



TAXPAYERS'  
FEDERATION  
OF ILLINOIS

## Policy Statement

### Use of Contingency Fee Arrangements in Tax Audits and Reviews

Most local governments in Illinois need no in-house tax expertise because the Illinois Department of Revenue is responsible for administering most taxes. From time to time local governments perceive the need to engage outside tax consultants, and how those third parties are compensated has become an important issue.

For the following reasons, the use of contingency fees for tax audits and similar reviews should be prohibited in Illinois:

- Government agencies charged with implementing and administering tax laws are supposed to collect the *proper* amount of tax—neither more nor less. Compensating an auditor based on the amount of tax found to be due creates a conflict between the auditor’s self-interest and the government’s responsibility.
- Contingency fee arrangements encourage aggressive positions and behavior. Auditors who receive a percentage of the tax collected are incentivized to initially claim unreasonably high tax deficiencies, expecting that the amount of tax—and commission—ultimately collected will be higher as well. Less sophisticated taxpayers, or those who cannot afford advisors familiar with these tactics, may simply concede and pay the excessive assessments.
- Auditors earning a contingency fee have no motivation to find errors in the taxpayer’s favor or to consider mitigating factors or policy concerns, all of which are important factors of a properly-conducted audit.
- One of the fundamental underpinnings of a voluntary tax compliance system is the public’s confidence in the fairness of the system. The perception that a tax audit is really a bounty hunting exercise, that auditors are looking to maximize their profit rather than determine the correct amount of tax, seriously jeopardizes that confidence. In other words, taxpayers lose faith in a system perceived to be based on a shakedown.

The National Conference of State Legislatures, the American Institute of CPAs, the Tax Executives Institute, and the Council on State Taxation all oppose contingency fee tax audits.

While the parade of horrors sometimes associated with contingency fee auditors and seen in other states is not yet present in Illinois, we should be vigilant in protecting our taxpayers and the state tax system’s integrity. Other states allowing third party audits have banned contingency fee arrangements, and audit firms operating there have continued to flourish.

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