



Tax Tips You Can Use March 2010

Fraudulent Return Preparers: A primer

By Kathleen Crawford, EA

The tax tip for this month is a cautionary tale. I am sad to report that there are tax return preparers that create fraudulent returns for unsuspecting taxpayers. This article is meant to warn readers of the problem and the dire consequences. In my practice, I routinely help people navigate thru tax audits with the IRS and the state. Two of the state audits, in as many years, have involved hapless taxpayers who had returns prepared by fraudulent return preparers. You may ask how this can happen? How could the taxpayer not have known? Is the taxing authority lenient on these taxpayers?

All legitimate tax preparers in Oregon are licensed by the state and have strict requirements. There are tax preparers who illegally practice without a license. Some are innocent- preparers that have moved to the state and are unaware of the licensing requirements. Others have a different agenda. In Southern Oregon, in the last four years, there have been four illegal preparers who were discovered to have prepared fraudulent returns. The state labels them as fraudulent because of the pattern of overstated expenses on most of the returns prepared. Their agenda seems to be stealing from the government through their clients. These tax preparers seem legitimate. They prepare the return, e-file it and charge normal amounts for their services. Many people do not look at their returns carefully so overstated expenses might be missed and the client is happy to get a big refund.

At some point, the state discovers the fraudulent preparer. The Department of Revenue then looks for all of his clients by looking at the preparer's books and e-file records, so they can audit the returns of the clients. Those taxpayers who are caught by the audit process are generally charged a fraud penalty in addition to the tax and interest. The State of Oregon is giving almost no leniency for penalties because they believe the taxpayer should have known that there was something wrong but signed and filed the return anyway.

How does a taxpayer keep this from happening? The first thing that a taxpayer should do is to make sure the "paid preparer" section of the signature block on page 2 is filled out and signed. There is no legitimate reason for a tax preparer to omit that information. Second, if the return seems too good to be true, have the tax preparer go over it with you to insure that the amounts are correct. A big change is not always a sign of poor preparation. Last tax season I helped a new client who had generally owed about \$300 per year, but received a \$800 refund for 2008. He had been a do-it-yourself'er using consumer software, but was unaware of several tax programs put in place for struggling families. By having professional preparation he paid the accurate tax instead of too much. If you are still uneasy about your tax preparer, ask to see his license. Oregon requires that tax preparers display their licenses. If you still have doubts, contact the Oregon State Board of Tax Practitioners at www.oregon.gov/OTPB.

There are liars and thieves in every walk of life. The Licensed Tax Consultants in Oregon are proud of their profession and proud to sign the returns that they prepare. If you, the taxpayer, find someone who is not like that, don't walk but run to someone else.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

The fine print is that this article is for information only. Please call Kathy ,or Angela for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

