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IRS To Do Your Taxes?

Is it too far-fetched to imagine the IRS doing what H&R Block does, preparing your taxes for a fee? This might become a reality in the not too distant future. Congress has formed a 'super committee' whose job is to generate \$1.5 trillion in cuts by November which means that you will soon come across novel ways the government takes in earning revenue and tax preparing for hire may be one of them.

The concept is not altogether foreign nor is it new as it has been mooted before. In 2006, Senate Finance Committee Chairman Max Baucus (D-Montana) surmised that having the IRS prepare taxes for taxpayers would bring in an additional \$345 billion annually which helps to close the 'tax gap', the difference between what the government believes taxpayers owe them and what the IRS actually collects. Baucus said, "I think the solution (to the tax gap) is to get rid of the middle man...and no fees required".

Also in 2006, President Obama's former Chairman of the Council of Economic Advisers Austan Goolsbee suggested that the IRS send you a pre-filled tax form rather than a blank one and all you do is check through the figures and sign the form to verify them. He said, "... the revenue service could send you a tax form already filled out with the information it has for you — a Simple Return — rather than a blank tax form. You would simply check the numbers against your W-2 and 1099 and then sign it." During his presidential campaign, the then Senator Obama also proposed the same thing when he spoke at the Tax Policy Institute. "The government already collects wage and bank account information," he said, "so there's no reason the IRS can't send Americans pre-filled tax forms to verify."

But not everyone is hot on making things convenient. People at the Computer and Communications Industry Associations (CCIA) believe that such an arrangement with the IRS is an invasion into your privacy. CCIA President and CEO Ed Black said, “There is a fundamental conflict of interest if the tax collectors also become the tax preparer. If you don’t trust the fox to guard your hen house, why trust the IRS to do your taxes. It’s the same exact thing. They make it sound so convenient, but it’s really just a convenient way to kiss your deductions and tax credits goodbye”.

Black is among the many who are of the opinion that having the IRS prepare your taxes is a quick way for the government to raise taxes without having to vote for it. He clarified, “Most members of Congress, especially the Republicans, do not want to vote for a tax increase. But if the super committee calls having the IRS do people’s taxes an ‘accounting change’ or a ‘convenience to the taxpayer,’ they raise taxes by hundreds of billions of dollars per year and no one even knows about it.”

There are pros and cons to this proposal and whether it will finally materialize is anyone’s guess.