



**William C. Cobb**  
President & CEO

November 11, 2014

The Honorable John Koskinen  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

The Honorable Mark Mazur  
Assistant Secretary for Tax Policy  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Commissioner Koskinen and Assistant Secretary Mazur:

I am writing to follow-up on my separate discussions with each of you on ways to reduce the Earned Income Tax Credit improper payment rate and associated fraud. The Commissioner's comments at the recent CERCA conference did not acknowledge that, by only focusing on paid preparers you are decreasing the likelihood of success and putting an important, bi-partisan anti-poverty program at risk. The data presented in the August Earned Income Tax Credit (EITC) compliance report illuminates one of the key issues we have discussed that I feel has been largely ignored to date – the migration of improper payments from paid preparer returns to self-prepared returns.

In this report, we are able to see the increase in the error rate on self-prepared returns. Specifically, 29% of EITC filers self-prepared their returns, and those returns had a 47% error rate. That is up from a self-prepared error rate of 26% on 1994 tax returns.

However, the tax years reviewed in the August report precede the start of the migration trend that is evident in IRS data within the *Taxpayer Filing Attribute Report* (TFAR) that the IRS published until recently. The TFAR shows that in tax

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season 2008, 28% of EITC filers self-prepared their returns, but just four years later, in tax season 2012, 38% of EITC filers self-prepared their returns. During this time, the percentage of non-EITC filing self-preparers stayed the same at 42%. Given our unique position as a leader in allowing taxpayers to choose either do-it-yourself or paid preparer options, we are able to see the same trends.

While this migration of EITC filers was occurring, IRS efforts to reduce EITC improper claims remained focused exclusively on paid preparers. With more EITC taxpayers self-preparing their returns, the efforts to reduce the EITC improper payment rate are now less effective as significantly fewer returns are affected.

As you are aware, a group of leading tax software developers have partnered with IRS-EITC Compliance Staff to propose a simple, common sense first-step to reduce improper payments among both self-preparers and paid preparers. That is to require all taxpayers – regardless of how they file – to answer the same eligibility questions and to submit those responses to the IRS. It is disappointing – and frustrating – that this proposal has been out there for at least two years with little progress.

H&R Block has and continues to support due diligence standards for paid preparers. However, the IRS will see immediate benefits if it seizes the opportunity to require all EITC taxpayers, including the more than 40% of taxpayers who self-prepare their returns, to submit additional eligibility information to the IRS: the IRS would have better information more quickly on the sources and causes of improper payments, and it will likely see a reduction in the improper payment rate.

The IRS-EITC Software Developers Working Group agrees that the only way to implement this solution consistently and effectively is for the IRS to modify the Schedule EIC (the IRS form EITC taxpayers must file regardless of how they prepare their return). The IRS does not need statutory authority to implement this solution. However, we are once again running up against IRS information technology development deadlines and priorities. I understand that the IRS needs to make a decision before March 1, 2015, in order for forms changes to be in effect for 2015 returns filed in 2016 – so time is of the essence.

I strongly encourage you to advance this solution and would appreciate understanding what concerns you have or hurdles you face in implementing it. I, along with H&R Block's tax policy experts and data analysts, stand ready and available to answer questions or discuss the matter further. Additionally, I recommend that you meet with the members of the IRS-EITC Software Developers

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Working Group who developed this proposal. By improving and strengthening how the credit is administered and delivered, you are ensuring its integrity and sustainability which, in turn, helps ensure it remains available to the over 25 million taxpayers who rely on it.

Sincerely,



William C. Cobb  
Chief Executive Officer

cc: Members of the Senate Finance Committee  
Members of the House Ways & Means Committee  
Members of the Senate Appropriations Financial Services and General  
Government Subcommittee  
Members of the House Appropriations Financial Services and General  
Government Subcommittee  
The Honorable Claire McCaskill, United States Senate  
The Honorable Roy Blunt, United States Senate  
The Honorable Emanuel Cleaver, United States House of Representatives  
Members of the Internal Revenue Service EITC Software Developers  
Working Group