TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

The IRS Must Do More to Address Noncompliance and Potential Misconduct With Return Preparers

October 21, 2026

Report Number 2027-IE-R001

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS: The IRS Must Do More to Address Noncompliance and Potential Misconduct With Return Preparers

Final Evaluation Report issued on October 21, 2026 **Report Number 2027-IE-R001**

Why TIGTA Did This Evaluation

In 2010, the IRS published regulations addressing Preparer Tax Identification Number (PTIN) requirements. In general, anyone who prepares federal tax returns for compensation must have a valid, active PTIN that must be renewed annually.

The IRS uses PTINs to track return preparers' behavior, such as:

- The number of tax returns they prepare and file.
- The filing methods they use (*i.e.*, paper or electronic).
- The number of tax returns with refunds and balances due.

Return preparers can be credentialed or uncredentialed. Credentialed preparers are tax professionals who hold recognized credentials (*i.e.*, certified public accountants, attorneys, and enrolled agents). Uncredentialed preparers prepare tax returns but do not have a professional license or certification. Studies show that uncredentialed preparers are a higher compliance risk; however, the IRS has limited authority to regulate them. We initiated this evaluation to assess IRS processes for issuing, renewing, and monitoring the PTINs of tax professionals.

Impact on Tax Administration

During Fiscal Year 2024, more than half of all individual taxpayers used a paid preparer, according to IRS data. Return preparers are critical to tax administration and provide a unique opportunity to impact taxpayer behavior and compliance with tax laws. It is imperative that the IRS effectively regulate return preparers.

What TIGTA Found

In Processing Year 2025, more than 38,000 return preparers with a noncompliant PTIN status prepared over 2 million tax returns. Noncompliant PTINs are those that are not in an active status, such as expired, and are being used to file tax returns. While not all tax returns prepared by noncompliant PTIN holders resulted in a refund, the tax returns that do have refunds are potentially more likely to have the characteristics of a tax scheme identified in this review.

Nearly 12,000 of these 38,000 return preparers completed approximately 95,000 Form 1040, *U.S. Individual Income Tax Return*, documents claiming nearly $600 million in refunds. We believe that these return preparers present a higher risk because they only prepared tax returns requesting refunds.

We also found that between 2010 and 2025, the IRS issued or renewed PTINs for ineligible return preparers. For example, 73 PTINs were issued or renewed for deceased individuals and prisoners.

Also, at the time of our review, the IRS did not have a process to prevent current IRS employees from having a PTIN. IRS guidance and federal regulations specifically prohibit IRS employees from preparing tax returns for compensation, gift, or favor. We found that 691 IRS employees held active PTINs. More than 90 of these employees have potentially prepared tax returns for compensation.

The IRS has limited authority to regulate uncredentialed return preparers. This contributed to potentially hundreds of millions of dollars in lost revenue from fraud schemes. Despite the IRS's efforts to educate taxpayers about common schemes, some return preparers are promoting an overstated withholding scheme.

Return preparers who incorporated characteristics of this withholding scheme in tax returns prepared for Tax Years 2023 and 2024 requested refunds of approximately $740 million combined for both tax years. About 84 percent of these return preparers were uncredentialed. Further, some were ghost preparers (return preparers who do not put their PTIN on the tax returns they prepare) who prepared tax returns with the same potentially fraudulent characteristics and claimed refunds of approximately $179 million.

What TIGTA Recommended

We made one recommendation. We recommended that the IRS finalize and implement the data-driven return preparer strategy. The strategy should address preparer outreach and penalty considerations, employee PTIN policies, scheme promotors, and ghost preparers. The IRS agreed with our recommendation.

TREASURY INSPECTOR GENERAL
for Tax Administration

DATE: October 21, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Nancy A. LaManna
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – The IRS Must Do More to Address Noncompliance and Potential Misconduct With Return Preparers (Evaluation No.: IE-25-034)

This report presents the results of our review to assess compliance and control measures that the Internal Revenue Service (IRS) used to issue and authorize new and renewed Preparer Tax Identification Numbers. This evaluation was part of our Fiscal Year 2026 Annual Program Plan and addressed the major management and performance challenge of *Improving Taxpayer Service and Protecting Taxpayer Rights*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Frank O'Connor, Director, Inspections and Evaluations.

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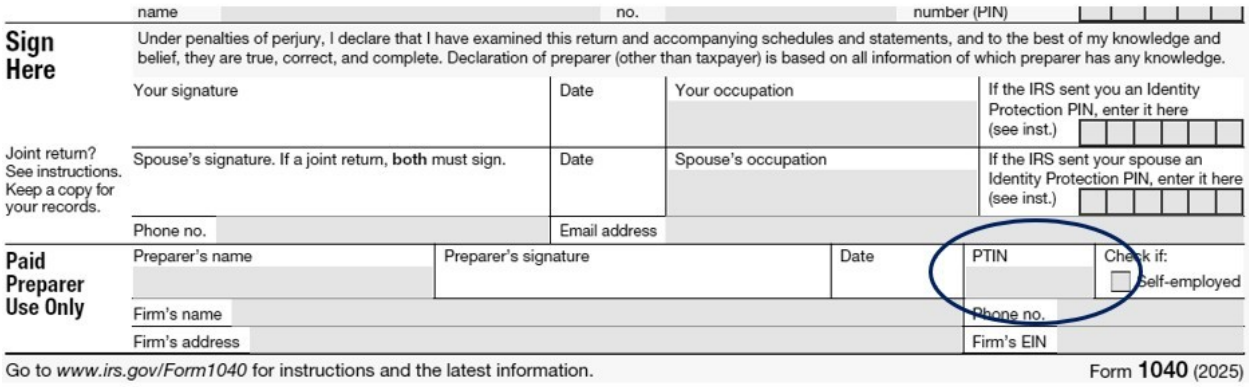
Background

Return preparers are critical to tax administration and provide a unique opportunity to impact taxpayer behavior and compliance with tax laws. According to a U.S. Government Accountability Office (GAO) report, over 85 million (57 percent) individual taxpayers used a paid preparer in Fiscal Year (FY) 2024.[1] Return preparers can be credentialed or uncredentialed.

