IRS Return Preparer Implementation Project Office

GAO Recommendation 1: PTIN as the Authorizing Number in e-file

National Harbor, MD
June 8, 2011

The March 2011 GAO report* issued a report with two recommendations

GAO Recommendations	Description	Status Update
Recommendation #1	Determine whether it would be ***practical and cost effective to use preparers' PTINs as the authorizing numbers to e-file their taxpayers' returns.*** If IRS determines it is advantageous, it should create a timetable and plan to modify e-file systems accordingly	**Requires Discussion and Analysis**
Recommendation #2	Update the taxpayer choice statement discussed in Notice 2010-85 as well as Form 8948, "Preparer Explanation for Not Filing Electronically", to include information about the benefits to e-filing	✓ **Chief Counsel developed changes to the Rev. Proc.** ✓ **Modifications to Form 8948 are underway**

- IRS agreed with both recommendations
- The action items for Recommendation 2 have been completed
- IRS agreed to report to GAO by March 1, 2012 on whether using the PTIN as the authorizing number in e-file is practical and cost effective

**GAO Report: Electronic Tax Return Filing: Improvement Can Be Made before Mandate Becomes Fully Implemented (March 2011)*
http://www.gao.gov/Products/GAO-11-344

The Government Accountability Office recommended in March 2011 that the IRS examine if the PTIN can become the authorizing number for return preparers in e-file

