

The Washington Post

Cracking down on unscrupulous tax-return preparers

By Michelle Singletary
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Just in time for April 15, the dreaded tax day, several consumer advocacy groups released the results of a mystery-shopping test of commercial tax preparers. They were not good.

Nineteen people were sent to large and small preparers in three states -- Arkansas, New York and North Carolina. The survey, analyzed by the National Consumer Law Center, found that "a significant number of testers were the victims of poor quality tax preparation, or outright tax fraud." Of particular concern was the way tax preparers aggressively pushed "refund anticipation loans," which are short-term cash advances backed by a tax refund.

Separately, the IRS recently announced dozens of civil injunctions, indictments and convictions resulting from its beefed-up efforts to catch unscrupulous tax-return preparers.

Both the report from the IRS and the action by the consumer groups -- Arkansans Against Abusive Payday Lending, the Neighborhood Economic Development Advocacy Project in New York and the Community Reinvestment Association of North Carolina -- provide more evidence that the tax-preparation

industry needs better and more consistent oversight.

The IRS has announced a major effort to register and monitor tax preparers. It's a good initiative. But I want to see even bolder reforms.

IRS agents already go undercover posing as taxpayers to investigate preparers that the agency suspects are doing something illegal. The agency said it has made 230 such undercover visits during this filing season.

"We conduct an undercover visit when we have a specific reason to go out and visit that return preparer," said Terry Lemons, an IRS spokesman. "The idea is to work smart. We don't want to go out and single out the typical preparer who does a very solid job." But the agency, charged

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with collecting the bulk of the money needed to run our government, should randomly test all preparers. Perhaps by being more proactive, the agency could nab corrupt preparers before millions of taxpayer dollars end up in the wrong hands.

A federal district judge in Georgia permanently barred a man from preparing federal tax returns after determining he had fabricated or inflated deductions for clients. In examining more than 100 returns, the IRS found underpayment of more than \$400,000. Altogether, the government complaint says, the preparer cost the government tens of millions of dollars.

During the undercover shopping by the consumer groups, a tester reported that a preparer tried to get her to claim illegal deductions. In this case, to boost the woman's refund from \$1,000 to as much as \$5,000, the tax preparer wanted to falsely include a \$2,000 church donation, deductions for work clothes and laundry, \$400 in 2008 tax-preparation costs she didn't pay, and a dependent she didn't have.

I wonder whether this preparer was on the IRS watch list.

Further, instead of scrutinizing how preparers sell refund loans, the IRS should advocate -- and propose that

Congress mandate, if need be -- that tax preparers be prohibited from offering refund-anticipation loans, or RALs.

I've long been a critic of RALs, because the most likely candidates for this "instant" money are low-to-middle-income taxpayers, the very people who need every penny of their refunds.

A refund-anticipation loan lasts only until your refund arrives -- usually seven to 14 days with electronic filing and direct deposit. If you can pass up the temptation to have the money right away, you can pocket everything that's coming to you, and not hand the tax preparer a large chunk in fees and interest.

In 2008, people paid \$738 million in loan fees, plus \$68 million in add-on fees, according to the National Consumer Law Center and the Consumer Federation of

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America. On an individual basis, RAL fees range from \$34 to \$130. The law center and the Consumer Federation found that some tax preparers -- not the larger ones -- attach other charges such as "application," "administrative," "e-filing," "service bureau," "transmission" or "processing" fees. These fees -- gravy for preparers -- can range from \$25 to several hundred dollars.

As part of its increased oversight of preparers, the IRS is evaluating the promotion and sale of refund-anticipation loans.

"Testers reported problems with preparers' failure to adequately inform them about fees for RALs or related products, or how they worked," the consumer groups wrote in their mystery-shopping report.

The IRS should really push hard to implement strong procedures and monitoring systems to catch the thieves and scare any paid preparer thinking about cheating. This is, after all, our money.

Besides, you should care on a personal level because if the IRS catches an error or fraud, all the financial repercussions fall on you, the taxpayer. It doesn't matter if a professional prepared the return. You, my friend, are solely responsible for taxes due, including any

penalties.

Readers can write to Michelle Singletary at The Washington Post, 1150 15th St. NW, Washington, D.C. 20071.

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