- Credentialed preparers are tax professionals who hold recognized credentials (*i.e.*, certified public accountants (CPA), attorneys, and enrolled agents). These professionals have "unlimited representation rights" before the IRS and can represent their clients on any matters related to audits, payments and collections, and appeals.
- Uncredentialed preparers prepare tax returns but do not have a professional license or certification. They have limited rights when representing clients before the IRS. Studies show that uncredentialed preparers are a higher compliance risk; however, the IRS has limited authority to regulate them.

A Preparer Tax Identification Number (PTIN) is a unique number that the IRS issues to a return preparer. The PTIN must be included in the "Paid Preparer Use Only" section of tax returns prepared for compensation. Figure 1 shows where return preparers must provide their PTIN on the Form 1040, *U.S. Individual Income Tax Return*.

Figure 1: Form 1040 Excerpt Showing Where Preparers Must Provide Their PTIN



Source: Form 1040 (2025).

In 2010, the IRS published regulations that address PTIN requirements. In general, anyone who prepares federal tax returns for compensation is required to have a valid, active PTIN that must be renewed annually. Only PTINs issued under the Tax Professional PTIN System (TPPS) are valid.

The IRS has considered rejecting tax returns without valid, active PTINs in the past, but the agency believes that the risk of an unnecessary taxpayer burden (*e.g.*, potential difficulty filing or delays in getting their refunds) outweighs the benefits. The IRS reported that since 2010, the agency has issued nearly 2.3 million PTINs, with about 837,000 currently active. The remaining

[1] Government Accountability Office, GAO-26-108723, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight* (February 2026).

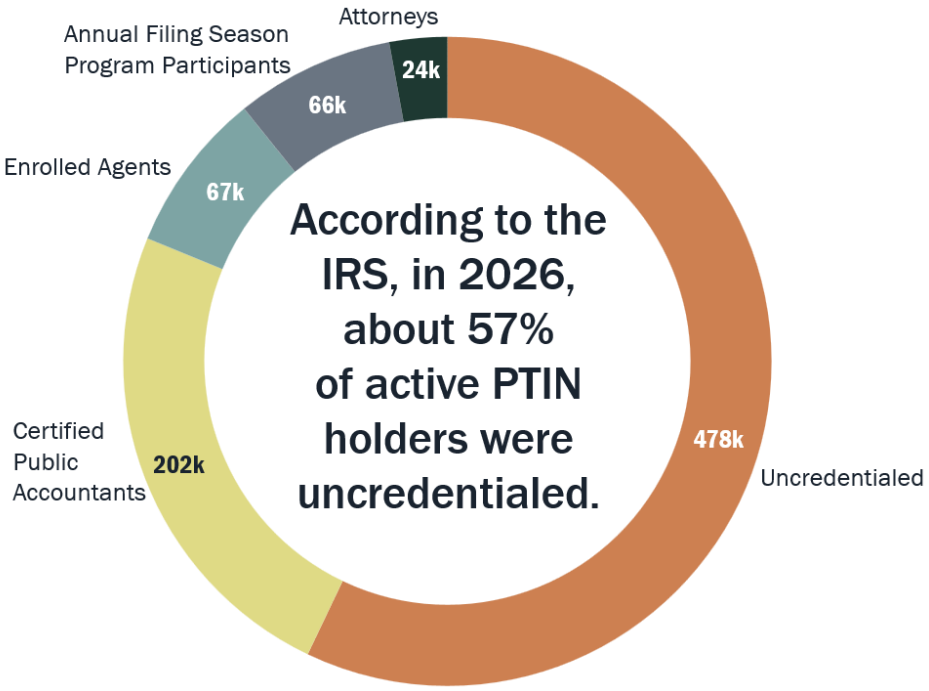
PTINs have transitioned to another status, such as expired, retired, or deceased. When inactive PTINs are used to file tax returns, they are noncompliant.

The IRS uses PTINs to track return preparers' behavior, such as:

- The number of tax returns they prepare and file.
- The filing methods they use (*i.e.*, paper or electronic).
- The number of tax returns with refunds.
- The number of tax returns with balances due.

Figure 2 shows a breakdown of return preparers with current PTINs.

Figure 2: Breakdown of Active PTIN Holders[2]



Source: Self-reported preparer statistics that the IRS recorded as of March 1, 2026. Information from IRS.gov.

Process to obtain a PTIN

Annually, return preparers must complete Form W-12, *IRS Paid Preparer Tax Identification Number (PTIN) Application and Renewal*, to apply for or renew their PTIN. The IRS issues news releases annually to remind return preparers to renew their PTINs. Return preparers can submit their applications and renewals online or complete and mail the paper form. In addition, return preparers must pay an annual fee ($18.75 in 2026) to keep their PTIN active. Felony convictions and discrepancies with meeting federal tax obligations could affect an applicant's eligibility.

[2] Some return preparers have multiple professional credentials and qualifications. The number of uncredentialed preparers is the difference between credentialed preparers and the 836,852 individuals with PTINs.

When filing an initial or renewal PTIN application, the preparer must provide:

- Personal information (name, mailing address).
- Business information (name, mailing address).
- Explanations for felony convictions (if any).
- Explanations for problems with their U.S. individual or business tax obligations (if any).
- Credit/Debit/ATM card for the fee.
- If applicable, preparers may include any U.S.-based professional certification information (*e.g.*, CPA, attorney, enrolled agent, enrolled retirement plan agent, enrolled actuary, certified acceptance agent, or state license). Certification number, jurisdiction of issuance, and expiration date also must be included.

Online PTIN registrations and renewals are submitted through the TPPS. The IRS uses ID.me to provide identity verification services to access the TPPS. If a user provides a Social Security Number (SSN), they are automatically routed to ID.me for verification. The system will prevent a user from obtaining multiple PTINs.

If ID.me cannot verify the preparer's identity, the return preparer must provide additional information to verify their identity. Also, if the return preparer has past felony convictions or discrepancies with tax obligations, their application will be routed to an IRS team for further review.

