

I Received One of the “21,000 Letters . . . What Do I Do Now? Reacting to the IRS Preparer Compliance Initiative

The IRS mailed approximately 21,000 letters in mid-November 2011 to tax return preparers to “improve the accuracy and quality of filed tax returns and to heighten awareness of preparer responsibilities.” In focusing its compliance efforts on preparers who prepare a large number of Forms 1040 with Schedules A, C, or E, the IRS has indicated its 2012 filing season letters “target” preparers who prepare returns that have a high percentage of attributes typically associated with errors on these schedules.

If you received one of the 21,000 letters, you do not need to contact the IRS nor do anything specific in response to the letter. Nevertheless, the IRS views this program as an opportunity to “heighten the awareness” of the 21,000 recipients (as well as any other preparer) who would benefit from reviewing: (1) the IRS’s guidance on its preparer compliance initiative, including the [Service’s frequently asked questions](#) on the 2012 filing season program; and (2) their firms’ office procedures for handling and processing tax returns.

The IRS will also be contacting and setting up office visits with 10% of the 21,000 preparers who received the initial compliance letter. The Service indicates the compliance visits will provide further assistance to the approximately 2,100 preparers in meeting their required professional responsibilities. If you are chosen for a visit, we suggest that you ask the revenue agent why you were selected.

Getting Ready for a Visit

Potential Questions

The reports the AICPA received from members regarding last year’s preparer compliance visits generally suggests that members had a positive experience and that the visits were not intrusive. In scheduling the visits, revenue agents indicated that the visit would last no more than 3 to 4 hours but they often only lasted an hour. Last year, questions raised by the revenue agents during an office visit often centered on office procedures – somewhat akin to a tax practice quality review:

- (1) What are your general procedures for gathering taxpayer data?
- (2) Does the firm use tax organizers?
- (3) Does another professional review the preparer’s tax returns?
- (4) How does the firm handle security of its computer system?
- (5) What processes do you have in place to ensure compliance with Internal Revenue Code Section 6695? and
- (6) How do you verify gross receipts or the accuracy of other data received from clients?

While the current IRS FAQs state that the preparer should make all tax forms prepared in 2011 available (including relevant documents) during the compliance visit, according to the feedback the AICPA received from members last year, the IRS is likely to conduct a “50,000-foot review” of only a sampling of the tax returns prepared by the tax return preparer. The IRS is particularly

interested in reviewing whether the preparer has maintained copies of Form 8879, IRS e-file Signature Authorization, which should include both the signatures of the taxpayer and the preparer.

Review Your Responsibilities

Moreover, in order to prepare for the office visit, we suggest that you review your compliance with the responsibilities detailed in Section 6695. Penalties can be assessed against preparers for many violations, including endorsement or negotiation of a taxpayer's tax-related check. Section 6695 also penalizes the failure to do the following:

- Furnish a copy of the tax return to the taxpayer;
- Sign the return;
- Furnish an identifying number (such as a Preparer Tax Identification Number);
- Retain a copy or list of the returns prepared;
- File correct information returns; and
- Show diligence in determining eligibility for the Earned Income Credit.

Note: We do caution you to vigorously safeguard client confidentiality and privacy. If the revenue agent asks to look at something other than a client's tax return, such as documentation in the client's file, you should consider **a reminder to the agent regarding the scope of the office visit, and that compliance with Section 6695 would not require review of client files other than the face of the tax return.**

We hope this information is useful. If you are visited by an IRS agent as part of this program (not routine exams or other matters), we would like to know about your experience. Please contact Edward Karl, Vice President of Taxation, at ekarl@aicpa.org.