



Tax Reduction Letter

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Internal Revenue Manual Section 4.11.51.5 (09-23-2016)

Preparer Penalties Overview

1. By pursuing preparer penalties when warranted, preparers will be educated on proper tax preparation techniques and procedures. Addressing a tax return preparer's noncompliant behavior will have an impact on the tax returns they prepare. Correcting an unlawful tax return preparer can have an exponential impact on the tax compliance of many tax returns.
2. During an examination of the client taxpayer's return, **do not** disclose a preparer penalty decision to the taxpayer or preparer.
3. The examination case of the related client should be closed prior to establishing the preparer penalty case.
4. Consideration of tax return preparer penalties under IRC 6694 and IRC 6695 is required on all examinations.
5. Examination employees should consider compliance of the tax return preparer during every examination. SB/SE and LB&I examination employees address noncompliance of return preparers through proposed preparer penalties and referrals to the Area's RPC. Examination employees should not send referrals to Return Preparer Office (RPO) to address noncompliant return preparers in lieu of penalty consideration. Some common examples of noncompliance that should have penalty considerations and a referral to the Area's RPC include:
 - PTIN requirement violations
 - Egregious errors and/or omissions on client tax returns, and
 - A pattern of noncompliance by the tax return preparer
6. If a tax return preparer is not tax compliant, the examination employee should discuss the potential for a tax return preparer information referral with the group manager and Area RPC.