

# IRS Institutes Major Changes in Regulation of Paid Tax Preparers



The IRS has initiated major changes strengthening its regulation of the commercial tax preparation industry. These changes began to take effect for the 2011 tax filing season.

Commercial tax preparers are required to register with the IRS to be permitted to file tax returns. IRS has issued regulations requiring any individual who prepares a tax return for compensation to obtain a Preparer Tax Identification Number (PTIN) from the IRS. Preparers must sign tax returns and provide their PTIN on the return. This requirement began for the 2011 tax filing season. Preparers must pay IRS a \$64.50 fee.

About 70 percent of tax filers claiming the Earned Income Credit pay commercial fees for the preparation of their returns, according to IRS data and research conducted by consumer advocate organizations. While some preparers are CPAs or Enrolled Agents, who must adhere to existing professional certification and education requirements, large numbers of commercial preparers are under no such requirements. This includes large national chains, some of which may have internal training programs but are not required to meet a standard level of competency by the IRS.

IRS research has indicated that commercially prepared returns, particularly by individuals with no training and education requirements, are a substantial source of errors in Earned Income Credit claims and other tax benefits — including a failure to claim the benefits for which a tax filer qualifies. Since the tax laws and regulations affecting individual tax filers can be quite complex, the absence of a competency requirement has been a long-standing concern. Additionally, the absence of a national system to register commercial preparers has made it more difficult to track those preparers who have high rates of erroneous returns.

Tax filers who wish to use a paid tax preparer can now ask the preparer to verify that IRS has issued a PTIN to the preparer for the 2012 filing season.

**Competency tests and continuing education.** Beginning October 2011, the IRS will require paid preparers to take an IRS examination on tax law and regulations applicable to preparation of tax returns. Preparers will be required to pass an examination every three years. Preparers will also eventually need to demonstrate annually to the IRS that they have met continuing education requirements in tax practice. This requirement will be phased in as IRS develops the system to administer the examination, and will not affect the 2012 filing season.

**Free tax assistance programs are not affected.** Volunteers who assist low-income, elderly, and disabled individuals at no charge through programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly are not required to obtain a PTIN or to sign tax returns. The volunteer site identification number is provided on the return to identify to the IRS the source of preparation assistance. Volunteer preparers already need to pass annual certification examinations by IRS, which are geared to the complexity of the returns volunteers are permitted to prepare. Volunteers are not affected by the new examination and continuing education requirements planned for paid preparers.

