



H&R BLOCK

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Before the House Committee on Ways and Means

Subcommittee on Oversight

Hearing on IRS Return Preparer Initiative

July 28, 2011

Chairman Boustany, Ranking Member Lewis, and Members of the Subcommittee on Oversight:

Thank you for inviting H&R Block to present our views on the IRS' Return Preparer Initiative.

We commend Commissioner Shulman, the IRS Return Preparer Program Office, and the IRS staff for their efforts to create an efficient and effective regulatory program for the tax preparer industry. We support the IRS in their initiative to increase taxpayer confidence and raise the professional and ethical standards of the tax preparation profession while also increasing taxpayer compliance.

In my comments today, I will provide the context for why the issue of tax preparer regulation is vital to H&R Block, and then I will address the concerns that we have at present and our recommendations for improving this important regulatory initiative.

About H&R Block

Henry and Richard Bloch founded H&R Block, Inc. in 1955. Since then, we have prepared 575 million income tax returns worldwide. We prepare one in every seven U.S. tax returns, and file one in every five Earned Income Tax Credits.

Today, H&R Block is the leading provider of tax preparation services. Approximately 24.5 million tax returns are prepared each year by H&R Block's 97,000 tax preparers in 11,000 offices or through its digital solutions. Of these 11,000 offices, 3,000 are located in rural areas. In each of your congressional districts, we have, on average, 37 offices, 12 franchisees, and 323 tax return preparer jobs.

We have been committed to training and quality from the beginning. As far back as 38 years ago, Henry Bloch testified on tax preparer integrity and quality. He addressed issues such as competence, confidentiality, advertising practices, and the stability of tax preparation firms.

The IRS has said, "The vast majority of return preparers are honest and reputable." We agree. It is difficult to measure the degree to which incompetence or fraud afflicts the tax preparer industry. But the 60% of American taxpayers who seek assistance deserve some assurance of competence, which is why we support meaningful standards for tax return preparers.

H&R Block's Commitment to Training and Quality Control

H&R Block's process for training and quality control sets the gold standard for the industry. Our tax preparers, at a minimum, must take our basic income tax course, receive a passing test grade, and pass a criminal background check, to be eligible for hiring. The basic tax course consists of 84 hours of classroom instruction plus homework, quizzes, a mid-term, and a final exam. To be rehired, our professionals take at least 24 hours of continuing education each year. By comparison, the IRS program will only require 15 hours of continuing education for registered return preparers. H&R Block tax preparers are trained on systems, policies, and procedures, which require an additional 20 – 35 hours of training annually.

Our tax preparers work with a state-of-the-art computer program that checks and double checks calculations, theory, and accuracy. There are approximately 10,000 diagnostics in our software that warn tax preparers that there may be something to review, error diagnostics that won't let the return be filed until corrected, and other diagnostics that check all of the IRS error codes. Our electronic filing rate was well over 90% even before the mandate to electronically file tax returns was implemented this year.

In addition, our tax preparers have access to The Tax Institute at H&R Block. This group is the company's independent research division that provides objective insights and analysis on the real-world implications of tax policy and tax proposals on individuals and small businesses. The Tax Institute supports our tax preparers, including on-demand help for client-specific situations and customized research of complex tax questions.

Finally, H&R Block conducts rigorous compliance and performance integrity examinations year-round. These exams are focused on identifying and addressing suspected tax preparation deficiencies and other related concerns. We have made substantial improvements in our EITC training and compliance effort; so much so that the IRS has acknowledged our results.

First Year of Return Preparer Regulations

In the first year of implementing the Return Preparer Initiative, the main focus has been on enabling our tax preparers to register with the IRS in order to receive their PTIN (Preparer Tax Identification Number) by the start of filing season. We organized "registration parties" which entailed bringing tax preparers into the office, providing computer systems and internet access to the IRS on-line system, providing a corporate credit card to pay \$64.25 for the registration fee, and providing overall training and education on the IRS Return Preparer Initiative. Additionally, we invested significant time and money into modifying our payroll and human resources systems, as well as our tax preparation systems, to require the PTIN so that we could implement our internal controls.

We're proud that we were able to register the majority of our tax preparers by the start of the season. And while there were challenges with the IRS' systems, as is to be expected at the start of any new program, we appreciate David Williams and the staff of the Return Preparer Program Office ("Office") for recognizing the challenges that the industry was facing. The IRS implemented fair rules that allowed for a reasonable transition period for preparers to obtain a new PTIN.

