Research, Analysis & Statistics

Return Preparer Industry Analysis

Presentation to the IRS-TPC Research Conference

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Research, Analysis & Statistics, Office of Research

Note: The views expressed are those of the authors and not the official positions of the U.S. Treasury Department or the Internal Revenue Service

Return Preparer Industry Analysis

- Present preparer industry trends

- Examine changes in errors related to the return preparer initiative and e-file mandate:*
  - Changes in the pattern of return preparation and submission
  - Changes in the preparer industry

* The e-file mandate guidance required preparers in processing year 2011 to electronically submit returns if they expected to prepare and file at least 100 returns. Consistent with the requirements of the statute, this threshold was lowered to 11 or more returns in processing year 2012.

Return Preparer Initiative

- The IRS adopted regulations aimed at establishing standards among tax return preparers.
- Objectives: Improve voluntary compliance and reduce errors on tax returns
- By January 1, 2011, preparers were required to register with the IRS in order to receive a preparer tax identification number, or PTIN.
- Preparers pay an annual fee for the PTIN and enter this PTIN on tax returns they complete.
- Following the U.S. District Court ruling, uncredentialed tax return preparers are not required to complete competency testing or continuing education, but are still required to obtain a PTIN.

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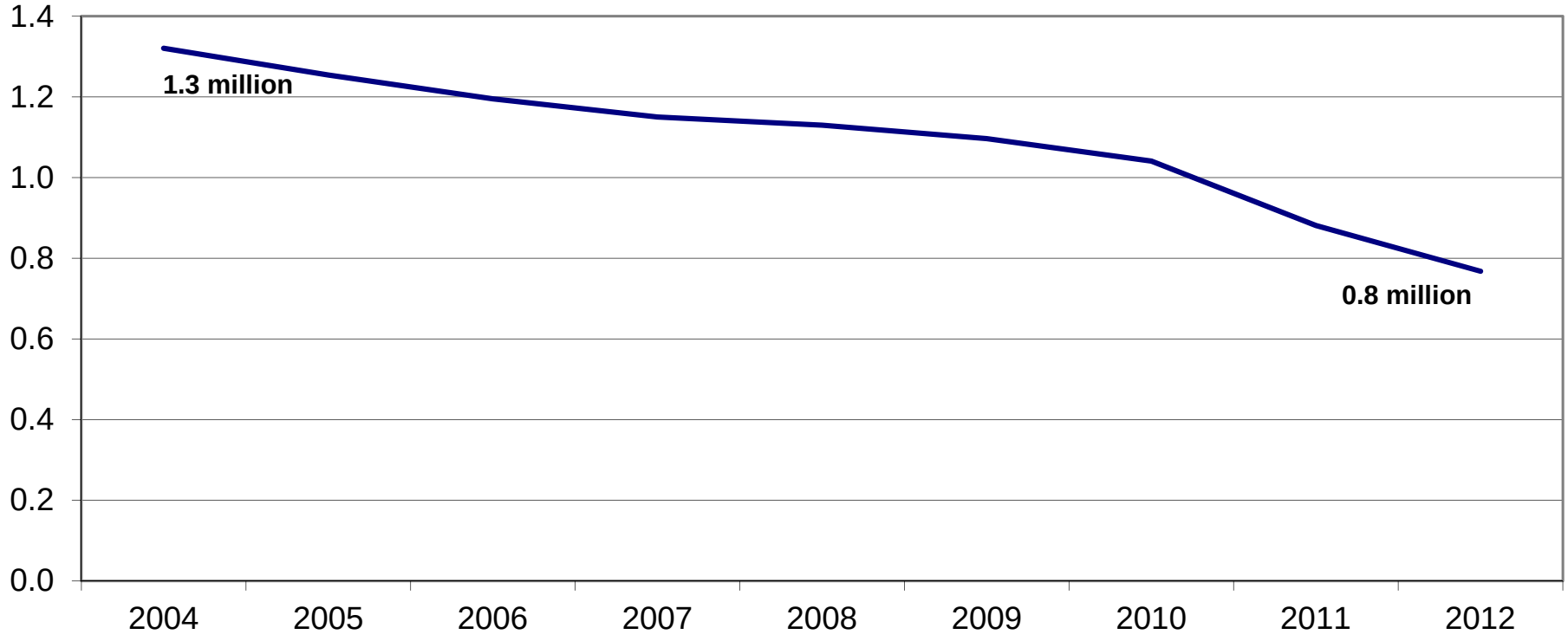
Number of preparers by processing year



