

January 7, 2025

The Honorable Mike Crapo
Chairman
Senate Finance Committee
Washington, DC 20510

The Honorable Jason Smith
Chairman
House Ways and Means Committee
Washington, DC 20515

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
Washington, DC 20510

The Honorable Richard Neal
Ranking Member
House Ways and Means Committee
Washington, DC 20515

Dear Chairman Crapo, Ranking Member Wyden, Chairman Smith, and Ranking Member Neal:

As we enter the 119th Congress, I am writing to support several significant issues impacting tax professionals and taxpayers.

The National Association of Enrolled Agents (NAEA) represents the interests of nearly 65,000 enrolled agents (EAs) worldwide and is uniquely positioned to offer a practical perspective on our tax administration system. We are the leading community for EAs—from aspiring practitioners to experts with decades of experience—serving millions of taxpayers annually.

Enrolled agents are federally licensed tax practitioners specializing in taxation and have unlimited practice rights to represent taxpayers before the IRS. Enrolled agent status is the highest credential the IRS awards. Individuals who obtain this elite status must pass an intensive three-part examination, adhere to ethical standards, complete 72 hours of continuing education courses every three years, and undergo a rigorous IRS background check.

The 119th Congress has a rare opportunity to take action that will bring long-overdue changes to our tax administration system. Our recommendations include common-sense tax administration solutions and improvements to vital IRS processes.

Minimum Standards for Tax Preparers

One of the most acute challenges facing tax preparation today, often at the expense of taxpayers simply looking to comply with their tax obligations, is the many unqualified and unscrupulous tax preparers operating within our system with no oversight. Anyone can be a paid federal tax return preparer because the IRS cannot set and enforce even the most basic minimum standards. NAEA is supported by many stakeholders who believe Congress should give the Treasury and the IRS the authority to require minimum standards, including continuing education and a background check, for all tax preparers. The National Taxpayer Advocate and the Government Accountability Office have highlighted this issue and documented that unlicensed tax return preparers commit the vast majority of errors in our tax system today, ultimately leading to a loss of tax revenue for the federal government.

As noted in the National Taxpayer Advocate's 2023 Annual Report to Congress, "IRS data suggests that a significant portion of improper payments was attributable to tax returns prepared by non-credentialed preparers. Among returns claiming the [Earned Income Tax Credit] prepared by paid tax return preparers

in the tax year 2021, non-credentialed preparers prepared 79 percent, and the returns they prepared accounted for 94 percent of the total dollar amount of EITC audit adjustments made on prepared returns.”

The lack of oversight leaves taxpayers more vulnerable and exposed to potential tax deficiencies, penalties, lost refunds, or other unnecessary tax issues. The errors also lead to inefficiencies, contributing to backlogs and slow turnaround times.

Congress can and should protect taxpayers from unscrupulous and incompetent tax preparers by authorizing basic minimum standards for anyone who is a paid tax return preparer. Both parties' prior administrations have also supported the oversight of return preparers in their annual Blue Book proposals.

Modernizing the IRS

With Congress's support and oversight, the IRS must be focused on modernization and becoming a taxpayer-friendly agency with robust digital tools for taxpayers and tax professionals. To make meaningful improvements and invest taxpayer funds wisely, the agency must focus on tangible technology upgrades and systems that anticipate and meet taxpayer needs.

While we understand there are varying views within Congress on the appropriate level of funding for the agency, everyone should agree that updating outdated systems and improving customer service is a win-win for the agency and taxpayers. Therefore, NAEA respectfully requests that Congress proceed cautiously when considering funding decisions for the IRS and help foster an environment where the agency can ensure a better experience for the American taxpayer.

With appropriate congressional oversight, NAEA has long believed that the IRS could immediately improve the tax administration system in several areas. The following improvements in these areas would vastly improve various problems identified within the IRS related to poor customer service, the need for modern technology, and the lack of digital tools for communicating with the agency.