The Return Preparer Office and the Office of Professional Responsibility

Prior to June 2026, two IRS offices oversaw aspects of the agency's paid preparer programs. The offices are the Return Preparer Office (RPO) and the Office of Professional Responsibility (OPR). The RPO oversaw PTINs, suitability checks, continuing education for tax professionals, and the Annual Filing Season Program (AFSP). According to the IRS, the AFSP aims to recognize the efforts of uncredentialed return preparers who aspire to a higher level of professionalism.

When the RPO was established in 2010, the IRS planned suitability and competency standards for all return preparers. However, a 2013 court ruling limited the IRS's authority to regulate uncredentialed return preparers.[3] The IRS could not subject uncredentialed return preparers to competency testing, suitability, or educational requirements. According to a TIGTA report, subsequent to this ruling, the RPO shifted its focus towards tax professionals and voluntary participants in the AFSP.[4] According to the RPO, uncredentialed preparers who participate in the AFSP must meet continuing education requirements, renew their PTIN, and adhere to the ethical obligations covered in Treasury Department Circular No. 230.[5]

The RPO's Compliance and Complaint Referrals group identifies noncompliant return preparers and coordinates enforcement activities. The group also supports the RPO's efforts to promote

[3] *Loving v. IRS*, 917 F. Supp. 2d 67 (D.D.C. 2013), *aff'd*, 742 F.3d 1013 (D.C. Cir. 2014).

[4] TIGTA, Report No. 2018-30-042, *The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct* (July 2018).

[5] Treasury Department Circular No. 230, *Regulations Governing Practice before the Internal Revenue Service*. 31 CFR Subtitle A, Part 10.

ethical standards of conduct within the return preparer community by prioritizing and investigating complaints, applying treatments, and analyzing trends.

Practitioners, such as attorneys, CPAs, and enrolled agents, are subject to Circular 230 regulations in conjunction with their practice before the IRS. However, the RPO generally does not have the authority to enforce the same suitability, training, or education standards in conjunction with the preparation of tax returns and claims for refund. The Circular 230 regulations:

- Define "practice" and who may practice before the IRS.
- Describe practitioners' duties and restrictions while practicing before the agency.
- Authorize sanctions for violating regulations.
- Specify the procedures that apply to administrative proceedings to impose sanctions.

The OPR also oversees appraisers who submit appraisals supporting tax positions, and tax return preparers granted limited practice privileges under the IRS's voluntary AFSP. The OPR had the exclusive responsibility to investigate allegations of misconduct of practitioners and appraisers under Circular 230 and where appropriate, to pursue disciplinary sanctions related to practice before the IRS.

Tax Professional Management Office

In June 2026, the IRS formed the Tax Professional Management Office (TPMO). The business unit is the result of realigning the OPR and RPO. According to the IRS, the TPMO is an important step in modernizing how the IRS engages with and oversees the tax professional community. By bringing these programs together under one organization, the IRS hopes to improve collaboration, streamline operations, and provide a consistent experience for tax professionals.

Ghost Preparers and "Dirty Dozen" Scams

A ghost preparer prepares a return for compensation but refuses to sign it and/or refuses to include a PTIN. They could be credentialed or uncredentialed. Ghost preparers may encourage taxpayers to claim tax credits and benefits for which they do not qualify and, in some cases, steal their refunds.

The IRS's Research, Applied Analytics and Statistics (RAAS) collaborates with the TPMO and the Return Integrity and Compliance Services (RICS) to identify ghost preparers. Their collaboration includes a 2024 pilot project where the IRS sent 1,000 letters to 100 clusters of taxpayers who filed using self-preparation software but were suspected of being ghost preparer clients. As a result of the initial pilot, the TPMO has been able to refer 34 ghost preparers for compliance issues. In 2025, RICS expanded the project to 20,000 letters, and it is ongoing.

In addition, RAAS partnered with the Office of Promoter Investigation, IRS Criminal Investigation (IRS-CI), Taxpayer Services, and RPO to develop a set of criteria that helped identify 1,000 risky return preparers with a pattern of suspicious claims.

As part of the IRS's continuing efforts to protect taxpayers against constantly evolving scams, the agency annually warns taxpayers about pervasive threats. Called the "Dirty Dozen," the list contains a variety of common scams that taxpayers may encounter anytime. However, many of

the schemes peak during filing season as people prepare their tax returns or hire someone to help with their taxes.

For 2025, the "Dirty Dozen" list advised taxpayers to be cautious of ghost preparers. Compensated tax return preparers must sign and furnish an identifying number. Therefore, it is a major red flag when a preparer refuses to sign or provide a PTIN. Since the taxpayer is legally responsible for what is filed, the IRS urges taxpayers to avoid preparers who will not sign the return. Taxpayers also should never sign a blank or incomplete return.

In addition to ghost preparers, the "Dirty Dozen" list also included an overstated withholding scheme. In this overstated withholding scheme, scam artists suggest people make up large income and withholding amounts as well as the fictional employer supplying those amounts. Scam artists then instruct people to file the bogus tax return electronically in hopes of getting a substantial refund due to the large amount of fraudulent withholding. There are multiple variations of the overstated withholding scheme.

We conducted this evaluation to assess IRS processes for overseeing the PTIN program and monitoring tax return preparers.

Results of Review

The IRS has limited authority to regulate uncredentialed return preparers. Efforts are restricted to corresponding with and penalizing return preparers for potential noncompliance. We identified noncompliant PTINs being used to file over two million tax returns through October of Processing Year (PY) 2025.[6] Noncompliant PTINs are in an inactive status, such as invalid, revoked, suspended, expired, retired, or deceased. These noncompliant PTINs are being used to file tax returns.

We found that the IRS did not use available authorities to penalize return preparers for having noncompliant PTINs. The IRS could have penalized return preparers approximately $92 million for using a noncompliant PTIN. The IRS also failed to collect approximately $420,000 from return preparers who continued to use their PTIN without paying the annual renewal fee. In addition, we found that the IRS issued or renewed PTINs to ineligible return preparers. We noted that 73 PTINs were issued or renewed to deceased individuals and prisoners.

