



For Immediate Release  
April 12, 2007

Contact: Carol Guthrie  
202-224-4515

**Hearing Statement of Senator Max Baucus (D-Mont.)  
Filing Your Taxes: An Ounce of Prevention is Worth a Pound of Cure**

Benjamin Franklin said, "An ounce of prevention is worth a pound of cure." It's an old expression, but no less true today than when old Ben said it over two hundred years ago.

We keep fire extinguishers in our homes in case a fire breaks out. We take vitamins every day with the hope they will keep us healthy. We believe these are good, up-front actions we can take to prevent bad things from happening later.

Today's hearing will demonstrate that up-front measures are necessary to prevent inaccurate or false tax returns from being filed. The quality of tax return preparation has a direct effect on tax compliance and the size of the tax gap.

The IRS says the gross tax gap, the difference between the taxes legally owed and the taxes timely paid, is \$345 billion a year. The IRS says we have a voluntary compliance rate (VCR) of eighty-four percent. Raising the VCR by one percentage point will yield an additional \$25 billion each year to pay for priorities like children's health care and energy independence – without raising taxes on anyone.

Allowing tax noncompliance to continue is unfair to the majority of our nation's taxpayers who pay the taxes they owe.

Last year, paid preparers filled out sixty-percent of the individual tax returns that were filed. That means that the accuracy of eighty million tax returns depended on the education, skill and integrity of tax professionals.

Given their enormous effect on tax compliance and the tax gap, it is reasonable to expect that tax preparers will meet high standards of competency and trustworthiness.

I know many fine tax preparers in my home state of Montana. I believe that the vast majority of tax professionals are honest, and make every effort to stay up-to-date on the tax laws so the returns they prepare are accurate.

Unfortunately, that is not always the case. Anyone can hang out a shingle and charge fees to prepare a tax return without passing a single test or establishing that he or she can be trusted with a social security number or personal financial information.

But the problem is broader than that. Every year, millions of taxpayers flock to the national tax preparation chains, confident that their tax returns will be prepared accurately and their personal information will be protected. Yet, last year, the Government Accountability Office conducted an undercover investigation for the Committee that found nineteen out of nineteen preparers at national chains filled out very simple tax returns incorrectly.

These preparers took dependents they shouldn't have, and failed to report cash income they should have. Some failed to follow due diligence procedures for the earned income tax credit. The GAO referred these cases to the IRS for appropriate action.

Tax preparation firms have an obligation to ensure that the quality of the returns prepared under their purview is A-1. To do this, they must provide training, establish basic competency standards, and monitor the quality of client interviews and the tax returns being prepared. They need to hire persons of integrity who will not abuse their access to confidential financial data.

The IRS also must step up to the plate with effective oversight of tax preparers.

Last week, the IRS and the Department of Justice announced civil injunctions on franchises of a major national tax preparation firm for using phony W-2s, creating false businesses and claiming exorbitant credits. I commend the IRS and the DOJ for their strong enforcement on these egregious cases.

However, although injunctions are impressive and no doubt effective, few preparer oversight issues rise to the level of an injunction. That's why the IRS must not shortchange the day-to-day, routine preparer oversight.

It's been a full year since the GAO conducted its undercover investigation.

To our knowledge, the IRS has not contacted the preparers, and has failed to initiate any audits in connection with the undercover operation. So far, the IRS follow-up has been delayed by IRS studies, executive committees and red tape.

The IRS's failure to take decisive action on these high-profile cases that may not rise to the standards of an injunction sends a message to other preparers that it's okay to be incompetent or to cheat the government "a little bit."

Obviously, the IRS can't visit each paid preparer. That is why it is important for the IRS to have robust, up-front processes so it knows the caliber of those who are authorized to file tax returns, both on paper and electronically. That's why the IRS must clamp down on the use of stolen identities to file fraudulent tax returns.

As Ben Franklin suggested, isn't it easier to prevent tax problems than to collect delinquent taxes or prosecute fraudulent claims years later?

Today's witnesses will bear out Mr. Franklin's wisdom. Their testimony will demonstrate that our nation's tax system is only as good as the quality and ethics of our nation's tax preparers.

IRS Commissioner Mark Everson will describe the IRS's efforts to oversee preparers and filing season processes. He will tell the Committee how the IRS plans to ensure that the tax system does not fall prey to tax cheats.

Eileen O'Connor will relate how identity theft increasingly is being used in connection with fraudulent tax claims. She also will tell the Committee about recent injunctions in connection with scams and schemes perpetrated by unethical preparers and promoters.

Michael Phillips and James White will talk about IRS filing season processes and whether they are effective at deterring and detecting filing abuses.

Mr. Evangelos Soukas, currently serving a sentence for crimes including identity fraud and submitting fraudulent claims to the IRS, will explain how he received thousands of dollars in fraudulent refunds from the IRS by using stolen identities before he was apprehended.

Together, these witnesses will demonstrate that paid preparers substantially affect the level of tax compliance and that filing season processes are vulnerable to abuse. Their testimony will lay the foundation for legislation I will introduce to strengthen the regulation of paid preparers and to protect the security and privacy of American taxpayers and their private financial information.

I thank all of the witnesses for agreeing to appear before the Committee today. I look forward to your testimony.

###