- **Overhaul the Centralized Authorization File (CAF) System.** The current system for powers of attorney, as well as taxpayer information authorization requests, is based on a business model that is decades old, does not meet the current needs of taxpayers or tax professionals, and is at odds with several provisions of the Taxpayer Bill of Rights, including the right to representation. The IRS must redesign the CAF workflow and function to create a frictionless process and provide tax professionals and trusted practitioner firms instant and secure access to taxpayers' transcripts and the ability to manage powers of attorney online.
- **Prioritize Practitioner Service and Communication.** The IRS should centralize and create a dedicated practitioner service unit to handle more complex tax, collection, and accounts management issues. As the IRS seeks to modernize the Tax Pro Account, the agency should seek direct practitioner feedback and ensure that new, expensive systems meet their intended goals and provide real user value.
- **Focus on Compliance and Fair Enforcement Operations.** Now that it has addressed the pandemic-related processing issues, the IRS must focus on ensuring taxpayer compliance. This includes fair enforcement around non-filing, balance-due returns without remittance, and a return to automatic liens and levies. Fair enforcement will help ensure that all taxpayers are treated equally.

1099-K Reporting

This year, Congress must pass legislation raising the 1099-K reporting threshold, ideally to at least \$5,000. The American Rescue Plan of 2021 included a provision requiring payment platforms to send a Form 1099-K to taxpayers with more than \$600 in business transactions rather than the previous \$20,000 threshold with 200 transactions. After a one-year delay, the IRS announced that it would phase in the requirement over several years. While the delay and phase-in provided much-needed relief, a permanent fix is needed.

A \$600 reporting threshold will mean that millions of Americans who use online payment methods for non-taxable events will start to receive forms they have never seen before. Examples that could lead to confusion include garage sale-type transactions or Venmo reimbursements among friends and family. A \$600 threshold will cause immense confusion and anxiety among American taxpayers. It will also be a headache for the IRS as many taxpayers will likely overpay or incorrectly file due to a lack of experience and guidance. Therefore, NAEA urges the passage of legislation that significantly increases the reporting threshold to reduce the number of 1099-K forms the IRS and taxpayers receive, thereby improving tax administration and reducing the filing burden on the American public.

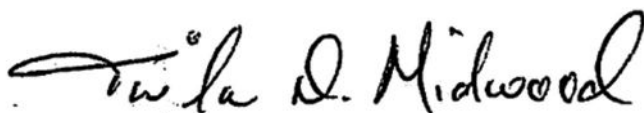
Protecting IRS Funding

With the current continuing resolution for FY25 funding expiring in March, Congress must address an issue in the FY25 appropriations package that could significantly impact the IRS's modernization and customer service efforts. The current continuing resolution maintains the FY24 funding language that includes a provision that rescinded \$20.2 billion in IRS funds from the Inflation Reduction Act as part of an agreement from debt ceiling negotiations between President Biden and former Speaker McCarthy.

NAEA fears that cutting this amount again in FY25 would devastate the agency's ongoing technological upgrades and customer service improvements. We encourage Congress to ensure that IRS funding is not negatively impacted in the upcoming FY25 appropriations bill. While NAEA appreciates that there will likely be a healthy debate on IRS funding and modernization efforts at the agency in the coming year, those issues should be carefully considered and not cut in an FY25 spending measure.

NAEA appreciates the opportunity to share these recommendations with the incoming 119th Congress. We look forward to working with the tax committees and others in Congress to improve tax administration and create a more seamless experience for the American taxpayer. As new leadership and a new administration settle in at the Treasury Department and the IRS, we hope among the priorities at the top of the list will be minimum standards for tax preparers, modernizing the IRS's outdated systems and technology to improve customer service, and building an agency that can effectively support both taxpayers and tax professionals.

Sincerely,

A handwritten signature in black ink that reads "Twila D. Midwood". The signature is written in a cursive, flowing style.

Twila D. Midwood
President