H&R Block's Concerns With the Return Preparer Initiative

While H&R Block supports the Return Preparer Initiative and the work of David Williams and his team, we have several important concerns about the current implementation of the initiative.

1. The IRS competency exam is redundant to H&R Block’s program
2. There is no clear success measurement for taxpayer compliance
3. There is no defined compliance and enforcement program
4. Late decisions impact the filing season
5. Group registration is not an option

First: The IRS competency exam is redundant to H&R Block’s program

Testing

Unfortunately, the IRS has informed us, as well as other reputable programs such as the one developed by the Oregon State Board of Tax Practitioners, that it will not certify or credential our program. As we mentioned earlier, H&R Block already has an extensive training and testing program for its tax preparers, and it includes criminal background checks. Our program, which is built into the fabric of our company and complies with all existing laws and regulations, already exceeds the new IRS requirements. We must continue administering our own program because it is critical to our business and our reputation.

When we provided our support for the Return Preparer Initiative, we assumed that our world-class training and testing program would be accepted by the IRS, and that H&R Block’s certified tax preparers would be waived from the IRS Competency exam. We also point out that when Congress debated the Taxpayer Bill of Rights of 2008, there was bipartisan support for H&R Block’s competency testing to be certified for IRS purposes. The redundant testing and background exams are unnecessary and result in duplicative and burdensome costs that will be passed on to taxpayers.

Cost

H&R Block estimates it will cost over \$20 million to conduct duplicative testing and background checks with the IRS.

Item	Cost per preparer	Approximate cost for current H&R Block associates
PTIN	\$64.25/year	\$6,2 million annually ¹
Competency Exam	\$100 to \$125 per exam	\$8.9 million ² to \$11.1 million ³
Fingerprinting	\$60 to \$90 per set	\$5.8 million ⁴ to \$8.7 million ⁵
Continuing Education	Unknown	Unknown

¹ 97,000 × \$64.25 = \$6,232,250 annually

² 89,000 × \$100 = \$8,900,000

³ 89,000 × \$125 = \$11,125,000

⁴ 97,000 × \$60 = \$5,820,000

⁵ 97,000 × \$90 = \$8,730,000

Travel to testing site	Unknown	Unknown
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This does not factor in the cost of continuing education or travel to the testing site. H&R Block has approximately 3,000 rural offices and 170 tax preparers in international offices. For tax preparers in rural, remote and international offices, access to testing sites will be more challenging, and these individuals will likely incur substantial travel expenses in order to take the exam. This could be especially burdensome for international offices serving U.S. military servicemembers and their families.

Requiring H&R Block to invest \$20 million in redundant fees is unfair and penalizes a company and thousands of tax preparers who are already meeting or exceeding IRS stated goals. More important, the cost of this redundancy will be borne by taxpayers who will receive no appreciable benefit.

Recommendation: H&R Block strongly recommends that the IRS develop a program review process for accepting and certifying proven programs such as H&R Block's. Because we employ between 25% to 33% of all tax preparers subject to testing, it is in the best interest of taxpayers to keep programs that have a proven record of success.

Second: There is no clear success measurement for taxpayer compliance

While one of the goals of the program is to increase taxpayer compliance, the IRS has not yet provided a framework for how the Return Preparer Initiative will improve taxpayer compliance. Likewise, it has not defined how it will evaluate progress toward this goal. This concern was extensively documented in the March, 2011 GAO report, "IRS Needs a Documented Framework to Achieve Goal of Improving Taxpayer Compliance."

Recommendation: H&R Block recommends that the IRS define its measurement program prior to the finalization of the competency exam and continuing education requirements. In the absence of clearly defined objectives, it will be impossible to know which actions did or did not result in improved taxpayer compliance. Given the substantial expense of implementing the Return Preparer Initiative, it is imperative that the IRS demonstrate that the benefits of the program are commensurate with the expense.

Third: There is no defined compliance and enforcement program

The tax preparation industry is highly competitive. The government must not inadvertently create an unlevel playing field either 1) through a lack of a compliance program or 2) through an ill-defined or subjective compliance and enforcement program. Given the lack of a defined compliance and enforcement program, it remains unclear how the IRS will identify individuals who prepare tax returns for others but who do not sign the returns or otherwise circumvent the new requirements.

