



October 13, 2011

Tax Preparers Gear Up for New IRS Regulations

730,000 tax practitioners in the country are gearing up to follow new IRS regulations for their industry. Certification is needed to practice as a paid tax preparer. And for certification you must register and pass a competency test. Some tax preparers will even need to supply their fingerprints and have their backgrounds vetted through against FBI records to check for previous criminal involvement.

All this requires cost and the IRS estimates the licensing fee will be between \$250 and \$275. But this could be significantly higher if you take into consideration state fees and fees imposed by large tax preparer companies like H&R Block. Some are afraid this increased cost of practicing as a tax preparer would jeopardize the livelihood of small, independent preparers, resulting in large companies like H&R Block and Jackson Hewitt to grab the lion's share of the market.

About 450,000 tax preparers who lack professional certifications as lawyers or certified public accountants, and those registered with the IRS as preparation supervisors will be badly affected. Mark Steber, chief tax officer Jackson Hewitt admitted that the fees, "do seem large, and they are large." However, the IRS recently said it was open to ways to reduce the costs.

The danger is throwing the baby out with the bathwater. Fees and competency test costs could weed out the swindlers while at the same time deprive honest tax preparers of an honest living. Many retirees and work-at-home moms turn to tax preparation for part-time income. Some may not be able to afford the higher costs while others, particularly the elderly, may not be able to pass the competency tests.

Chuck McCabe, chief executive officer of the Income Tax School Inc in Richmond, Virginia that offers tax-preparation classes, said that the certification requirements are “definitely a deterrent” and added, “The fees definitely do pose a barrier to entry.” He predicts that the new regulations “would create a vacuum” of tax preparers.

The IRS’ objective in implementing these new regulations is to bring more supervision and restriction in what has been largely a free-for-all industry where just about anyone can claim to be a tax preparer and file taxes and get paid for it (only Oregon and California have regulatory tax laws against such practices). So the IRS wants to weed out incompetent tax preparers who prepare taxes during tax season and then quickly disappear before any action can be taken against them.

According to the Government Accountability Office, more than 50% of taxpayers hired tax preparers to file their tax returns last year. Practitioners say the fees will be passed down to the taxpaying public.

At the same time, many people believe the larger tax preparation companies will pay for their staffs’ certifications to retain experienced preparers, and thus would gain a competitive advantage over small, independent preparers.

But not everyone believes so. David Williams, director of the IRS return preparer office, said the costs are necessary to make the tax preparation business more professional. He said, “In virtually every service profession, there are basic, minimum standards for suitability.” said Williams.

In June 2009, IRS Commissioner Doug Shulman started an overhaul of the tax preparation industry.