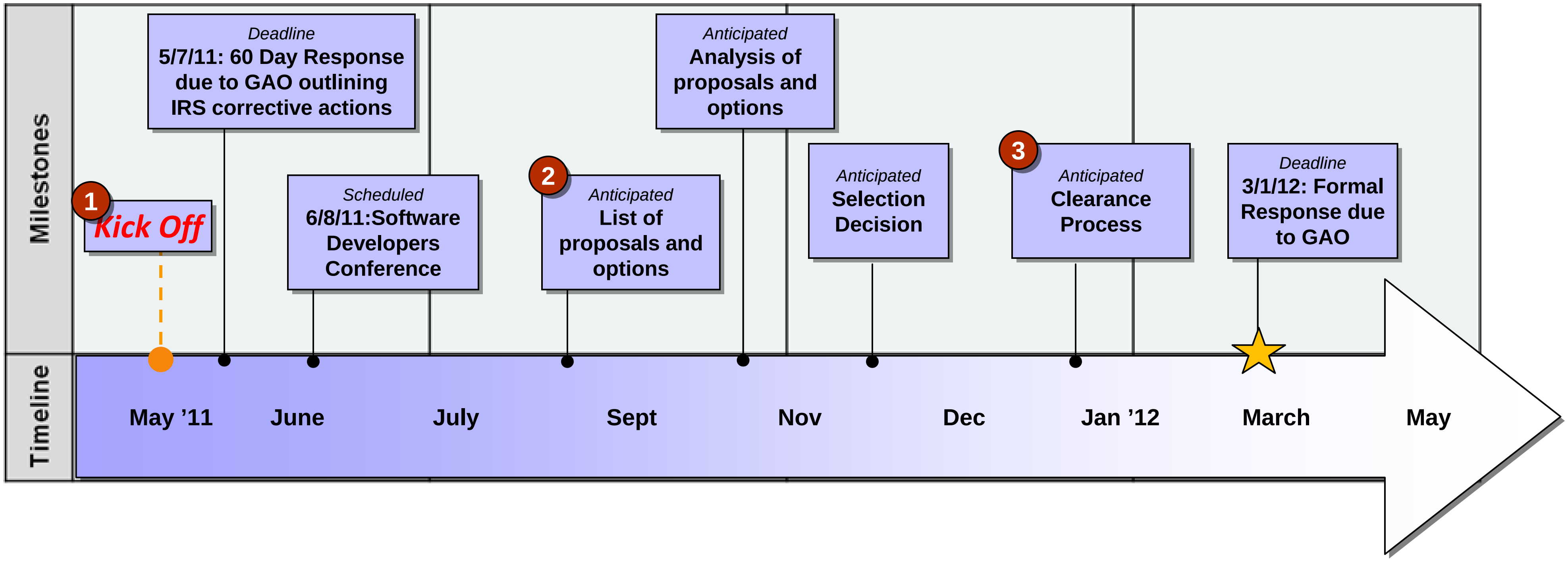
Introduction

- In March 2011 GAO concluded an audit of the IRS on its progress in implementing the preparer e-file mandate legislation. The report recognized the concurrent development of preparer regulation by IRS and the establishment of the new Preparer Tax Identification Number (PTIN). GAO pointed out that the process for obtaining a PTIN was very similar to the process for becoming an e-file provider. Both require an application, personal tax compliance checks and criminal background checks for many applicants. GAO observed that IRS could achieve savings by bringing the two processes together and recommended that IRS determine whether it would be practical and cost effective for preparers to use their PTIN as the authorizing number to e-file their clients' returns. IRS agreed to study the matter and by March 1, 2012 report on whether the recommendation is practical and cost effective. In its reply, IRS noted that full deployment of the PTIN with all checks will not be completed until the end of 2013. If it is decided to implement this recommendation, the change will not occur before 2014 at the earliest.

- To make the determination, IRS plans to consult with internal IRS stakeholders, software companies, e-file providers, tax preparers, and state tax administrators. In particular IRS will look for ideas on how to make the PTIN the authorizing number in e-file. If this is possible, IRS will ascertain the implications for e-file providers, software companies, tax preparers, and state tax administrators as well as the IRS. IRS will collect these ideas and develop concepts, scenarios and options. The most promising options will be evaluated to determine whether they are practical for affected parties and whether the proposals are cost-effective. The results of this analysis will be reported to GAO in March.

The IRS must report to GAO on Recommendation 1 by March 1, 2012

Proposed GAO Response Development Timeline



Key Milestones

1. Between May and September, develop a list of proposals and options that meet the GAO recommendation
2. Between September and December, evaluate the proposals and options and determine which are practical and cost effective; circle back with internal and external stakeholders to obtain input on how each proposal or option affects them
3. Clear results with appropriate stakeholders and prepare response to GAO

How will the GAO recommendation affect preparers and e-file software products?

High Level Issue	*Known Issue Description*
Using the PTIN or the PTIN process to authorize individual preparers to e-file	• What type of strategy would be needed to enable the PTIN to be the authorizing number in e-file? • How would preparers use this strategy when e-filing to ensure that they and only they are properly identified as the originator of their clients' returns? • What modifications, if any, would the strategy require for tax preparation/e-file software to safeguard preparer authorization, i.e. keep it from being used by another preparer? (TIGTA has reported that authorizing numbers have been found to be inappropriately used in the current e-file environment.)
Future of the EFIN	• Is it better to keep, discard or repurpose the EFIN? • Why?

E-file providers without PTINs	• Because the PTIN is only issued to compensated preparers, what would be the implications to other e-file providers and various business models that do not need PTINs?
	  ◦ Transmitters
	  ◦ Software companies
	  ◦ Online providers and transmitters
	  ◦ Intermediate service providers
	  ◦ Reporting agents
	  ◦ Uncompensated preparers, e.g. volunteers (VITA/TCE)

How will the GAO recommendation affect preparers and e-file software products?

High Level Issue	*Known Issue Description*
Impact on preparer business models	‣ There are many different business models used in the tax return preparation industry. How would this change affect their operations? • Sole proprietorship, i.e., one preparer • Small practices, i.e., 2-10 preparers • Larger practices, i.e., more than 10 preparers • Franchised practices • Regional practices • Practices involving large, complex taxpayer returns, e.g., corporate, partnership, or non-profit returns • Big 4 accounting firms
Impact to preparers	‣ Would this reduce preparer burden? ‣ Would it be easier for small preparers to engage in e-file? ‣ Would you see this as an opportunity to change the way you do business? ‣ If the answer is no to any of these questions, what is the reason for your response?
Evaluation criteria	‣ The criteria GAO asked IRS to use to evaluate the recommendation are whether using the PTIN as the authorizing number in e-file is practical and cost effective ? • What does practical mean from your perspective? • How would you identify or measure whether a proposal is practical? • What factors would you consider in determining whether a proposal is practical? • What does cost effective mean from your perspective? • GAO only talks about cost effectiveness from the IRS perspective. Should other perspectives be taken into consideration when conducting this analysis? If so, whose? • What factors would you consider in determining whether a proposal is cost effective?