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Let's rein in tax preparers' fraud, errors

By Michelle Singletary

Washington Post / April 15, 2010

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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 went to large and small preparers in Arkansas, New York, and North Carolina. The survey, analyzed by the National Consumer Law Center, found "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, or RALs, which are short-term cash advances backed by tax refunds.

Recently, the IRS also announced dozens of injunctions, indictments, and convictions resulting from its efforts to catch unscrupulous preparers.

The IRS report and action by the consumer groups (Arkansans Against Abusive Payday Lending, Neighborhood Economic Development Advocacy Project in New York, and the Community Reinvestment Association of North Carolina) provide more evidence the tax-preparation industry needs better oversight.

The IRS has unveiled a major effort to register and monitor preparers. But I want to see even bolder reforms.

IRS agents already pose as taxpayers to investigate preparers; this season, the agency has made 230 such visits, it said. "We conduct an undercover visit when we have a specific reason to go out and visit that return preparer," said Terry Lemons, a spokesman.

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But the IRS should randomly test all preparers. Perhaps by being more proactive, it could nab corrupt preparers before millions of taxpayer dollars end up in the wrong hands.

During the mystery shopping by the consumer groups, a tester reported that a preparer tried to get her to claim illegal deductions. 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 did not pay, and a dependent she did not have.

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

Furthermore, 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 RALs.

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

RALs last only seven to 14 days. The loan is repaid when the IRS refund is received. If you file electronically, however, you can get a refund in about the same amount of time.

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 America. RAL fees range from \$34 to \$130. The law center and the federation found that some preparers — not the larger ones — attach other charges such as "application," "administrative," "e-filing," "transmission," or "processing" fees, ranging from \$25 to several hundred dollars — gravy for tax preparers.

The IRS is evaluating RALs.

The IRS should push hard to implement strong procedures and monitoring systems. This is, after all, our money.

Besides, if the IRS catches an error or fraud, the financial repercussions fall on you. It doesn't matter if a professional prepared the return. You, my friend, are solely responsible.

Michelle Singletary writes The Color of Money column for The Washington Post. ■

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