

**ORAL TESTIMONY OF WILLIAM C. COBB
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BEFORE THE SENATE FINANCE COMMITTEE
HEARING ON "PROTECTING TAXPAYERS FROM INCOMPETENT AND UNETHICAL RETURN
PREPARERS"
APRIL 8, 2014**

Chairman Wyden, Ranking Member Hatch and the distinguished Members of this Committee, thank you for inviting H&R Block. We are pleased to participate in this important discussion about protecting consumers from incompetent and unethical preparers.

As the world's largest consumer tax services provider; competent, ethical tax return preparation is something we take very seriously. Last year, we filed more than 22 million U.S. individual income tax returns — about 15 million returns in our more than 10,000 offices and another 7 million through our do-it-yourself software offerings. We know a lot about consumer views on taxes and we know what it takes to maintain expertise in the always-changing tax landscape.

In order to protect taxpayers from incompetent and unethical tax return preparers, there are two key items that must be addressed: first, minimum standards for tax return preparers and second, consistent fraud prevention measures across all tax preparation methods.

First, we support legislation that sets standards for professional tax return preparers.

The most obvious way to address incompetent and unethical tax return preparers is to establish a set of minimum standards. Standards provide an objective measure for both consumers and tax preparers to measure and monitor the overall competency, expertise, and performance of tax return preparers. This is critical because the ultimate goal is to help taxpayers file more complete and accurate returns. Equally important is the reduction of both fraudulent tax returns and the improper payment rate of the Earned Income Tax Credit.

More than 80 million people file an individual income tax return with the help of a tax return preparer every year. Consumers need an objective way to know that the person they turn to for one of the biggest financial transactions of their year is competent and meets standards necessary to accurately prepare tax returns.

Taxpayers themselves agree. A recent national survey that we commissioned found that nine out of 10 consumers support requiring professional tax preparers to meet minimum training standards.

As this initiative moves forward, the U.S. Treasury Department and IRS must leverage the lessons learned from the prior registered tax preparer program and partner with private industry to create an effective and cost-efficient program. The components of the program must include tax preparer registration, demonstrated competency, continuing education and background screening.

At the end of the day, requiring return preparers to meet minimum standards and stay current with the tax code is not about granting the IRS additional authority that it shouldn't have, or to advance anti-competitive pursuits — it is about protecting the 60 percent of consumers who get help with their taxes every year. This is why we require our H&R Block tax preparers to meet stringent education and competency standards - 75 hours of tax law and return preparation education in their first year, plus annually, another 15 hours of continuing education and 35 hours of skills training.

The second key item that must be addressed is implementing consistent fraud prevention measures across all tax preparation methods.

The steps designed to prevent EITC fraud in the paid preparer channel are notably absent in the do-it-yourself channel. Specifically, for the 40 percent of taxpayers who do their own taxes using Do-it-Yourself software, such as H&R Block's, they are not required to provide the same information and documentation to substantiate their eligibility for this refundable credit. Congress must close such obvious gaps not only for EITC but for all refundable credits. With an EITC improper payment rate persisting at 20 percent or higher, this is an obvious opportunity that can and should be seized immediately.

Consumers aren't concerned about answering more questions. In the same survey I mentioned before, a significant majority of taxpayers expressed a willingness to do more to help combat tax fraud, such as answering more questions on their returns or even waiting a little longer for their refund. Government, the tax preparers, software developers and

taxpayers each play a significant role in the tax filing process. Taxpayers are willing to do their part, as long as it's administered consistently for all.

Additionally, this difference in standards creates a loophole for ghost preparers who don't want to comply with the paid preparer requirements – they simply use a Do-it-Yourself product. IRS should set standards for tax software to ferret out ghost preparers.

Before I close, let me take a moment, Mr. Chairman, to acknowledge your interest in simplifying the tax code and the tax filing process. We would be pleased to share our consumer tax expertise on these issues with you and your staff. The Tax Institute at H&R Block, comprised of Enrolled Agents, Tax Attorneys, CPAs and former IRS officials, analyzes proposed legislation and regulations with an eye on how they will affect consumers; and, in doing this analysis, the Tax Institute has access to the real-world experience of our 70,000 tax professionals who are on the front-line with consumers.

In conclusion, we urge Congress to listen to consumers and move to enact minimum standards for return preparers and implement consistent anti-fraud measures for all taxpayers. These standards are essential for protecting consumers, combating fraud and reducing improper payments.

Until Congress can enact minimum standards for return preparers, we recommend that Treasury and IRS implement a voluntary certification program as supported by IRS Commissioner Koskinen and the National Taxpayer Advocate.

Thank you for the time and I look forward to working together to implement these commonsense measures.

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