Further, at the time of our review, the IRS did not have a process to prevent its employees from applying for, renewing, or using a PTIN. Even though the IRS stated employees are not prohibited from maintaining a PTIN, internal IRS guidance and federal regulations specifically prohibit IRS employees from preparing tax returns for compensation, gift, or favor. We found that 691 IRS employees held active PTINs. More than 90 of these employees have potentially prepared tax returns for compensation because their PTINs appeared in the "paid preparer only" section of the tax return. We did not independently verify whether any of the employees were compensated.

Additionally, the IRS's limited authority to regulate uncredentialed PTIN holders may have contributed to potentially hundreds of millions of dollars in lost revenue from fraud schemes. Despite the IRS's efforts to educate taxpayers about common schemes, we identified

[6] The processing year is the calendar year in which the IRS processes the tax return or document.

2,044 return preparers who potentially promoted an overstated withholding scheme. This scheme encourages people to fill out tax forms with false income and withholding information. Return preparers who potentially participated in the scheme requested refunds of approximately $740 million on tax returns prepared for Tax Years (TY) 2023 and 2024.[7] About 84 percent of the 2,044 return preparers were uncredentialed. Further, ghost preparers prepared tax returns during the same tax years with the same characteristics and requested refunds of approximately $179 million.

A February 2026 GAO report recommended that Congress improve federal oversight of paid preparers.[8] The report recommended that Congress grant the IRS authority to establish professional standards for paid preparers and security requirements for information technology that paid preparers use.

As of September 2026, there is legislation pending to address unethical and noncompliant return preparers. This legislation strengthens the IRS's ability to penalize return preparers for noncompliance and its authority to deny or revoke PTINs. Congress has serious concerns about the impact that incompetent or unscrupulous return preparers have on taxpayers and tax administration. Until the IRS is given more authority, promoting compliance and effective tax administration will remain a challenge.

Limited Oversight of Return Preparers Contributed to Noncompliance

Through October of PY 2025, more than 38,000 return preparers with a noncompliant PTIN prepared more than 2.2 million tax returns.[9] Not all tax returns prepared by noncompliant PTIN holders resulted in a refund, but the tax returns that do have refunds are potentially more likely to meet the tax schemes identified in this review.

Nearly 12,000 of these 38,000 return preparers completed approximately 95,000 Form 1040, documents that requested a total of nearly $600 million in refunds. We believe that these return preparers present a higher risk because they only prepared tax returns requesting refunds.

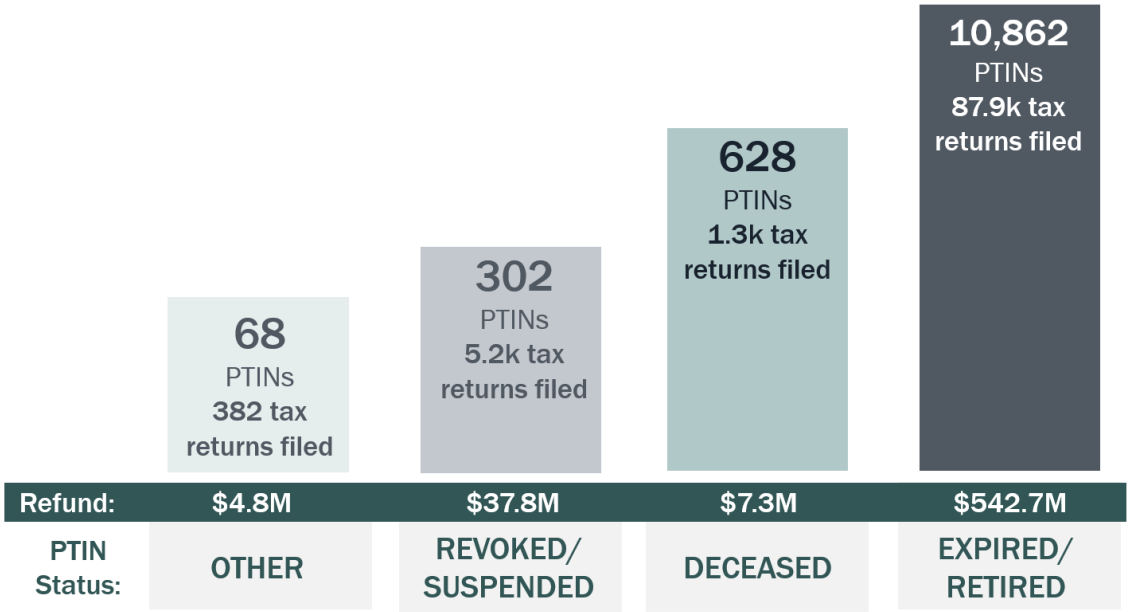
Figure 3 provides a breakdown of the nearly 12,000 noncompliant PTINs used to file Forms 1040 that only showed refunds.

[7] A tax year is a 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due.

[8] Government Accountability Office, GAO-26-108723, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight* (February 2026).

[9] For purposes of this review, noncompliant PTINs are in an inactive status, such as invalid, revoked, suspended, expired, or retired. These noncompliant PTINs are being used to file returns.

Figure 3: Breakdown of the Nearly 12K Noncompliant PTINs Potentially Used in Tax Schemes



Source: TIGTA analysis of information from the IRS's Return Preparer File and the Individual Master File.

Federal law requires paid return preparers to use a current PTIN when filing tax returns. The PTINs must be renewed annually. However, a noncompliant PTIN does not prevent a return preparer from filing tax returns. Further, the status of a PTIN does not make a tax return invalid or fraudulent.

The TPMO sends letters to noncompliant PTIN holders reminding them to renew their PTINs and pay the necessary fees to become compliant. For example, the TPMO conducted two letter campaigns in FY 2024. During those campaigns, 26,432 letters were sent to noncompliant return preparers. By June 2024, 9,611 return preparers obtained or renewed their PTINs and became compliant. While these campaigns did encourage some return preparers to renew their PTINs, the IRS did not assess any penalties. Despite the IRS's efforts, we estimate that approximately $420,000 in PTIN renewal fees were not collected through October of PY 2025.

