submitted by preparers initially flagged by IRS's risk filters.

Then, after administering the treatments to the test group, IRS analyzes the annual change in tax credit over-claims for both the test and control groups of preparers on the current year's tax returns.

If IRS observes that the test group of preparers reduced its over-claims by more than the control group, and the difference is statistically significant, IRS attributes the reduction to its treatments and counts the savings as revenue protected.

Source: GAO interviews with IRS officials and analysis of IRS documents. | GAO-23-105217

Estimating Client-centric Revenue Protected (client-centric model)

Under the client-centric model, the Internal Revenue Service (IRS) uses the same initial steps as the original model to select preparers for treatment and randomly assigns them into test and control groups. However, from there, IRS takes a different approach to estimate the revenue protected by its treatments.

To establish a behavior baseline, IRS estimates the average amount of over-claims of refundable tax credits claimed by the individual taxpayers, or clients, of selected paid preparers on last year's tax returns. Under the client-centric model, IRS counts over-claims as the total amount of refunds on refundable credit returns submitted by the clients of selected preparers, regardless of whether the returns were initially flagged by IRS's risk filters.

Then, after administering treatments to the test group, IRS analyzes the annual change in refunds claimed by both the taxpayers associated with the test and control groups of preparers on the current year's tax returns.

[2]Officials said that the client-centric revenue protected estimates from FYs 2017 and 2018 are likely unreliable due to programming errors. IRS did not calculate a client-centric revenue protected in FY 2019.

In contrast to the original model, IRS analyzes annual changes in clients' refunds even if clients moved on or "migrated" to different preparers, opted to self-prepare, or stopped filing altogether after their respective preparers were treated. According to officials, this approach avoids giving credit to preparers who reduce their erroneous refund claims by losing clients with noncompliant returns. This is because IRS tracks clients to see if they went on to file potentially erroneous refunds via other filing methods.

If IRS observes that the clients associated with the test group of preparers reduced their erroneous refunds by more than the clients associated with the control group, and the difference is statistically significant, IRS attributes the reduction to its treatments and counts the savings as revenue protected.

Source: GAO interviews with IRS officials and analysis of IRS documents. | GAO-23-105217

Officials said that the client-centric model is a broader approach to estimating program revenue protected and may better reflect the savings realized by the Department of the Treasury. However, they add that both models have value. Annual program reports in recent years have reported both the original and client-centric estimates side by side when discussing program performance. However, estimates from each model may have their own limitations. For example, the original model analyzes the total amount of refundable tax credit claims on returns. Conversely, the client-centric model only analyzes refund amounts. That said, IRS data suggest that both models have produced similar estimates of revenue protected in recent years, as shown in table 5.

Table 5: Estimated Revenue Protected by the Original and Client-centric Models, Fiscal Years 2017 to 2021

Performance Measure	2017	2018	2019	2020	2021
Estimated revenue protected from original model (dollars in millions)	$536	$424	$332	$402	$226
Estimated revenue protected from client-centric model (dollars in millions)	n/a[a]	n/a[a]	n/a[b]	$321	$295

Legend: n/a = not applicable.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-105217

Note: Revenue protected figures are based on IRS estimates and subject to some uncertainty. IRS estimates revenue protected by comparing the annual change in tax credit claims between a randomly assigned test group of preparers that receive an IRS treatment, and a control group that receives none. IRS performs statistical tests to estimate a range of revenue protected by its preparer treatments using 95 percent confidence intervals. For example, in fiscal year 2021, IRS's original model estimated that its preparer treatments protected about $226 million of revenue, with a range between $178 million and $274 million. In fiscal year 2020, IRS estimated that its preparer treatments protected about $402 million of revenue, with a range between $350 million and $454 million. Estimated revenue protected for individual preparer treatments was only counted in the annual total if IRS's tests indicated the treatment was statistically significant. We did not obtain confidence intervals for estimates of revenue protected for the client-centric model.

[a]Estimates are unreliable due to errors, according to IRS officials.

[b]No estimate produced in this year.

Return on Investment

Return on investment measures the potential dollars returned to IRS—through tax revenue protected, proposed preparer penalties, and client audit assessments—for every one dollar spent administering the program (see text box).