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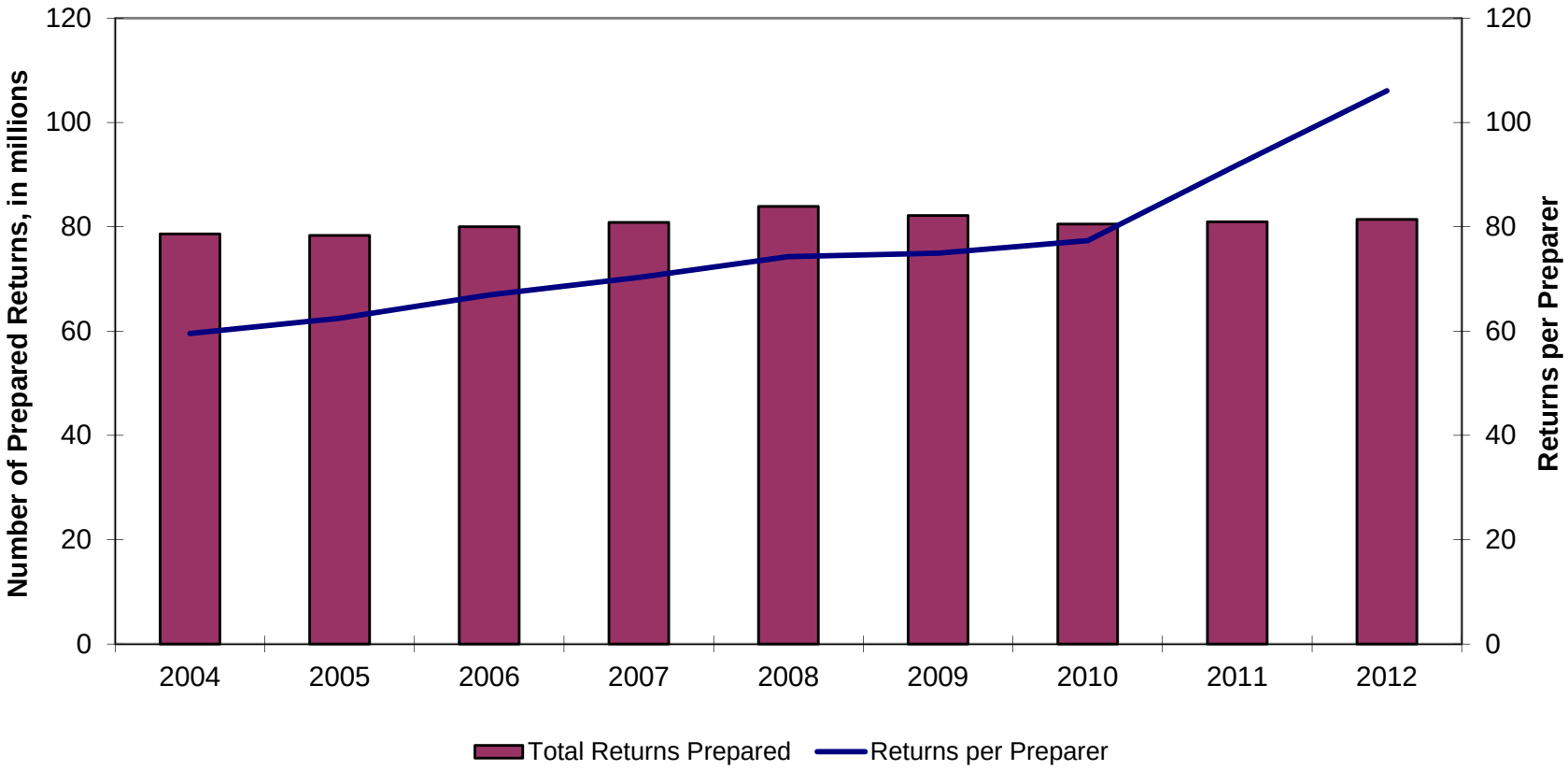
Number of prepared returns and number of returns per preparer, by processing year



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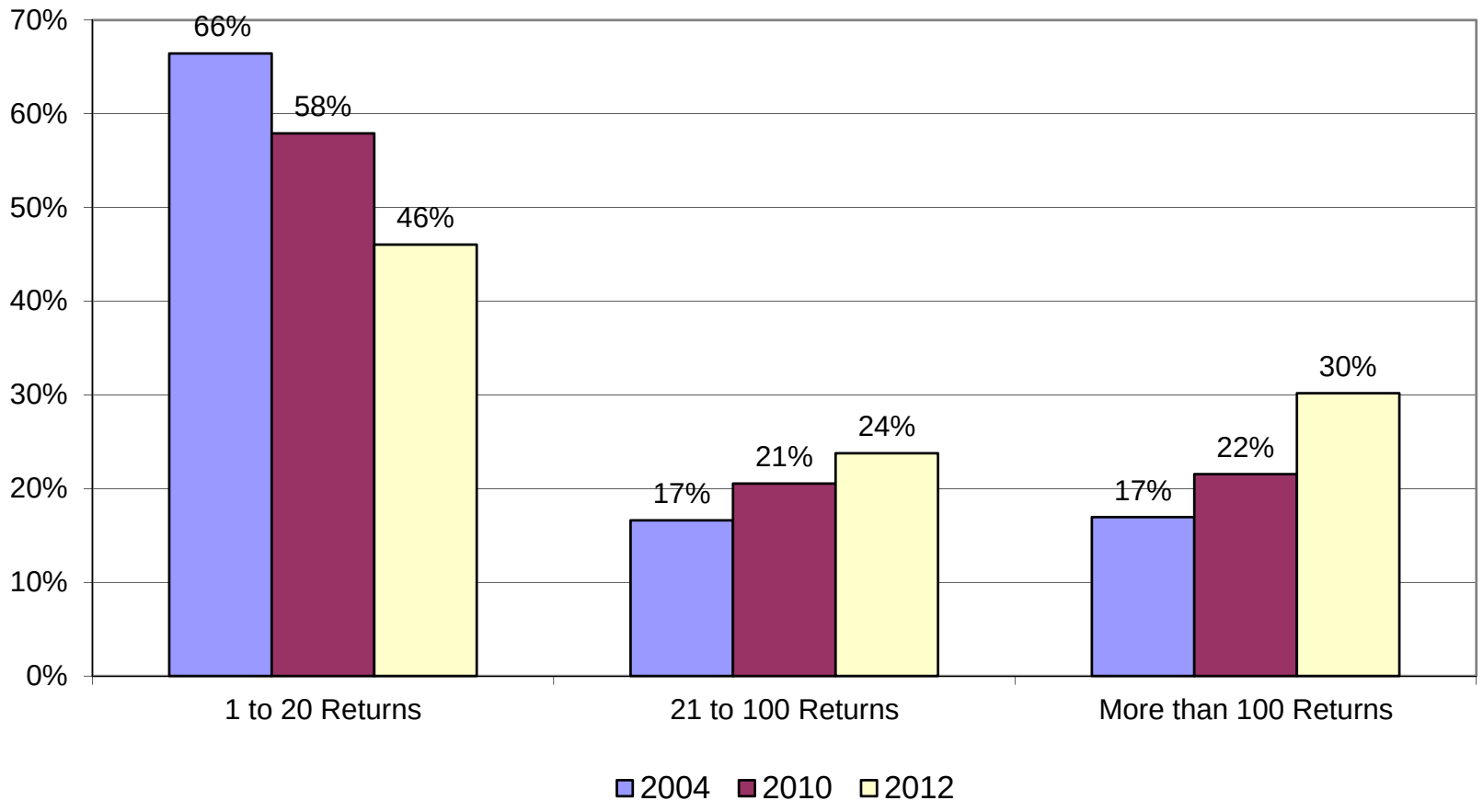
Share of preparers for select processing years by market segment