Conversely, the fear of subjective or inconsistent enforcement, which could result in severe financial preparer penalties, may cause many well qualified tax preparers to end their careers. This would be extremely unfortunate for both the tax preparers, as well as for taxpayers, who have built relationships with their trusted professionals over many years.

In addition, there are two key groups of tax preparers that are not subject to most of the requirements of the Return Preparer Initiative; “supervised preparers” and volunteer preparers.

Supervised preparers complete tax returns under the guidance of an enrolled preparer, such as an Enrolled Agent, CPA, or attorney. Although supervised preparers are required to obtain PTINs, it is the enrolled preparer’s PTIN that is actually used to “sign” the return. Thus, supervised preparers have no visibility with the IRS.

The community served by the Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), and Low Income Taxpayer Clinic (LITC) programs is, for the most part, a vulnerable group who relies on volunteer preparers for assistance and assumes that there is a minimum level of competency and integrity. However, volunteer preparers are likewise exempt from testing and continuing education requirements. Nor are they required to obtain a PTIN. Thus volunteer preparers, too, have no visibility with the IRS.

Recommendation: H&R Block recommends that the IRS clearly define its compliance and enforcement program, the implementation timeline, and the transition rules/guidelines for bringing preparers into compliance. We also recommend that the IRS create a program for monitoring the work of supervised and volunteer preparers. Lastly, we recommend that volunteer preparers should also be required to obtain a PTIN. Because they’re doing the work on a volunteer basis, the fees could be waived by the IRS.

Fourth: Late decisions impact the filing season

The new requirements have generally been released later than the IRS originally anticipated. For example, the release of the competency exam was originally scheduled to occur before January 2011, but it may not be available until October 2011. Uncertain and moving deadlines as the new requirements are implemented have been a challenge for H&R Block and the rest of the tax preparation industry because they do not allow sufficient time for us to update our systems, train our tax preparers, and prepare our offices in time for the start of the tax season.

While we understand that it is difficult to quantify the exact cost of a new program, the tax preparation industry needs to have some level of certainty and forewarning, so that appropriate business and operational planning can be completed. For example, we are less than six months away from the start of the 2012 filing season, and we still don’t know what the exact costs of the competency exam and fingerprinting will be. Also, the continuing education requirements are scheduled to go live in January, and we don’t know for sure if the IRS will accept our continuing education program; nor do we know how much it will cost to certify our education programs.

Recommendation: H&R Block recommends that decisions such as fees and timing for new and additional components of the return preparer requirements must be finalized at least one year before the start of a new tax season.

Fifth: Group registration is not an option

The IRS's online PTIN application process currently is available only on an individual basis. In the first year, the process was difficult for some applicants to navigate and the IRS also experienced difficulties processing a backlog of paper applications.

Recommendation: We would like to work with the IRS to create a group or mass PTIN registration, renewal, and payment process that would simplify the administration of the new requirements for any organization that employs 100 or more tax preparers. Because H&R Block comprises almost 14% of the total return preparer population and PTINs must be renewed on an annual basis, a group process would save time and money for the IRS, H&R Block, and other large employers in the tax preparation community.

Conclusion

Thank you for the opportunity to provide H&R Block's perspective and recommendations. We commend the IRS for moving forward aggressively to implement the Return Preparer Initiative. Creating the Return Preparer Program Office was an important step in strengthening the relationship between the IRS and the tax preparation industry. David Williams was an excellent choice as the director of the Office. His significant experience, strong leadership, and willingness to work with our industry will ensure that the initiative is ultimately successful.

Tax season 2012 begins in six months and there is still a great deal of uncertainty regarding fees, the upcoming competency examination, and continuing education requirements. The uncertainty makes business planning difficult for all tax preparers. We look forward to collaborating with the IRS this year to ensure smooth implementation of the new requirements with little or no impact to taxpayers.

Looking further into the future, we expect more states to add additional requirements and fees for tax return preparers. While we do not believe additional state requirements will produce any added benefits, we believe states will also create programs similar to the IRS's program, therefore adding burden to the tax preparation industry. We hope the IRS will work with the States to ensure that such State programs do not cause additional burdens through more duplication of existing certification programs.

We remain committed to the goals and objectives of the Return Preparer Initiative. We look forward to continuing to work with the IRS to raise the standards of professionalism and integrity in our industry and we are confident that the American taxpayer and the tax administration system as a whole will benefit from our collective efforts.