Estimating Return on Investment

The Internal Revenue Service (IRS) estimates program return on investment by summing together (1) revenue protected, (2) proposed due diligence penalties, and (3) client audit assessments. This amount is divided by total program costs.

IRS collects data on program costs to calculate return on investment, including:

- postage and labor costs associated with mailing preparer and client warning letters;
- the IRS-wide average cost to close a post-refund client audit;
- examiner time, travel, and training costs associated with conducting preparer visits obtained from the Small Business/Self Employed division; and
- hours contributed by program analysts and other technical experts, such as by staff from Wage and Investment Strategies & Solutions and Research, Applied Analytics, and Statistics.

Source: GAO interviews with IRS officials and analysis of IRS documents. | GAO-23-105217

Calculating return on investment helps program officials quantify the value of both various preparer treatments and the program overall. The measure also helps officials analyze the performance of different treatments and decide how to make activities more cost effective.

Between FYs 2017 and 2021, return on investment for the program has ranged from $12 to $48 for every dollar spent, as shown in table 6. Lower escalation actions, like preparer warning letters and warning calls, typically protect less revenue per preparer compared to higher escalation actions. However, these actions can also realize returns on investment of more than $100 because they are less costly to administer. By comparison, higher escalation preparer actions like due diligence visits usually protect larger amounts of revenue per preparer, but provide a lower return on investment because they are more costly to conduct. Return on investment has declined to $12 in FY 2021 compared to $48 in FY 2017 due to increased operational costs and declines in revenue protected.

Table 6: Estimated Program Return on Investment by Preparer Action, Fiscal Years 2017 to 2021

Preparer action	2017	2018	2019	2020	2021
Due diligence visits	$61	$42	$43	$38	$38

Preparer action	2017	2018	2019	2020	2021
Knock and talk visits	$34	$57	$68	$104	n/a
Post-refund client audits	$22	$14	$15	$15	$7
Client warning letters	n/a	n/a	$142	$298	$43
Preparer warning calls	$336	$123	$126	n/a	n.s.[a]
Preparer warning letters	$329	$296	$159	$196	$150
Total	**$48**	**$37**	**$31**	**$27**	**$12**

Legend: n/a = No return on investment estimate is available because the program did not conduct the action in that year.

n.s. = Return on investment not calculated because the action did not have a statistically significant effect.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-105217

Note: Return on investment figures are based on IRS estimates and subject to some uncertainty. To calculate return on investment, IRS adds estimated revenue protected for each treatment to any proposed due diligence penalties and client audit assessments associated with the treatment. It then divides this subtotal by the total cost of conducting each treatment. IRS selects preparers to receive specific treatments, but may, during the course of its work, also attempt other related treatments. For example, IRS may send prefiling season warning letters to preparers whom it selects for post-refund client audits in addition to attempting the audits. IRS associates revenue protected and cost with the treatment that it originally assigned to the preparer.

[a]In fiscal year 2021, program officials estimated that prefiling season preparer warning calls did not protect a statistically significant amount of revenue. However, the program did incur costs to administer the warning calls, which are factored into the program's total return on investment.

Proposed Due Diligence Penalty Rate

The proposed due diligence penalty rate is the percent of due diligence visits that result in IRS examiners proposing a penalty for noncompliance with due diligence requirements. IRS measures the penalty rate to track how efficient it is at selecting noncompliant preparers for due diligence visits. According to officials, a high penalty rate indicates that IRS's criteria for identifying preparers for due diligence visits are accurate and effective. The program has refined its selection criteria for due diligence visits in recent years and has reported a proposed due diligence penalty rate of more than 90 percent since FY 2019 (see table 7).

Table 7: Number of Preparers Selected for Due Diligence Visits and Proposed Penalty Rate, Fiscal Years 2017 to 2021

Performance measure	2017	2018	2019	2020	2021
Number of preparers selected	1,070	988	994	1,035	356
Proposed penalty rate	84%	84%	94%	95%	99%

Source: GAO analysis of Internal Revenue Service (IRS) documents and data. | GAO-23-105217

Note: Preparers may appeal to overturn proposed penalties. Thus, the final penalty rate is typically slightly lower than the proposed penalty rate. For example, in fiscal year 2021, IRS reported a final penalty rate of 98.6 percent.

Audit No-Change Rate

The audit no-change rate is the percentage of post-refund client audits selected by the program that results in no change to taxes owed.