Federal law contains several penalty provisions for return preparer negligence and misconduct. For example, the IRS can penalize preparers $50 per tax return (up to $25,000 per return preparer) in a calendar year (adjusted annually for inflation) if they do not include a valid PTIN on prepared tax returns. However, penalty assessments have been limited. Based on the number of tax returns filed through October of PY 2025, the IRS could have potentially penalized return preparers nearly $92 million for using noncompliant PTINs. This figure does not account for any penalties that the IRS may have assessed for the use of noncompliant PTINs. Further, the IRS can penalize return preparers the greater of $1,000 per tax return, or 50 percent of the preparer's income to prepare the tax return, if they understate a taxpayer's liability. This figure does not account for additional penalties that could be assessed for potential understatement of taxpayers' liabilities.

In FY 2024, the TPMO referred 76 return preparers using noncompliant PTINs to the Small Business/Self-Employed Division's Return Preparer Penalty Working Group for consideration.

As of September 2025:

- 51 (67 percent) of the 76 return preparers now have an active PTIN.
- 25 (33 percent) return preparers were referred to the Unidentified Preparer Detection Group for additional compliance consideration.

In FY 2025, 84 return preparers were referred for penalty assessment consideration. At the time of our analysis, we could not determine how many of the 160 referrals made in FYs 2024 and 2025 resulted in a penalty for using a noncompliant PTIN because the IRS had not completed their review. In addition to penalty-based compliance efforts, since the start of FY 2024, the TPMO has brought 1,669 preparers into compliance with PTIN requirements through correspondence campaigns.

Preparer Tax Identification Numbers Provided to Potentially Ineligible Return Preparers and IRS Employees

From December 2010 through October of PY 2025, the IRS issued 67 PTINs to individual SSNs that had "deceased" listed in IRS records:

- 31 were newly issued PTINs.
- 36 were renewed PTINs.

These individuals were listed in U.S. Social Security Administration records as "deceased" at the time the IRS issued or renewed the PTINs. However, in IRS records, these individuals were considered to have active PTINs.

Further, during PY 2025, at least 6 prisoners prepared a combined 371 tax returns totaling nearly $2.1 million in refunds while incarcerated. Two of the six prisoners applied for or renewed their PTINs while incarcerated. The instructions for Form W-12, *IRS Paid Preparer Tax Identification Number (PTIN) Application and Renewal*, state that generally an individual who is currently incarcerated for any felony conviction will not be permitted to obtain or renew a PTIN. However, the IRS's PTIN renewal checklist states that a felony conviction may affect an applicant's ability to obtain or renew a PTIN whether or not they are incarcerated. According to IRS management, a felony conviction does not affect an applicant's ability to renew or obtain a PTIN and only affects participation in the AFSP.

The IRS has processes in place to compare Social Security Administration and prisoner databases to PTIN data and can change the status to "deceased" and "revoked." Specifically, the TPMO has the authority to revoke PTINs of return preparers who are imprisoned. When the IRS revokes a PTIN, the return preparer is prohibited from filing tax returns for others, but as previously mentioned, the IRS does not reject tax returns based on the preparer's PTIN status. The IRS revoked one of the six prisoners' PTIN. However, 173 tax returns had been prepared using that PTIN while the preparer was incarcerated, and four of the 173 tax returns were prepared after the PTIN was revoked.

During the 2025 PTIN registration and renewal season, the TPMO integrated the TPPS into the Secure Access Digital Identity (SADI) service. The SADI service authenticates external users accessing IRS online applications. As part of the SADI service, the IRS uses ID.me as a credential service provider to authenticate users.

The SADI sign-in for online PTIN accounts became available in July 2025, and the service was made mandatory in April 2026 for users with an SSN. Currently, the TPPS does not support SADI verification for users without an SSN. These users will continue with the existing TPPS verification process.

IRS employees with active PTINs are potentially filing tax returns

IRS guidance and federal regulations specifically prohibit IRS employees from preparing tax returns for compensation, gift, or favor. The IRS also sends out periodic reminders to employees about these rules. However, we found that some IRS employees have active PTINs and may have prepared tax returns while employed. For example, we conducted a limited review of IRS employees continuously employed from January 1 through September 20, 2025, and found that at least:

- 4,222 employees have a PTIN. Of these employees, 691 have active PTINs and 453 were issued, renewed, or reactivated while the employee was employed.
- 92 employees have potentially prepared at least one Form 1040 that was accepted by the IRS using their PTIN while employed at the IRS. These tax returns requested net refunds of $1.1 million.

In August 2025, we alerted the IRS about our concerns and recommended that the TPMO review existing policies and procedures and implement controls to identify when IRS employees obtain PTINs. We also recommended that the IRS review existing PTINs, regardless of status, and take action to prevent potential employee misconduct. Although employees are prohibited from filing tax returns for compensation, gift, or favor, the IRS stated that employees are not prohibited from having a PTIN. According to IRS management, some IRS employees, such as seasonal employees, may keep an active PTIN should they leave the agency and begin preparing tax returns. However, the PTIN, which is only required for tax returns prepared for compensation, can be obtained or renewed immediately using the IRS's application process.

In October 2025, the IRS updated the PTIN application form. Updated language asks whether an applicant is a current IRS employee and notifies applicants about restrictions on current IRS employees preparing tax returns for compensation. Federal regulations explicitly prevent IRS and TIGTA employees from preparing tax returns for compensation, gift, or favor. However, the language in Question 1 of the revised application form does not mention TIGTA employees (see Figure 4). In July 2026, the IRS informed us that it intends to work with IRS Counsel to develop language inclusive of both IRS and TIGTA. Once approved, the language will be added to the application and renewal form.

Figure 4: Updated Language on the PTIN Application Form

Form **W-12**
(Rev. October 2025)
Department of the Treasury
Internal Revenue Service

IRS Paid Preparer Tax Identification Number (PTIN) Application and Renewal

Go to *www.irs.gov/FormW12* for instructions and the latest information.

OMB No. 1545-2190

1 Name and PTIN (Print in ink or Type)

First name | Middle name | Last name

☐ Initial application ☐ Renewal application (Enter PTIN: P)

Current IRS employee

Are you a current IRS employee? ☐ **Yes** ☐ **No**

IRS employees are prohibited from preparing or assisting in the preparation of tax returns for compensation.

