

Subject: New TIGTA Audit Encourages Mandatory E-Filing By Preparers
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NEW TIGTA AUDIT ENCOURAGES MANDATORY E-FILING **BY PREPARERS**

The Treasury Inspector General for Tax Administration (TIGTA) today publicly released an audit report recommending that the Internal Revenue Service (IRS) seek mandatory *e-filing* of individual tax returns prepared by paid preparers.

TIGTA also recommended that IRS use readily-available scanning technology to convert paper returns into electronic files.

The IRS employs up to 5,000 individuals during filing season to enter data from individual tax returns into its database.

The recommendations are part of TIGTA's audit of the IRS's efforts to modernize the way it processes paper tax returns.

"The IRS has tried four times since 1988 to replace its paper return processing system but has had little success," commented J. Russell George, the Treasury Inspector General for Tax Administration.

According to the report, the IRS continues to receive large numbers of paper-filed individual income tax returns despite a continued growth in *e-filing*.

In 2008, the IRS received 156.3 million individual tax returns, of which 66.4 million (42.5 percent) were paper-filed.

TIGTA's report found that:

- Error rates for paper-filed returns are considerably higher because of transcription errors by IRS employees;
- Most paid preparers already use electronic software to prepare returns, even those who file returns on paper;
- State tax agencies use readily available software to scan paper returns rather than transcribing taxpayer data.
- The report concluded that implementing *e-filing* and using scanning technology could result in a 26.9 percent increase in *e-filing*, with cost savings of \$66.6 million annually (\$333 million over 5 years), and allow the IRS to convert 13.2 million paper tax returns into an electronic format.

TIGTA recommended that the IRS: work with the Treasury Department to seek approval of legislation mandating *e-filing*

for all paid preparers; and begin using scanning technology to convert paper tax returns into electronic files.

The IRS told TIGTA that it is seeking legislative authority from Congress for mandatory preparer *e-filing* as part of its Fiscal Year 2010 budget request. The IRS also said it is pursuing the use of scanning technology.

To view this report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200940130fr.pdf>.

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