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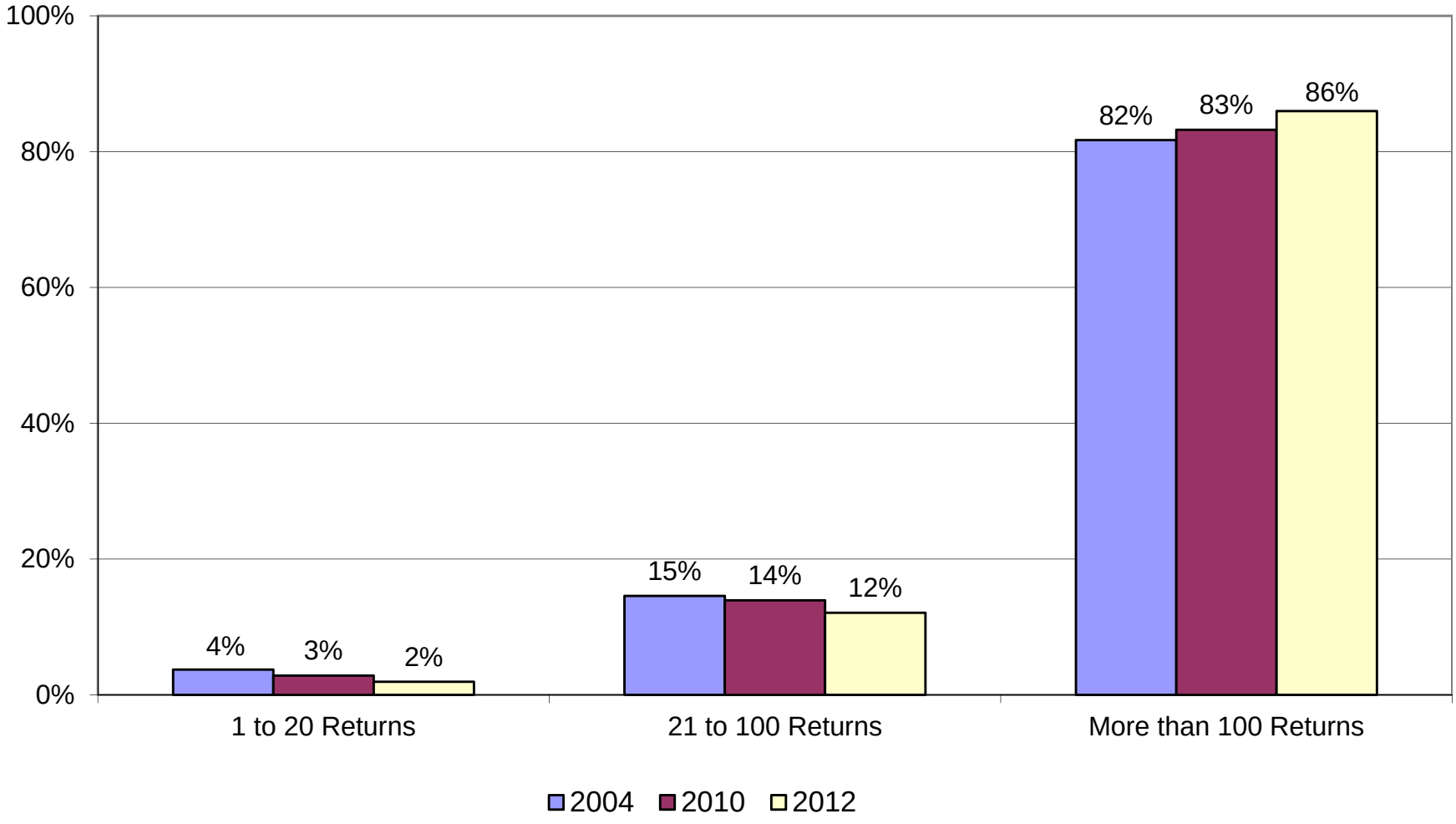
Share of returns prepared for select processing years, by market segment



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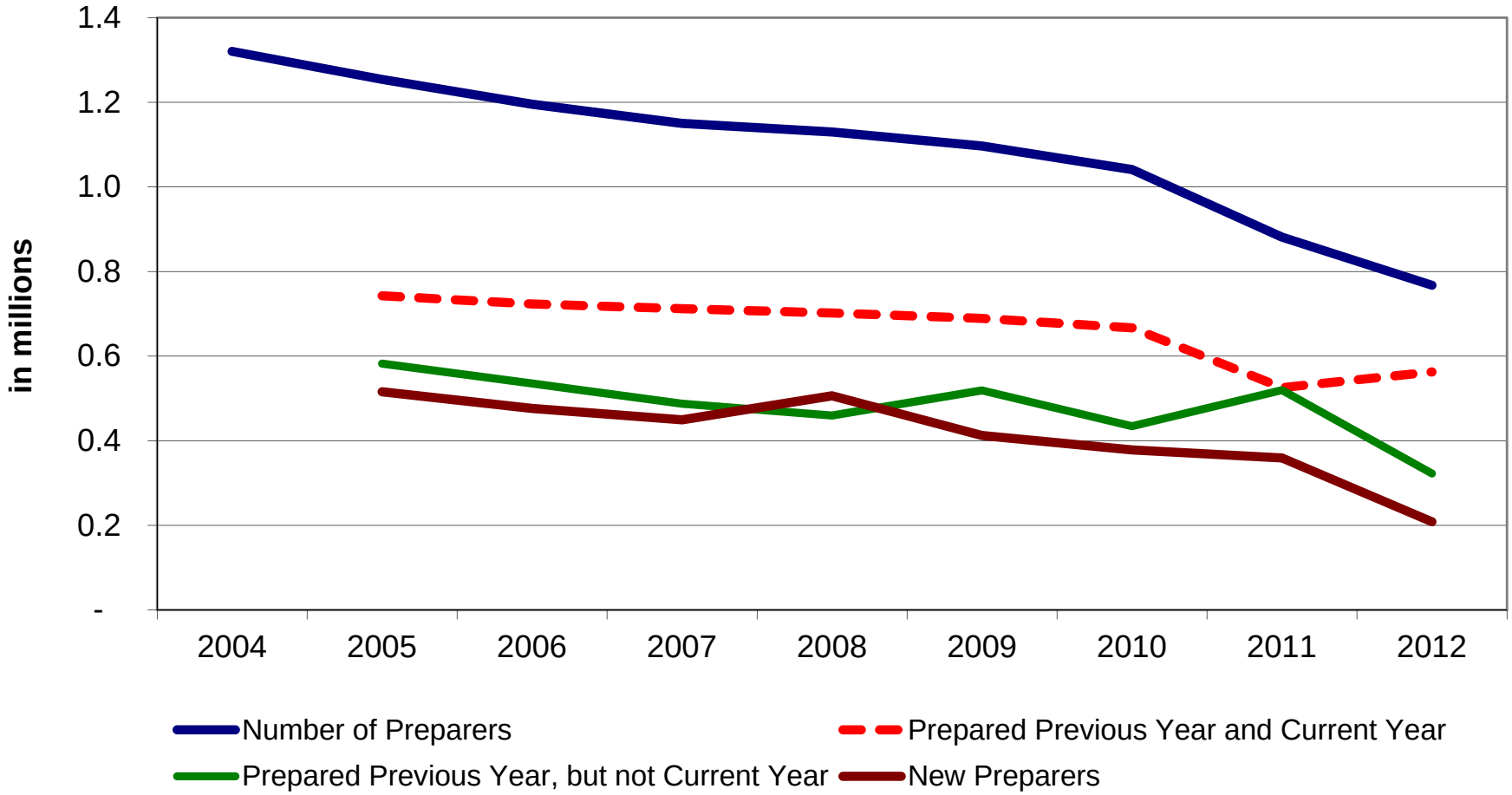
Volatility in the Preparer Market