Source: IRS.gov.

In January 2026, in response to our findings, the IRS informed us that they updated the TPPS so that applicants for a PTIN are prompted to identify as an IRS employee and receive a warning.

Potential Lost Revenue Due to Limited Enforcement and Lack of Authority to Regulate Return Preparers

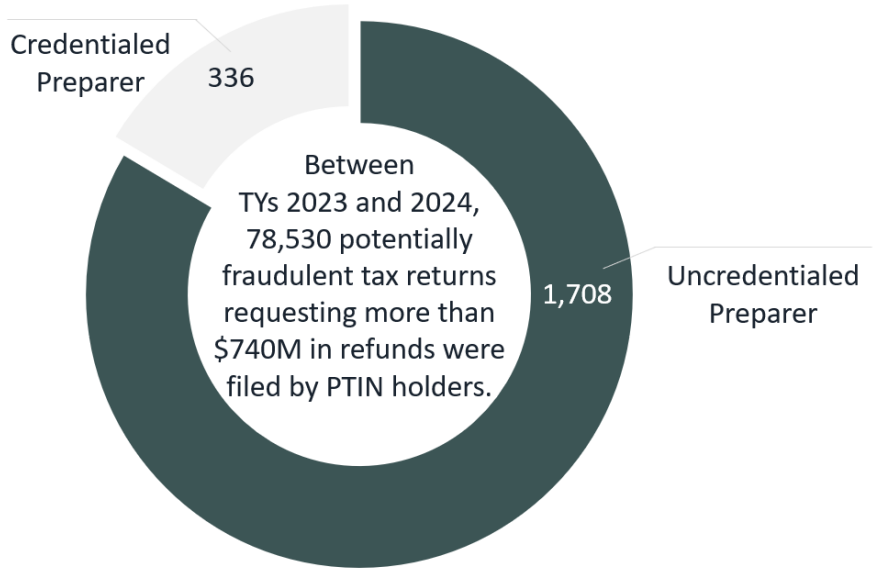
We found that 2,044 PTINs were used to potentially promote a withholding scheme during TYs 2023 and 2024.[10] These return preparers prepared a combined 78,530 potentially fraudulent tax returns requesting more than $740 million in refunds.

Of the 2,044 return preparers:

- 336 (16 percent) were credentialed.
- 1,708 (84 percent) were uncredentialed preparers.

Figure 5 shows that mostly uncredentialed preparers were potentially associated with withholding schemes in TYs 2023 and 2024.

Figure 5: PTIN Holders Associated With Withholding Schemes in TYs 2023 and 2024



Source: TIGTA analysis of IRS data.

Annually, the IRS warns taxpayers about 12 common tax schemes. The "Dirty Dozen" list included the overstated withholding scheme. Taxpayers input false income and withholding information when filling out Form W-2, *Wage and Tax Statement,* or other information tax returns the IRS uses to verify wages and withholding, like Forms 1099. Unscrupulous return preparers instruct taxpayers to file the tax return electronically to get a substantial refund due to the large amount of withholding. According to the IRS, this scheme capitalizes on the annual

[10] These preparers completed at least 10 suspected Form 1099 withholding scheme returns.

April 1 due date for third-party information returns and a field offered in most electronic software packages that allows write-in withholding. The scheme allows withholding claims that are not substantiated with third-party data.

According to a March 2026 Center for Taxpayer Rights report, between 2018 and 2021, the IRS assessed over 1,300 return preparer penalties for various violations totaling nearly $75 million.[11] However, we previously reported that many IRS functions related to preparer compliance have experienced workforce reductions of over 30 percent, which could limit the IRS's ability to address unscrupulous return preparers.[12] While the IRS may not be able to pursue all potential scheme promoters with available resources, we found it possible to concentrate compliance efforts. For example:

- In TY 2023, 76 return preparers completed 50 or more tax returns with unsupported withholding.[13] These return preparers completed 8,962 tax returns resulting in more than $99 million in total requested refunds.[14]
- In TY 2024, we estimate 193 return preparers completed 22,203 tax returns that resulted in over $257 million in refunds requested. For these return preparers, at least 50 percent of the tax returns they prepared that year appear to involve the scheme.

In many cases, we identified return preparers where most of their submitted tax returns involved this withholding scheme. Return preparers potentially promoting this scheme on 50 percent or more of the tax returns that they prepared nearly tripled between TYs 2023 and 2024.

The GAO and the Taxpayer Advocate Service have previously encouraged Congress to improve the IRS's oversight authorities of return preparers.[15] In February 2026, the GAO reported that Congress could improve oversight by granting the IRS the authority to establish professional standards.[16] According to the GAO, these standards could reduce the risk that taxpayers receive insufficient or inadequate tax preparation that leads to compliance actions. In addition, the National Taxpayer Advocate previously reported that under current law, the IRS generally does not have the authority to revoke the PTINs of preparers who engage in improper or illegal conduct.[17]

[11] Center for Taxpayer Rights, *2025 Filing Season Mystery Shopping Visits* (March 2026).

[12] TIGTA, Report No. 2025-IE-R027, *Snapshot Report: IRS Workforce Reductions as of May 2025* (July 2025).

[13] For our review, the following scenarios indicated a potentially overstated withholding scam:
a) At least a $1,000 difference between the Form 1099 withholding the taxpayer reported on the return and the withholding amounts third parties reported for all SSNs on the return; and
b) 90 percent of the taxpayer's reported Form 1099 federal tax withheld was unsupported by third-party data.

[14] A tax return is not automatically incorrect if the stated withholding on the return is different than the withholding reported to the IRS.

[15] National Taxpayer Advocate, *Annual Report to Congress 2024* (December 2024).

[16] Government Accountability Office, GAO-26-108723, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight* (February 2026).

[17] National Taxpayer Advocate, *2026 Purple Book* (December 2025).

