

IRS Security Requirements for Tax Professionals: Fact or Fiction?

Recently, a number of clients within the tax profession have reached out to us about an IRS requirement that is currently circulating. The requirement stipulates that tax preparers are legally required to have a written information security plan. Specifically, tax professionals must attest in writing that they have a qualifying plan in place at the time they renew their PTIN.

Although the foregoing is true, much of the information circulating has been in the form of solicitations from technology providers. While new laws and regulations are often followed by third parties offering compliance assistance, we've observed that in this particular case, considerable emphasis is being placed on the consequences of non-compliance. Some advertisements claim that failure to comply can result in personal liability for directors and officers, that fines up to $100,000 per violation can be levied, and that violators can even face jail time.

As a provider that makes security a priority, we are strong advocates for the adoption of information security plans. Given our large stable of clients engaged in tax preparation, Sandbox Technologies has already aided several firms with the implementation of their own plans tailored specifically to meet and exceed IRS requirements. Nonetheless, claims by competitors of lurid consequences piqued our interest.

We looked into the matter and are currently uncertain as to where these statements come from. It appears to come from the Gramm-Leach-Bliley Act; however, we have not yet identified the specific source. Additionally, it does not appear that the FTC has the power to punish with jail time and would likely have to rely on the Department of Justice. We suspect that solicitations regarding this requirement are steeped in fear; however, the IRS does require PTIN holders to conduct a thorough risk assessment and have a written information security plan in place as part of the GLBA Safeguards Rule.

If you're a PTIN holder that's only recently learned of this requirement and have yet to adopt a qualifying plan, you can visit the links below to learn more about IRS requirements and recommendations. The good news is that you're probably not being escorted off to prison anytime soon. The not-so-good news is that the possibility of steep fines is real, not to mention failure to comply is unlikely to reflect well with your clients in the event of a breach.

Publication 5293 (5-2018) (irs.gov)

Publication 4557 (Rev. 7-2021) (irs.gov)

NISTIR 7621 Rev. 1, Small Business Information Security: The Fundamentals | CSRC

If you have any questions or concerns regarding the above and its direct effect on you, we encourage to consult your legal and tax advisors about your obligations and possible penalties. The foregoing represents our current understanding of the issues in this space, but do not rely on this communication alone for determining your requirements.

If you are in need of an information security plan for your organization, Sandbox Technologies can help. Our team members have the resources and knowledge to help implement your information security plan both quickly and efficiently. For more information, contact your Sandbox Technologies Engineer or Consulting CIO.

Warm Regards,

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