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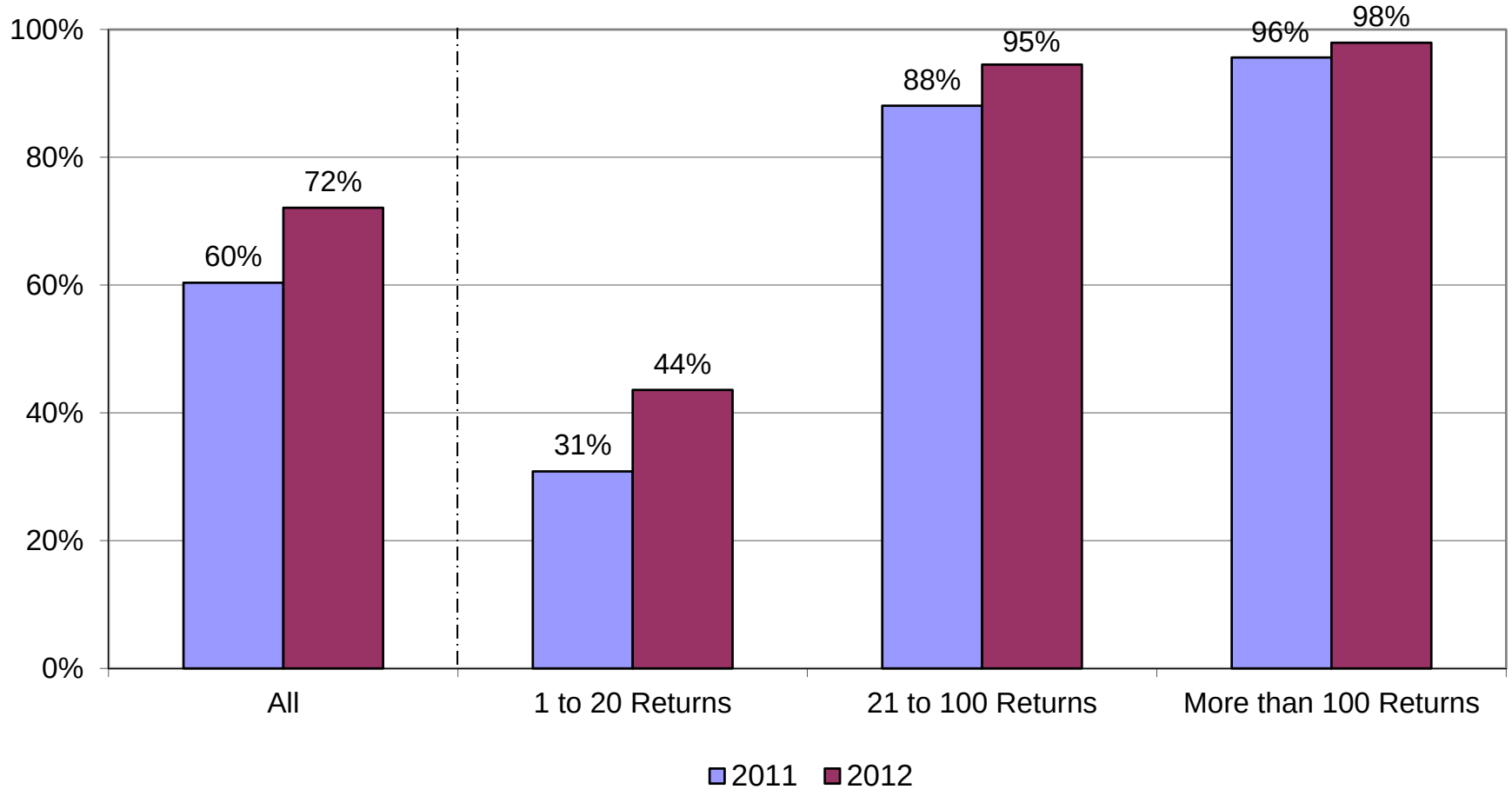
Percentage of preparers that held a PTIN in processing years 2011 and 2012, by market segment



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Type of credential identified by PTIN Holders in processing year 2012, by market segment

* Includes enrolled actuaries, enrolled retirement plan agents, certified acceptance agents, and state regulated tax return preparers.

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Analysis of Trends for Some Types of Return Errors

- Remainder of the presentation focuses on the relationship between changes in the preparer industry and e-file mandate on certain types of return errors.
- Improved baseline on the relationship between preparation and submission methods and error rates on returns can inform regulatory efforts.
- Analysis of math errors– errors detected under IRS math error authority– and AUR mismatches provides a partial view of return accuracy.