Despite the IRS's limited oversight authorities, both TIGTA and GAO have previously noted the importance of the IRS to develop or finalize a service-wide tax return preparer strategy. For example:

- In 2018, we recommended that the IRS develop a return preparer misconduct strategy.[18]
- In 2022, the GAO reported that the IRS identified a need for a service-wide tax return preparer strategy to address compliance across IRS functions.[19] However, the GAO reported that as of December 2025, the IRS has not implemented a strategy.

Federal guidance requires that agency managers establish strategic and performance goals, respond to risks, and manage program performance and operations to operate effectively and deliver results. According to the TPMO, as of June 2026, they have begun drafting a new, data-driven return preparer strategy to address noncompliance.

Ghost preparers are also potentially promoting the overstated withholding scheme

In TY 2023, we identified 47 potential ghost preparers who prepared a total of 6,352 potentially fraudulent tax returns requesting more than $94 million in refunds using the overstated withholding scheme.[20] Because these tax returns were filed without a return preparer listed on the Form 1040, [redacted]. We found that in TY 2024, 65 potential ghost preparers prepared 6,444 tax returns with requested refunds of more than $85 million using elements of the overstated withholding scheme.

There are likely more tax returns associated with this scheme in the years we analyzed. [redacted].

The "Dirty Dozen" list also warns taxpayers about ghost return preparers. Specifically, the IRS asks taxpayers to watch for common warning signs that include charging a fee based on the size of the refund, and when the return preparer is unwilling to sign a return.

In February 2025, the IRS reported Campus Examination/Automated Underreporter (CEA) employees identified patterns on six tax returns [redacted]. The findings led to a fraud referral to IRS-CI. Collaboration between CEA and IRS-CI resulted in the ghost return preparer pleading guilty to aiding and assisting in the filing of false tax returns. The return preparer also pleaded guilty to claiming hundreds of thousands of dollars in unearned education credits.

As of September 2026, pending legislation could improve the IRS's authority to regulate return preparers.[21] The legislation aims to address serious concerns about the impact that incompetent

[18] TIGTA, Report No. 2018-30-042, *The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct* (July 2018).

[19] Government Accountability Office, GAO-26-108723, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight* (February 2026).

[20] These ghost preparers each filed at least 50 Form 1099 withholding scheme returns. Further, at least 50 percent of the returns each preparer filed had the known scheme condition.

[21] Taxpayer Assistance and Service Act of 2026, 119th Congress, S.B. 3931 (February 2026).

or unscrupulous return preparers have on taxpayers and tax administration. Pending legislation, recent reports from oversight organizations, and our analysis all identify similar risks associated with return preparers.

The IRS has tools to address misconduct, fraud, and the noncompliance of return preparers. However, the IRS is currently limited to outreach, education, and penalizing return preparers. Until the IRS can implement a data-driven return preparer strategy, the agency should prioritize identifying and penalizing preparers harming both taxpayers and the government.

Recommendation 1: The Chief, Tax Compliance Officer, should finalize and implement the data-driven return preparer strategy. The strategy should address preparer outreach and penalty considerations, employee PTIN policies, scheme promotors, and ghost preparers.

> **Management's Response:** IRS management agreed with our recommendation and stated they will finalize the data-driven return preparer strategy that will inform decision-making for preparer outreach and penalty considerations, employee PTIN policies, scheme promotors, and ghost preparers.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess compliance and control measures that the IRS used to issue and authorize new and renewed PTINs. To accomplish our objective, we:

- Determined the role of the RPO and any other IRS offices involved with issuing and monitoring PTINs.
- Met with the IRS to obtain an understanding of RPO and OPR roles related to PTINs.
- Determined whether the IRS has adequate controls in place to ensure that the eligibility of PTINs holders is reviewed on a consistent basis.
- Determined whether the IRS can quantify the number of inaccuracies on annual PTIN renewals covering a two-year period.
- Determined whether control measures meet their intended objectives and assess where further controls are necessary to improve compliance with PTIN suitability requirements.
- Compared PTINs and known characteristics of the overstated withholding scheme involving withholdings from Forms 1099 to identify PTIN holders potentially promoting such schemes.

Performance of This Review

This review was performed with information obtained from the RPO located in Washington, D.C., during the period of June 2025 through March 2026. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and followed procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Data Validation Methodology

We performed tests to assess the reliability of data from the TIGTA Data Center Warehouse. We evaluated the data by performing electronic testing of required data elements. We determined that the data were sufficiently reliable for the purposes of this report.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; $92,317,850 in assessed and collected penalties on tax returns prepared during PY 2025, where the preparer failed to include a valid PTIN on the tax return. (See Recommendation 1.)

Methodology Used to Measure the Reported Benefit:

Federal law contains several penalty provisions related to return preparer negligence and misconduct. The IRS can penalize return preparers $50 per return if they do not include a valid PTIN on prepared tax returns. The maximum penalty imposed on any person during any calendar year shall not exceed $25,000. Our analysis found that 2,131,317 tax returns were filed without a valid PTIN during PY 2025 through Cycle 202543. Based on the maximum penalty, we have calculated a total of $92,317,850 in potential penalties that the IRS could assess and collect from the filing of these tax returns. This estimate does not take into consideration the yearly adjustments for inflation that are prescribed in the Internal Revenue Code. We recognize that with limited available resources, the IRS might bring in more funds through other compliance efforts.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; $420,002 in foregone fees by not bringing noncompliant return preparers into compliance with PTIN requirements. (See Recommendation 1.)

Methodology Used to Measure the Reported Benefit:

We obtained return filing data from the Return Transaction Files to help identify tax returns filed by PTIN. We then matched the data to Individual Master File information to consider only accepted tax returns. We found that at least 76,600,349 tax returns were completed by return preparers in PY 2025 through October 2025.

We then removed any records with an active or unknown PTIN status to determine how many tax returns were filed during PY 2025 with a PTIN in a noncompliant status. We found that 38,182 return preparers completed returns without having a current valid PTIN. Obtaining a valid PTIN requires the payment of a user fee that these preparers did not pay. For PY 2025 the fee was $19.75. The fee consists of two parts: $11.00, which is the portion through which the IRS recovers the full cost of providing the service; and $8.75 for costs related to a third-party contractor's activities for the issuance, renewal, and maintenance of the PTINs. We calculated a

total of $420,002 (38,182 tax returns times the $11.00 IRS portion of the fee) in foregone fees by not bringing these preparers into compliance.

