



Committee On Finance

Max Baucus, Ranking Member

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**Opening Statement of U.S. Senator Max Baucus (D-Mont.)
Preparing Your Taxes: How Costly Is It?
Hearing Before the Senate Finance Committee**

T.S. Eliot wrote: "April is the cruelest month." And many would consider doing their taxes to be the cruelest part of all.

Filling out burdensome income tax forms is so stressful that most Americans pay someone to do it for them. Taxpayers are willing to spend hundreds of dollars to make sure that their taxes are done right.

Most taxpayers want to do the right thing. They are willing to trust a paid preparer — often a complete stranger — with their most intimate financial information, to do just that.

Every year, paid preparers serve as the link between 80 million taxpayers and the IRS. And this year, another ten million taxpayers bought tax software to file from their home computers.

That's a big influence on our tax system. The state of the tax preparation industry is a warning signal for the health of our nation's voluntary tax system. It's like a canary in a coal mine.

I am sorry to report that the canary is dying.

Today, we will hear the serious symptoms of an ailing system.

Over the last several weeks, GAO undercover investigators visited the offices of 5 national tax preparation chains. Using simple tax scenarios, they tested how paid preparers treat their customers and the Nation.

The results were shocking.

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The preparers failed at their most important task. Only ten percent of their returns were prepared correctly. Frequently, preparers did not ask enough questions to know if they were getting the right answers. Many preparers were eager to probe for additional deductions or credits. But many did not report cash income. Many preparers ignored the answers that the undercover investigators gave them. They used answers of their own.

They made up their own facts. And they made up their own tax laws.

Several refunds were \$2,000 more than they should have been. Many preparers seemed to be more interested in coming up with a big refund than they were in getting it right.

They were acting not for the client's benefit, but for their own. The bigger the refund, the more that preparers can sell products like refund anticipation loans or audit insurance.

Many preparers quoted fees that were substantially less than what they ended up charging. Many preparers levied extra charges for unnecessary forms, refund anticipation checks, or products like debit cards. Charges like these raise the cost of filing considerably.

Today, we are also going to learn that the IRS's Free File Program is not always so free. The Free File Program is a partnership between IRS and private preparers. Taxpayers who use the program encounter hidden costs and bait-and-switch offers to buy upgrades or products like refund anticipation loans. These loans make taxpayers have to pay for borrowing their own money.

In sum, many tax preparers perpetrated a cruel hoax on taxpayers and Treasury alike. And the Treasury has not done all that it can to avoid this cruel result.

I want to acknowledge that there are many hard-working, well-qualified, and competent professionals in the tax business. I am proud that my home state of Montana boasts some of the most rigorous industry standards in the country. These professionals must meet stringent training, experience, and continuing education requirements to practice.

These are not the preparers about whom we are talking today.

But we cannot stick our heads in the sand. We cannot pretend that problems do not exist. Instead, we should listen carefully to our witnesses today and then find solutions that will mend what's broken.

Last year, I introduced S. 832, "The Taxpayer Protection and Assistance Act of 2005" together with my Colleagues, Senators Grassley, Bingaman, Schumer, Smith, Akaka, and Pryor. It goes right to the heart of many of these problems.

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It requires paid preparers to meet minimal training and competency standards before they can hang out their shingle. It makes it easier for the IRS to discipline bad preparers. It helps to protect taxpayers from unexpected or excessive charges. It requires disclosing the cost of refund anticipation loans.

We should make it easy to comply with the tax law. Maybe it's time to consider making electronic filing available at no cost for all taxpayers.

Just a few years ago, everyone received a package of forms and instructions in the mail. Or, they could go to their local library to get them. Recently, the forms have become available through the IRS website. All of the forms and instructions are free.

So, why do we force taxpayers to pay a preparer or buy software to file electronically?

Taxpayers don't have to go to a bookstore and buy the forms to file a paper return. And they should not have to pay to file an electronic one, either.

Today's hearing highlights tough issues that affect all of us. I want to thank all of the witnesses for agreeing to appear before the Committee today. I look forward to your testimony.

As Simon and Garfunkel sang, "April, come she will." And until we reform the tax code, we are fated annually to confront onerous forms to meet April's deadline.

Let us ensure that the work of tax preparers does not add to April's cruelty. Let us ensure that the bad apples among them do not continue to play a cruel joke on the Nation's finances. And let us look forward to a better spring, after we do.

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