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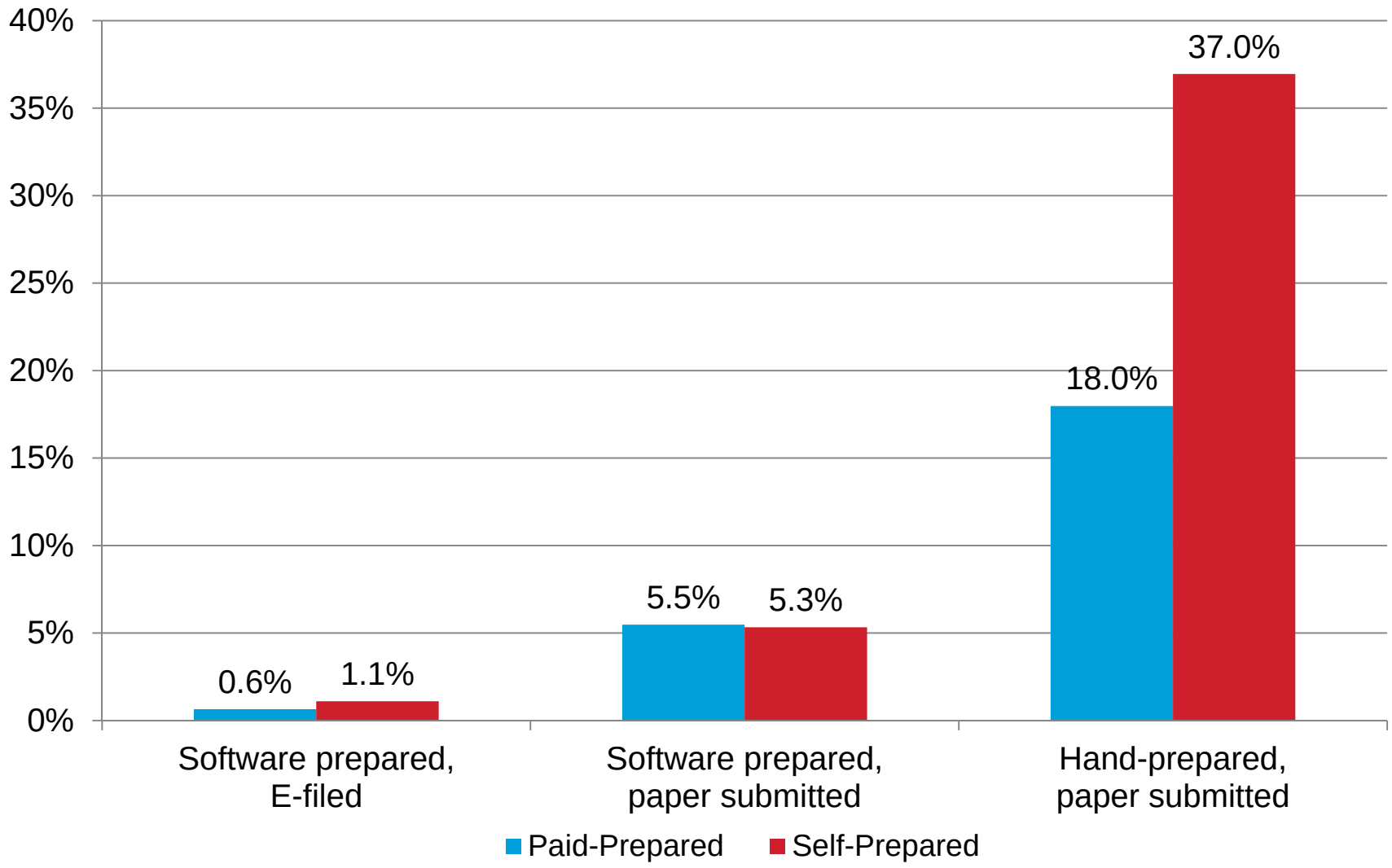
Math error rates by preparation and submission method, tax year 2010



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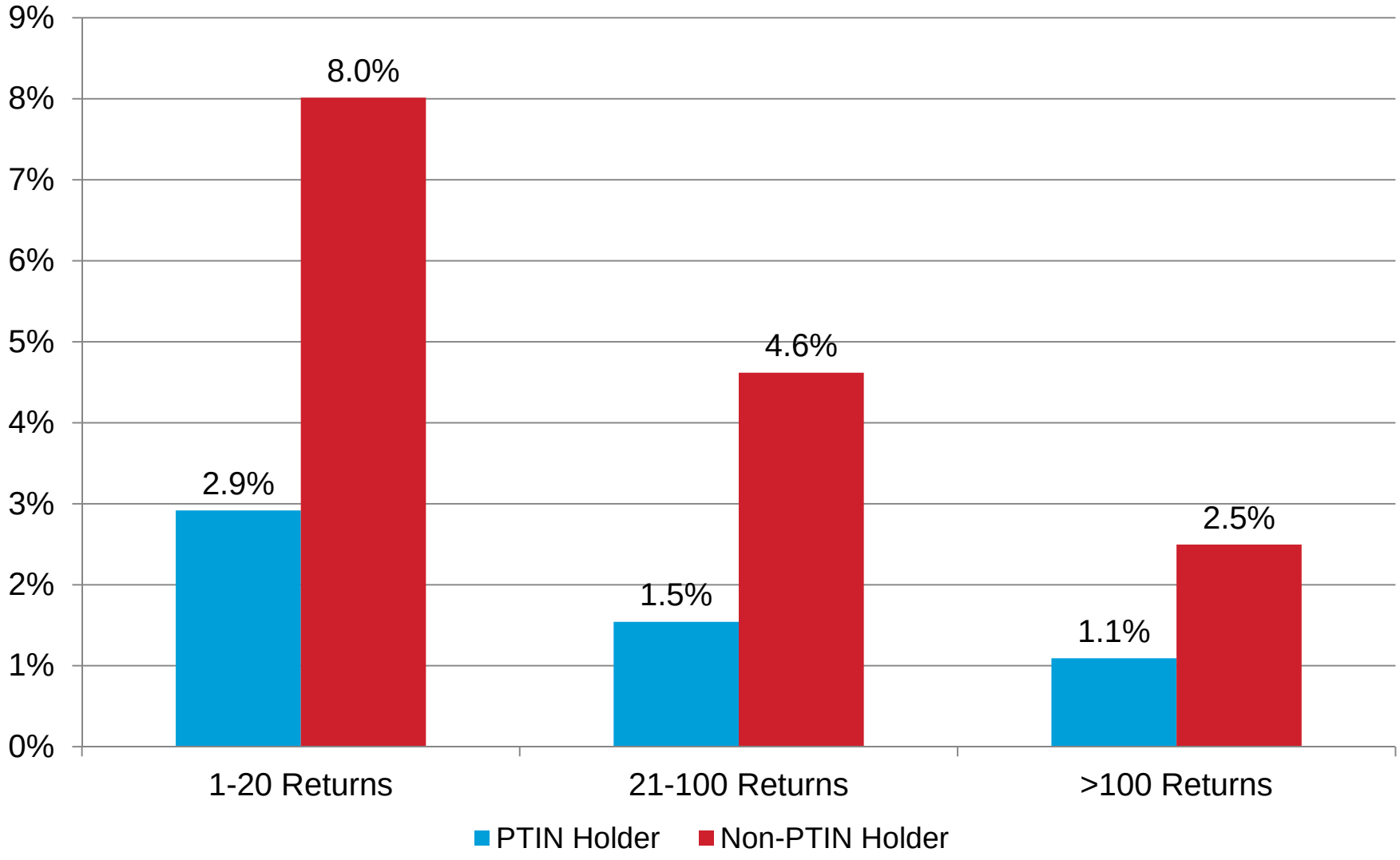
Math error rate by preparer type and market segment, tax year 2010