Type and Value of Outcome Measure:

- Taxpayers Impacted – Potential; 69,009 taxpayers had tax returns prepared with characteristics of the overstated withholding scheme by return preparers potentially promoting the scheme in TYs 2023 and 2024 combined. (See Recommendation 1.)

Methodology Used to Measure the Reported Benefit:

To identify tax returns meeting the condition of the overstated withholding scheme, we analyzed return filing data for TYs 2023 and 2024 in conjunction with Form 1099 data for the same TYs. Tax returns were grouped by PTIN and we focused on PTIN holders who prepared 10 or more tax returns meeting the criteria of the scheme. Our analysis found that potentially 69,009 taxpayers were impacted by the return preparers promoting the scheme.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; $740,168,322 in refunds that were issued based on tax returns meeting the condition of the overstated withholding scheme in TYs 2023 and 2024 combined. (See Recommendation 1.)

Methodology Used to Measure the Reported Benefit:

We analyzed return filing data for TYs 2023 and 2024 in conjunction with Form 1099 data for the same TYs to identify tax returns meeting the condition of the overstated withholding scheme. Tax returns were grouped by PTIN and we focused on PTIN holders who prepared 10 or more tax returns meeting the criteria of the scheme. Our analysis found that a total of $740,168,322 in refunds were issued based on 78,530 tax returns meeting the condition of the overstated withholding scheme.

Appendix III

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

TAX PROFESSIONAL MANAGEMENT OFFICE

September 18, 2026

MEMORANDUM FOR Nancy A. LaManna
Deputy Inspector General for Inspections and Evaluations

FROM: Christopher Pleffner
Director, Tax Professional Management Office

SUBJECT: Draft Evaluation Report – IRS Must Do More to Address Noncompliance and Potential Misconduct with Return Preparers (Evaluation No. IE-25-034)

Thank you for the opportunity to review and provide comments on the subject draft report. The Internal Revenue Service (IRS) appreciates your evaluation of the Preparer Tax Identification Number (PTIN) program. PTIN administration and supervision play a vital role in establishing public trust in the nation's tax system. The IRS is committed to enforcing the highest standards allowable under its authority, and we welcome the acknowledgement by the Treasury Inspector General for Tax Administration (TIGTA) of the work the IRS has undertaken to improve PTIN administration.

Your report highlights the steps the IRS has taken to improve the PTIN program, including the implementation of Secure Access Digital Identity (SADI) verification through ID.me. This process strengthens the IRS's identity verification process and improves the tax professional's experience, providing a secure, simple process to verify identity through one service that is used by many federal programs. The IRS appreciates TIGTA's recognition of these modernization efforts and believes they establish a strong foundation for continued program improvements.

While the IRS acknowledges the finding that some PTINs were issued to deceased individuals and prisoners between 2010 and 2025, it is important to note that more than 2.28 million PTINs were issued during that period, with the 73 PTINs identified by TIGTA representing approximately 0.0032% of all issuances. While any improper issuance is important to address, this context reflects the overall effectiveness of the program. The implementation of SADI further improves accuracy by strengthening identity verification at the point of application.

In August of 2025, TIGTA notified the IRS that its evaluation identified PTINs held by current and recent IRS employees. The IRS does not have the authority to deny a PTIN based on the employment status of the applicant. However, we agree that current IRS employees are prohibited from preparing tax returns for compensation, gift, or favor. In response to this notification, the IRS quickly included a warning to current IRS employees within the online application process. The warning was implemented prior to the next renewal cycle in October of 2025. TIGTA later requested that the warning also include TIGTA employees, and the IRS is revising the language accordingly. The IRS appreciates the collaboration with TIGTA, which further advances PTIN integrity and public trust.

As detailed in TIGTA's report, the IRS has been working to modernize the approach to return preparer compliance. The creation of the Tax Professional Management Office is an essential initial measure in this process. The IRS agrees with the recommendation that a comprehensive, data-driven return preparer strategy is an important next step. Building on the progress already underway, the strategy will use data to inform enterprise decision-making while considering preparer outreach and penalty considerations, employee PTIN policies, scheme promotors, and ghost preparers.

Attached is our response to your recommendations. If you or your staff have any questions, please contact me, Christopher Pleffner, Director, Tax Professional Management Office, at (202) 317-3757.

Attachment

Attachment

IRS Must Do More to Address Noncompliance and Potential Misconduct with Return Preparers
(Evaluation No. IE-25-034)

Recommendations

RECOMMENDATION
The Chief, Tax Compliance Office, should finalize and implement the data-driven return preparer strategy. The strategy should address preparer outreach and penalty considerations, employee PTIN policies, scheme promotors and ghost preparers.

CORRECTIVE ACTION 1
We agree with this recommendation. The Chief, Tax Compliance Officer, will finalize the data-driven return preparer strategy that will inform decision making for preparer outreach and penalty considerations, employee Preparer Tax Identification Number (PTIN) policies, scheme promotors and ghost preparers.

IMPLEMENTATION DATE
December 7, 2026

RESPONSIBLE OFFICIAL
Director, Tax Professional Management Office

CORRECTIVE ACTION (S) MONITORING PLAN
The IRS will monitor this corrective action as part of our internal management system of controls.

Appendix IV

Abbreviations

AFSP	Annual Filing Season Program
CEA	Campus Examination/Automated Underreporter
CPA	Certified Public Accountant
FY	Fiscal Year
GAO	Government Accountability Office
[redacted]	[redacted]
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service-Criminal Investigation
OPR	Office of Professional Responsibility
PTIN	Preparer Tax Identification Number
PY	Processing Year
RAAS	Research Applied Analytics and Statistics
RICS	Return Integrity and Compliance Services
RPO	Return Preparer Office
SADI	Secure Access Digital Identity
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TPMO	Tax Professional Management Office
TPPS	Tax Professional PTIN System
TY	Tax Year

To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.