Coalition Statement of
ALEC Action, Americans for Prosperity, Americans for Tax Reform,
Campaign for Liberty, Center for Worker Freedom, Competitive Enterprise Institute,
FreedomWorks, Freedom Partners Chamber of Commerce, Free the People,
Heritage Action, Institute for Justice, Less Government,
National Taxpayers Union, R Street Institute, Rio Grande Foundation,
Taxpayers Protection Alliance, and Tea Party Nation
in Opposition to Section 202 of S.3278, the Protecting Taxpayers Act
and Similar Efforts to Grant the IRS Authority
to License Tax Preparers

September 20, 2018

U.S. Senate
Washington, D.C. 20510

Dear Senator:

The 17 undersigned organizations together ask Congress to oppose Section 202 of S. 3278, the Protecting Taxpayers Act, and similar efforts to grant the IRS the power to license tax preparers. As detailed below, granting the IRS this new power will kill jobs and increase costs to consumers. Furthermore, the IRS already has the tools it needs to identify, track, and penalize unscrupulous tax preparers without unnecessarily burdening the vast majority of law-abiding preparers with a costly licensing scheme. Section 202 is unnecessary and unacceptable and together we urge Congress to reject it and similar efforts to authorize the IRS to license tax preparers.

Licensing Kills Jobs and Will Close Tens of Thousands of Small Businesses

Granting the IRS the power to impose an occupational licensing scheme will destroy jobs and close many small businesses. Industry experts and analysts estimate that tax-preparer licensing will cause tens of thousands of independent tax preparers—as much as 20 percent of the industry—to close shop due to compliance costs, including lost time and out-of-pocket expenses. IRS licensing will thus only serve to protect large incumbents (which benefit from economies of scale) and licensed professionals (such as CPAs) from competition by erecting costly barriers to entry that will fall hardest on independent entrepreneurs.

Licensing Drives Up the Cost of Tax Preparation for Consumers and Reduces Choices

By imposing barriers to entry, licensing reduces competition in the tax preparation market, which is bad for consumers. Reduced competition in the tax preparation industry is expected to artificially drive up the prices consumers pay for tax preparation. In addition, prices will likely increase as tax preparers pass the increased regulatory compliance costs on to consumers. By driving many independent preparers out of business, licensing also reduces consumer choices and interferes with consumers’ autonomy over their personal finances.
Tax Preparers Are Already Regulated; Licensing Gives Unneeded Power to the IRS

Tax-preparer conduct is already regulated by dozens of federal laws, including increased due diligence obligations for paid tax preparers when preparing Earned Income Tax Credit returns. Failure to comply with any of these laws or regulations results in serious penalties, including injunctions, fines up to $100,000, and prison. This includes a registration requirement: all tax preparers must register annually with the IRS and undergo a suitability check to obtain a unique Preparer Tax Identification Number (PTIN) that they must include on all returns they prepare. This PTIN requirement gives the IRS the information it needs to identify any unusual or suspicious patterns in the returns prepared by any given preparer and prosecute any “bad apples.” The IRS does not need any additional power over tax preparers in order to ensure compliance with the tax code.

Background

In 2011, the IRS imposed a sweeping new licensing scheme of tax return preparers without congressional authority. In response to a lawsuit brought by the Institute for Justice, the U.S. Court of Appeals for the D.C. Circuit—upholding the U.S. District Court for the District of Columbia’s 2013 ruling—ruled in 2014 that the IRS did not have the statutory authority to impose nationwide licensing for tax preparers. In response to this court victory, large tax preparation firms that would benefit from this licensing program at the expense of independent tax preparers are lobbying Congress to grant this authority to the IRS.

The right to earn an honest living is central to the American Dream. Granting the IRS the power to license tax preparers will put that dream out of the reach of tens of thousands of Americans who prepare tax returns to earn a living. We hope Congress agrees that Section 202 of S. 3278 and similar efforts to license tax preparers will only harm small business owners and the consumers they wish to serve.

To be clear, we do not collectively take a position on the other provisions of S. 3278.

Thank you for considering our views and requests. We stand ready to assist you and are available to answer any questions you may have. Please feel free to contact Dan Alban, attorney, Institute for Justice, at (703) 682-9320 or dalban@ij.org.

Sincerely,

ALEC Action

Americans for Prosperity

Americans for Tax Reform

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