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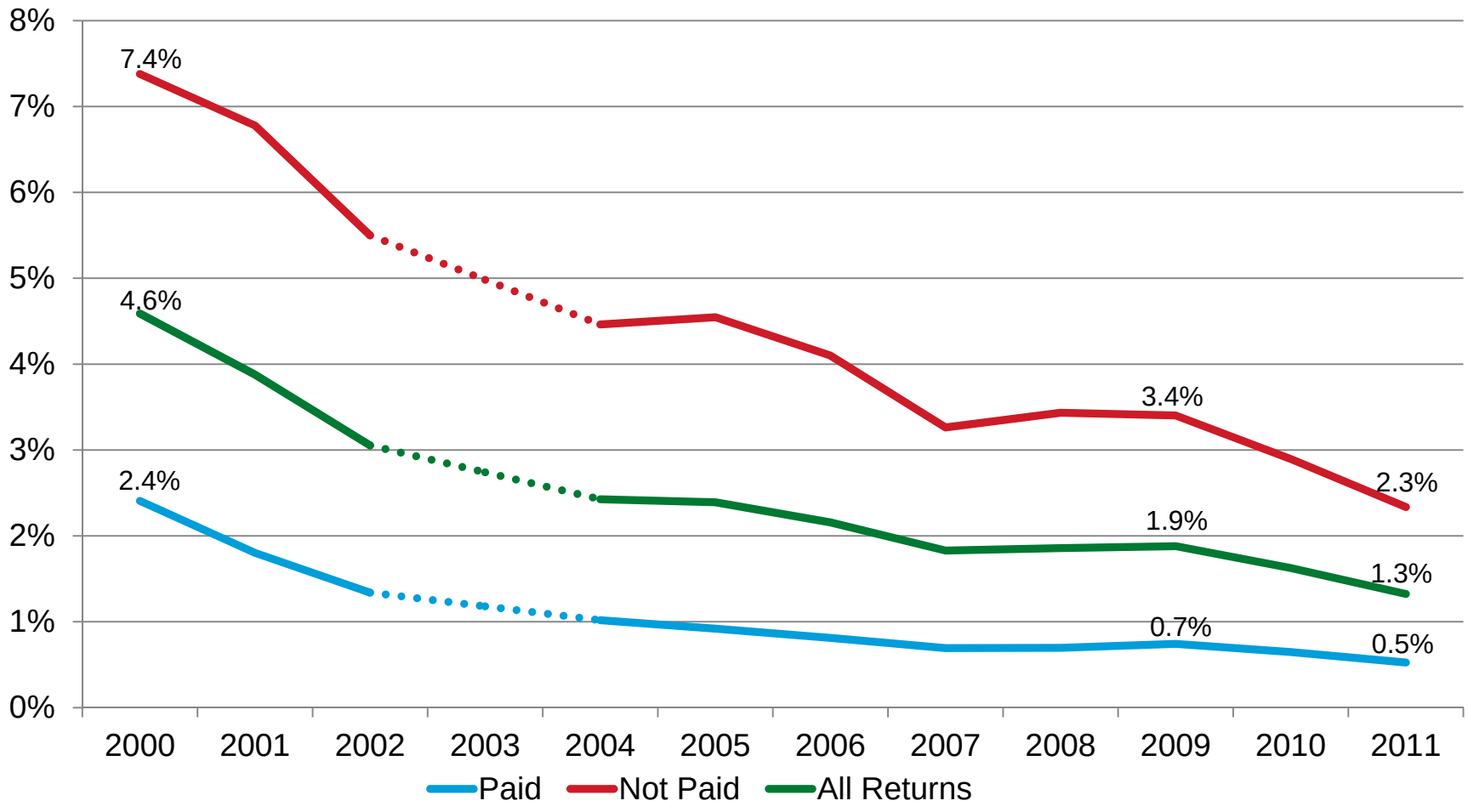
Math error rate for paid, not paid and all returns by tax year



Note: Math errors related to non-recurring credits, including the Rate Reduction Credit (2001), Recovery Rebate Credit (2008), Making Work Pay (2009 and 2010) and the First Time Homebuyer Credit (2009 to 2011) are excluded. 2003 is omitted because of the difficulty of distinguishing errors related to recurring and non-recurring tax law changes involving the child tax credit.