IRS measures the audit no-change rate because it indicates the accuracy of the program's audit selections. Because IRS selects taxpayers to audit based on the returns submitted by their preparers, a lower no-change rate indicates IRS's effectiveness in identifying preparers who submitted client returns that, after an audit, require tax changes and may result in additional recommended tax.

From FYs 2017 to 2019, the no-change rate for program audits was slightly higher than, or equal to, that of all EITC audits conducted by IRS. However, in FYs 2020 and 2021, the no-change rate of client audits selected by the program was lower than that of all EITC audits conducted by IRS (see table 8).[3]

Table 8: No-Change Rate and Other Performance Measures for Post-Refund Client Audits, Fiscal Years 2017 to 2021

Performance measure	2017	2018	2019	2020	2021
Number of preparers selected for client audits	2,928	2,609	2,712	2,990[a]	3,015[a]
Number of client audits	27,041	23,981	25,916	28,873	27,518
No-change rate for client audits	18%	17%	15%	9%	7%[b]
No-change rate for all IRS EITC audits	12%	13%	15%	18%	12%

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-105217

[a]According to IRS, counts of preparers in fiscal years 2020 and 2021 include a small number of preparers who were selected for, but ultimately did not receive, post-refund client audits. This includes 72 preparers in fiscal year 2020 and 92 preparers in fiscal year 2021.

[b]Fiscal year 2021 data are as of January 2022. According to IRS officials, about 1,250 audits remained open at that time and are not reflected in the statistics. Of these, about 950 cases had not responded and were expected to close as defaults, and would not affect the no-change rate.

Indicators of Taxpayer Behavior

Through the client-centric model of revenue protected, IRS collects some data on how taxpayers respond to its preparer treatments. This includes

[3]IRS-wide data for comparison are only available for EITC audits. The Refundable Credits Return Preparer Strategy program also conducts post-refund audits on returns involving other refundable credits, but the majority of audits involve EITC. For IRS-wide statistics on the EITC no-change rate, see GAO, *Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income,* GAO-22-104960 (Washington, D.C.: May 17, 2022), fig. 4.

actions that directly involve taxpayers, such as client warning letters and post-refund client audits. Because the client-centric model tracks how individual taxpayers file their returns after treating their preparers, program officials have information on the rates at which taxpayers stay with their current paid preparers, switch paid preparers, opt to self-prepare, or stop filing altogether.

However, this information may not provide a full story related to the taxpayer's behavior. In some cases, a taxpayer may have taken steps to improve the accuracy of the return, which officials view as a desired outcome. For example, taxpayers who receive client warning letters may better understand that their tax returns are at risk of noncompliance. Thus, they may seek more accurate preparers or another filing method. In other cases, taxpayers receiving these actions may stop claiming refundable credits that they are eligible for because they incorrectly believe they are ineligible or fear further IRS enforcement actions.[4] This may result in a negative outcome for the taxpayer.

[4]Taxpayers could also claim a smaller amount than they are eligible to claim. However, previous IRS research on refundable credit compliance suggests that under-claims are relatively infrequent. A 2014 IRS study of compliance on EITC returns estimated that between 6 and 7 percent of returns analyzed contained under-claims. See Internal Revenue Service, *Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns,* Research, Analysis & Statistics Report, Publication 5162 (August 2014).

Appendix III: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

November 6, 2022

Mr. James R. McTigue, Jr.
Director, Tax Policy and Administration
Strategic Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to review and comment on the draft report entitled *Paid Tax Return Preparers: IRS Efforts to Oversee Refundable Credits Helps Protect Taxpayers but Additional Actions and Authority are Needed (GAO-23-105217).*

The goal of the IRS's Refundable Credit Return Preparer Strategy is to improve the compliance of tax returns claiming refundable credits and other benefits through due diligence education and enforcement activities. The strategy has protected hundreds of millions of dollars in tax revenue and provided a positive return on investment, despite challenges such as the Covid-19 pandemic and limited resources that have constrained its ability to operate at full strength.

