



Committee On Finance

Max Baucus, Ranking Member

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Hearing on Raising Taxpayer Awareness of Schemes and Paid Preparer Issues

Mr. Chairman, thank you for holding today's hearing. It is critically important in our oversight role of the tax system to do our part to help taxpayers meet their tax filing obligation.

For the 2002 tax year, 132 million individuals and families will file a tax return. Over half of the returns will be prepared by the 1.2 million tax preparers. In the next two weeks, a lot of taxpayers will be calling a paid preparer to ask for help in filing their tax return. Most taxpayers want to pay their fair share. They are trying to do the right thing.

These taxpayers recognize that paying their taxes is one of the most patriotic things they can do. These tax dollars provide the government with resources to defend our shores. Educate our children. Protect our environment. Improve our highways. And help provide for our seniors and those suffering hard times.

Our voluntary self-assessment tax system is one of the triumphs of our democracy. The very idea that taxpayers come forward and provide an accounting of their income and deductions. They step up and pay what they owe in taxes.

This system ensures a smaller government – because the government does not prepare the tax return. This system also demonstrates our confidence that most Americans are honest and want to comply.

We need to help taxpayers get it right the first time in order to avoid headaches down the road. The saying, “an ounce of prevention is worth a pound of cure” could not be more appropriate when it comes to filing your taxes.

Today's hearing will focus on how taxpayers can avoid problems with the IRS. Our witnesses will identify common sense steps taxpayers can take when they use a paid preparer and what schemes to stay away from.

Given the complexity of our tax laws, it is easy to understand why so many taxpayers seek the assistance of a paid preparer. Our society values specialization. Many taxpayers do not understand the tax laws. Some simply do not have time to do their own taxes. And others use paid preparers in the hope of obtaining a larger refund.

This hearing should not be interpreted as a criticism of the important role they play. The vast majority of paid preparers provide a valuable service. Undoubtedly, paid preparers help make the tax system work.

But despite the important role tax preparers play in the annual filing season, very little information exists on who provides tax preparation services and the quality of their work. There are instances where taxpayers are not well served by paid preparers. As the GAO will point out, even a small percentage of users of paid preparers can translate into millions of affected taxpayers.

For these taxpayers, the filing of their tax return may begin a long costly process to resolve a tax dispute with the IRS. But, for some taxpayers, visiting a questionable preparer means a loss of money they were rightfully entitled to receive.

Last year, GAO estimated that up to 2 million taxpayers overpaid their 1998 taxes by almost \$1 billion because they claimed the standard deduction when it would have been more beneficial to itemize. Half of these taxpayer used a paid preparer.

Another area we should examine more closely is that anyone can be a paid tax preparer. There are no laws or regulations that limit who can sell tax preparation services. The types and training of paid preparers vary widely. Most taxpayers do not realize that there is such a lack of monitoring tax practitioners. "Buyer beware" is just as relevant with tax preparation and planning as it is with buying a new stereo.

I hope today's hearing will provide useful, common sense information to taxpayers as they meet their tax filing responsibilities. I look forward to hearing from our witnesses.