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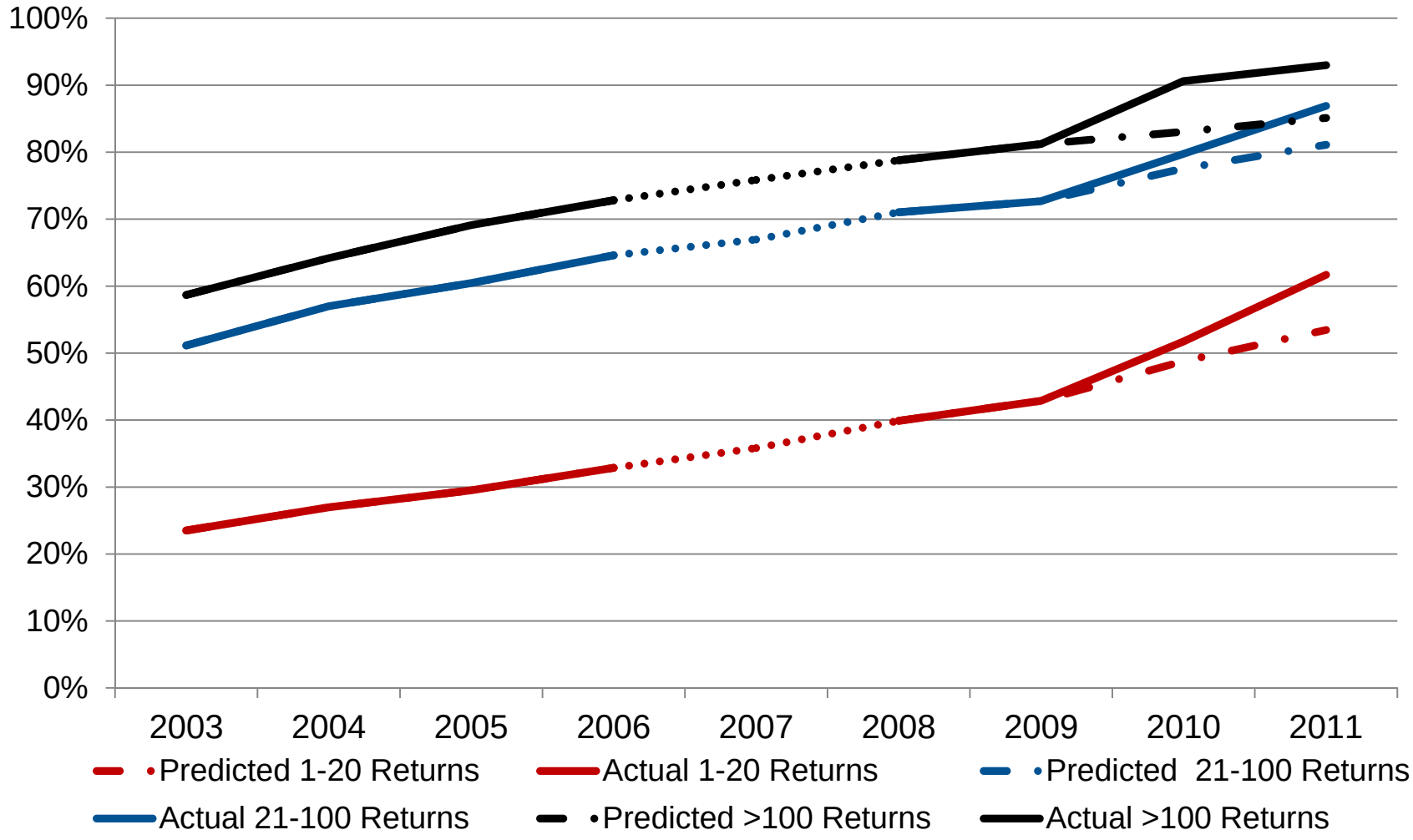
E-file rate by market segment and tax year



Note: Tax year 2007 was excluded in generating the predicted trend lines because of the distorting influence of economic stimulus filings in that year.

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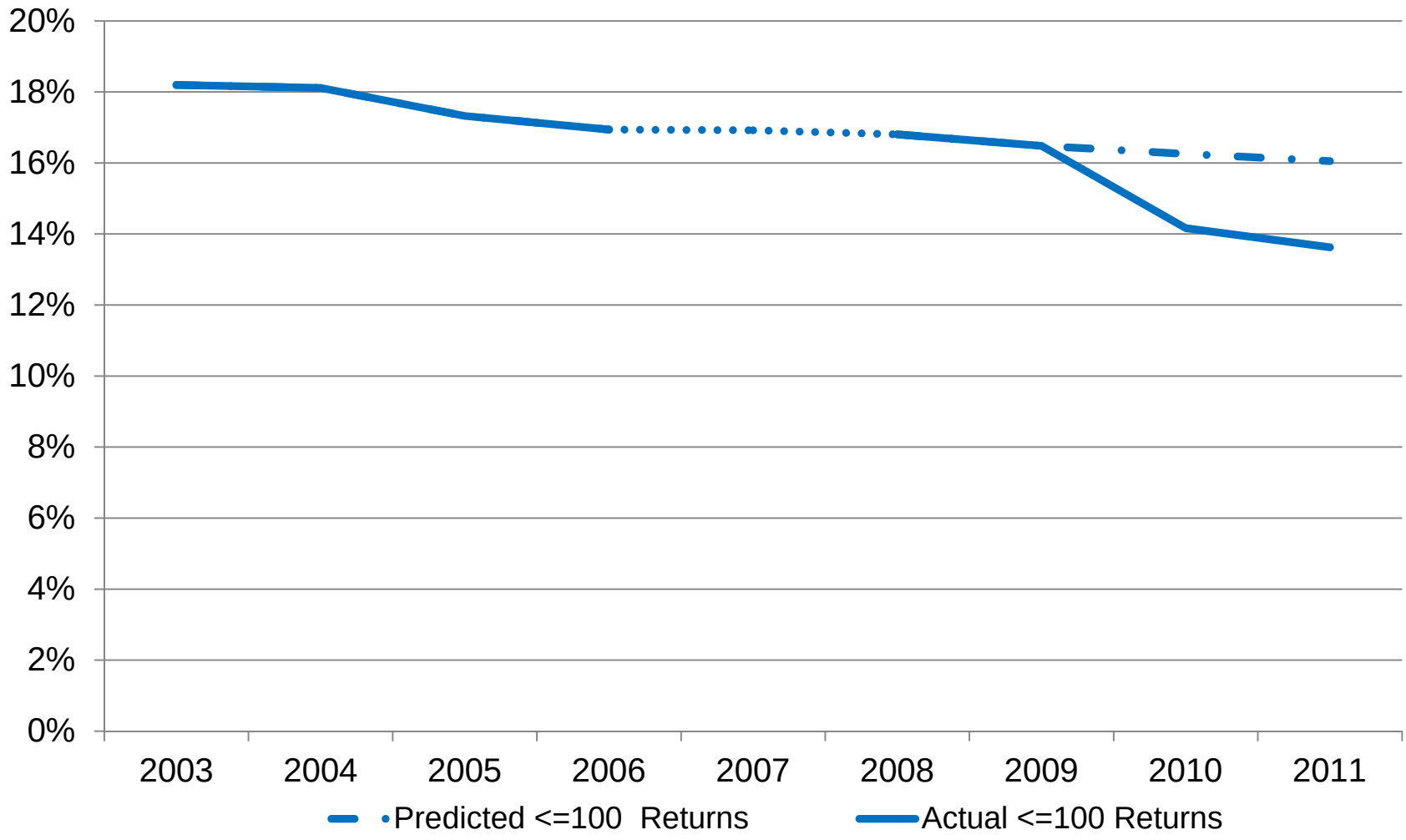
Percent of returns prepared by low volume preparers by tax year