Each year, the IRS conducts a robust research project to analyze the results of the program activities, evaluate the effectiveness of the treatments, implement lessons learned from prior years, and test new methods to improve paid preparer compliance. Before determining the appropriate treatment stream for a paid preparer, we consider resource commitments, confirm geographic limitations, and ensure there is no overlap with other compliance activities already in process. From there, the IRS strategy focuses on educating paid preparers about their due diligence requirements. If prepared returns continue to contain errors, such as erroneously claiming refundable credits or incorrect filing status, the return preparer will be subject to escalating alternative treatment options.

The Refundable Credit Return Preparer Strategy includes a suite of educational and compliance treatments conducted during pre-filing season and filing season. These treatments include compliance and educational letters, phone calls, client audits, "Knock and Talk" Visits and Due Diligence Visits. These activities assist tax return preparers in

2

meeting their due diligence requirements under Internal Revenue Code § 6695(g), as it requires paid preparers of refundable credit returns to adhere to due diligence and proposes a penalty of $545, per credit, per return for failure to meet these requirements.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact Mike Beebe, Director, Return Integrity and Compliance Services, Wage and Investment Division, at (470) 639-3250.

Sincerely,

Douglas W. Odonnell Digitally signed by Douglas W. Odonnell Date: 2022.11.06 10:41:33 -05'00'

Douglas W. O'Donnell
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

Recommendations for Executive Action

We are making the following six recommendations to IRS:

RECOMMENDATION 1
The Commissioner of Internal Revenue should test preparer education and compliance treatments in the Refundable Credits Return Preparer Strategy program that use digital services and assess the results of any tests. Examples include warning letters and secure document uploads.

COMMENT
We agree with the recommendation. We will coordinate with internal stakeholders to explore digital communication opportunities available via the Tax Pro Accounts for the Refundable Credits Return Preparer Strategy.

RECOMMENDATION 2
The Commissioner of Internal Revenue should develop a performance measure for the Refundable Credits Return Preparer Strategy program to assess how its preparer treatments affect compliance with due diligence requirements over time.

COMMENT
We agree with the recommendation. We will explore options with internal stakeholders to assess the impact of the strategy over time and include the results of the analysis in the annual executive summary report.

RECOMMENDATION 3
The Commissioner of Internal Revenue should define and document program elements of the Refundable Credits Return Preparer Strategy program, including its goals, objectives, activities, and performance measures.

COMMENT
We agree with the recommendation. We will document the Refundable Credit Return Preparer Strategy program elements, goals, and objectives in the annual executive summary report. We will continue to include the annual analysis of each treatment conducted.

RECOMMENDATION 4
The Commissioner of Internal Revenue should develop a long-term plan for the Refundable Credits Return Preparer Strategy program, in coordination with stakeholders, which outlines the program's vision for the future, links program elements together, and clearly aligns to agency strategic goals.

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COMMENT
We agree with the recommendation. We will link the Refundable Credit Return Preparer Strategy program elements, future state, and recommended changes to the IRS strategic goals and document the details within each annual executive summary report.

RECOMMENDATION 5
The Commissioner of Internal Revenue should implement a systematic method of tracking internal recommendations for the Refundable Credits Return Preparer Strategy program.

COMMENT
We agree with the recommendation. We will use existing tools such as the Preparer Treatment Delivery Tool and or SharePoint to track and maintain program recommendations and status updates.

RECOMMENDATION 6
The Commissioner of Internal Revenue should finalize the Service-wide Return Preparer Strategy and identify the resources needed to implement it.

COMMENT
The IRS approved a Service-wide Return Preparer Strategy in November 2020. Currently, the IRS is developing a strategic operational plan under the Inflation Reduction Act (IRA) of 2022 that will transform the organization. The IRA strategic operational plan will include goals and objectives for addressing noncompliance fairly and efficiently. Until the IRA strategic operation plan is complete, we are unable to identify what resources are necessary to implement the Service-wide Return Preparer Strategy.

Accessible Text for Appendix III: Comments from the Internal Revenue Service

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Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue, Jr., (202) 512-8606 or McTigueJ@gao.gov

Staff Acknowledgments

In addition to the contact named above, Neil Pinney, Assistant Director; Robyn Trotter, Analyst-in-Charge; Kim Bohnet; Caitlin Cusati; Rob Gebhart; Krista Loose; Carl Nadler; Edward Nannenhorn; Daniel Patterson, Bryan Sakakeeny; Andrew J. Stephens; and Alicia White made key contributions to this report.

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