

Fraud

IRS estimates that between 23 and 28 percent of EITC claims are paid in error. Some of the errors are unintentional caused by the complexity of the law, but some of the claims are intentional disregard of the law. Here are the questions preparers frequently ask concerning fraud.

Preparer Question	IRS Answer
<p>Many married couples split their qualifying children and both file as head of household to reap the benefits of EITC. Does the IRS have a system in place to catch these and other fraudulent returns?</p>	<p>Yes, IRS reviews EITC returns filed to identify returns with errors or misinformation. IRS uses both internal information and information from external sources such as other government agencies. The information on the return is matched with information already on file with the IRS and other government agencies. If the review shows questionable or incomplete information, the IRS holds the EITC portion of the taxpayer's refund and contacts the taxpayer to verify the information. IRS releases the EITC amount after the claim is verified.</p> <p>EITC also uses a screening process based on historical information to select returns for examination. At this time, IRS identifies many errors and examines returns both pre and post refund. However, IRS does not have the resources to examine all of the questionable EITC returns.</p>
<p>Sometimes during the interview process, the preparer is aware the taxpayer is not giving the right information or is changing the story to get EITC. The preparer refuses to file an inaccurate return and the taxpayer leaves the office. What steps should the preparer take to notify the IRS of the likelihood of fraud or abuse?</p>	<p>If you suspect or know of an individual or company that is not complying with the tax laws, you may report this activity by completing Form 3949-A. You may fill out Form 3949-A online, print it and mail it to:</p> <p>Internal Revenue Service Fresno, CA 93888</p> <p>If you do not wish to use Form 3949-A, you may send a letter to the address above. Please include as much of the following</p>

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	<p>information that you have:</p> <ul style="list-style-type: none"> • Name and address of the person you are reporting. • The taxpayer identification number (social security number for an individual or employer identification number for a business). • A brief description of the alleged violation, including how you became aware of or obtained the information. • The years involved. • The estimated dollar amount of any unreported income. • Your name, address and daytime telephone number. <p>You are not required to identify yourself but it is helpful if you do. Your identity can be kept confidential and you may also be entitled to a reward. To be considered for a reward, file Form 211, <i>Application for Reward for Original Information</i>.</p>
<p>I am a tax preparer and am wondering what to do when clients seem to know all the right answers to the questions we are asking. Sometimes it is difficult to know if the story is fabricated or not.</p>	<p>If you find the information provided by the client appears incomplete, inconsistent or incorrect, you should ask additional questions, document the answers and make a judgment as to whether the answers make sense. If they don't, you have a responsibility to ask more questions and possibly ask for documentation until you are confident the return you are preparing is accurate. You must also use professional judgment regarding the credibility of your client and the answers you receive. If you are not comfortable with the answers or credibility of the client, then due diligence dictates you refuse to prepare the return.</p> <p>You can also let you client know the consequences of filing an inaccurate return. You may want to present your client</p>

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	<p>with the new Publication 4717, Help Your Tax Preparer get You the EITC You Deserve. This publication explains preparer's due diligence requirements and the consequences of not filing an accurate return.</p>
<p>What do I do if I refuse to prepare an EITC claim as the customer wants and I know the individual goes to a preparer down the street that is not as scrupulous?</p>	<p>Use the process mentioned above to report fraud and report abusive CPAs, Attorneys or Enrolled Agents to the IRS Office of Professional Responsibility. Send an email to report suspicious actions by tax professionals to opr@irs.gov.</p>
<p>What does the IRS do to stop bad preparers?</p>	<p>IRS has a Return Preparer Strategy that includes outreach and compliance activities. Outreach includes educational materials to ensure preparers have complete and current information about EITC eligibility, filing requirements and their EITC due diligence requirements. In addition, the IRS has two educational programs that are primarily outreach opportunities: First Time Paid Preparer Program and the Knock and Talk Visit Program.</p> <p>IRS conducts compliance activities with preparers who have a significant numbers of questionable EITC returns. Depending on the circumstances of each case, the IRS may take the following actions to correct the situation:</p> <ul style="list-style-type: none"> • Audits of paid preparers for compliance with EITC Due Diligence requirements and assessment of penalties under IRC § 6695(g) • Assessment of other return preparer penalties • Disciplinary action by the IRS Office of Professional Responsibility, • Suspension or expulsion from participation in IRS e-file program

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	<ul style="list-style-type: none">• Referral for criminal investigation• Injunction to bar the preparer from preparing tax returns. <p>Read more about the consequences of filing inaccurate returns.</p> <p>Read more about IRS visits to paid preparers.</p>

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