Note: Tax year 2007 is excluded in generating the predicted trend line because of the distorting influence of stimulus filings that year.

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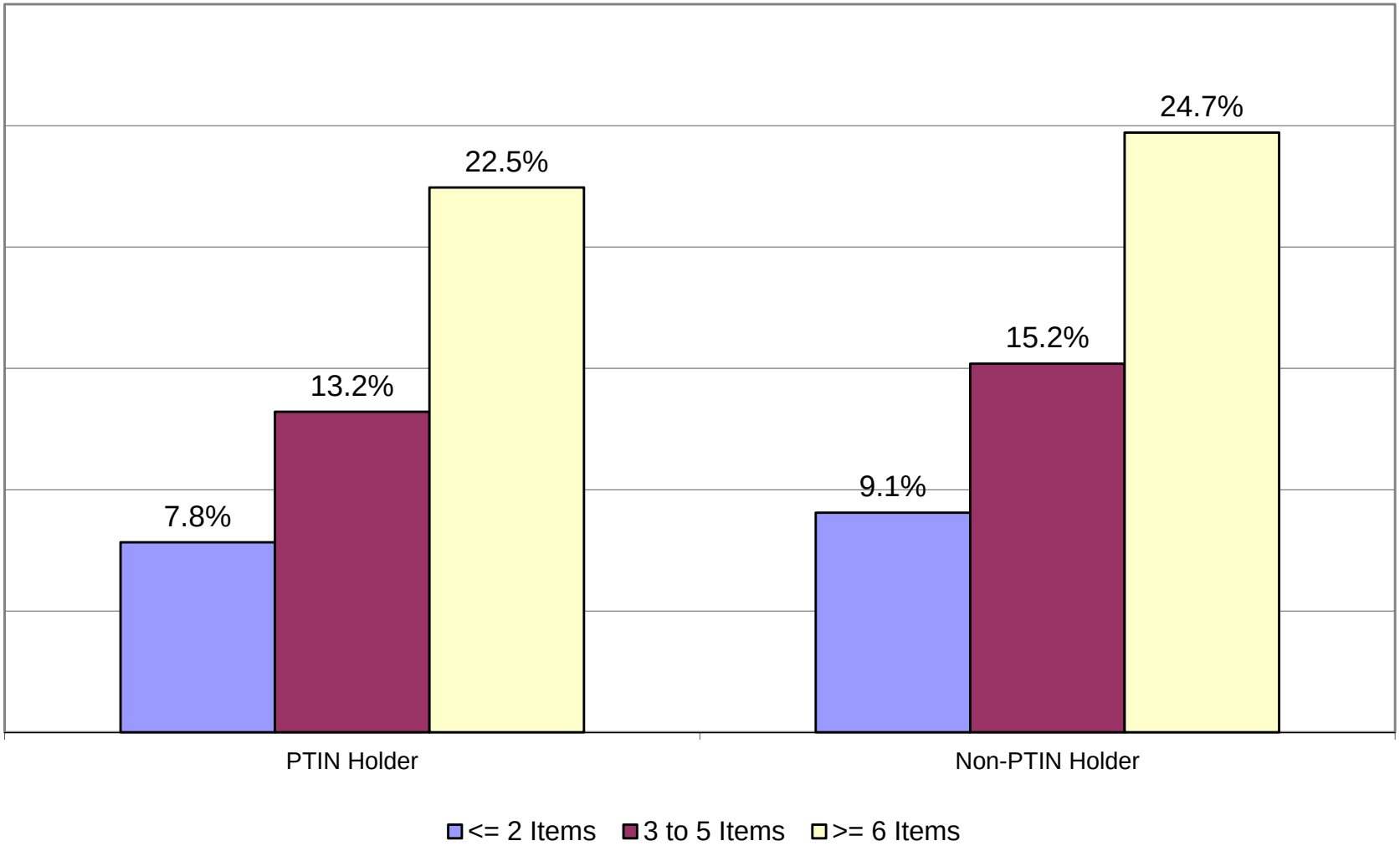
AUR mismatch rates by the number of items on the return that can be matched and PTIN holder by tax year



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Estimated reduction in math error and AUR mismatches

	Change in the Number of Returns Filed TY2010 & TY2011	Change in Math Errors TY2010 & TY2011	Change in AUR Mismatches TY2010
E-filed Returns	13,000,000	(480,000)	
Shift to Larger Volume Preparers*	3,700,000	(64,000)	(29,000)

* Preparers who prepared more than 100 returns

Summary

- The preparer industry is more concentrated
  - Long-term trend toward fewer preparers
  - Shift toward larger volume preparers
  - Increased standardization among preparers in how they identify themselves
- Initiatives result in above-trend reduction in math errors and AUR mismatches
- A more stable and readily identifiable preparer base aids engagement and promotes effective tax administration