

Justice Department Warns Dishonest Return Preparers Face Criminal Prosecution and Civil Injunction

Tax Division Brings Enforcement Actions Across the Country to Stop Return Preparation Scams The Department of Justice warns that unscrupulous return preparers who prepare false tax returns will face civil and criminal enforcement. In the last year, the Department of Justice's Tax Division filed dozens of civil actions throughout the United States seeking court orders to shut down dishonest return preparers who allegedly prepared false tax returns and in collaboration with U.S. Attorney's Offices prosecuted dozens of returns preparers who prepared false tax returns. "Return preparer fraud is a significant drain on the U.S. Treasury, and the Justice Department is committed to working with the Internal Revenue Service (IRS) to bring enforcement actions against unscrupulous return preparers who prepare fraudulent tax returns," said Acting Assistant Attorney General David A. Hubbert.

"The Tax Division will use all available enforcement tools to hold dishonest return preparers accountable and protect the U.S. Treasury from further damage." Most tax return preparers provide professional tax service. However, a few set out to use the personal and financial information provided to them to perpetrate fraud or other scams that can hurt their customers. Earlier this year, the IRS warned taxpayers that they are legally responsible for what is on the tax return even if someone else prepared the tax return. Indeed, taxpayers should be vigilant and ensure that their chosen return preparer reports accurate information.

The IRS also warned the public about various schemes deployed by dishonest return preparers in its Dirty Dozen Tax Scams. The following is a list of several of those scams with examples of recent enforcement actions taken by the Justice Department. **Falsifying Income to Claim the Earned Income Tax Credit (EITC)** Dishonest return preparers fabricate income on customers' returns to support a claim for the EITC, which is a credit for working people with low to moderate income and eligibility depends on a variety of factors such as income.

For example, in tax year 2016, taxpayers with income between \$13,900 and \$18,200 were eligible for the maximum EITC. One of the ways to falsely claim the EITC is to fabricate income. For example:

- In Texas, a federal court sentenced a return preparer to 22 months in prison for filing false returns that included fraudulent business income, losses, credits and deductions and sought refunds to which his clients were not entitled;
- In Michigan, the Justice Department filed suit to enjoin a Detroit-area return preparer from preparing tax returns, in part, because she allegedly reported fictitious wages on a customer's return in order to inflate a claim for the EITC; and
- In Kansas, a return preparer was sentenced to 27 months in prison for filing false returns that included fictitious business income on his clients'

returns in order to qualify them for the EITC. Falsely Padding Deductions, Such as Charitable Contributions or Business Expenses Unscrupulous returns preparers report false deductions on customers' returns in order to reduce the amount of tax a customer owes, often resulting in a higher, but fraudulent, refund.

For example: • In New York, a federal court sentenced a return preparer who fabricated charitable contributions and unreimbursed employee expenses on his customers' returns to 18 months in prison; • In North Carolina, a federal court sentenced a return preparer to 18 months in prison for preparing false tax returns that included false unreimbursed employee business expenses; and • In Florida, a federal court enjoined a West Palm Beach-area return preparer whom the government alleged had claimed false or inflated charitable contributions and office expenses for his customers. Excessive Claims for Business Credits, such as the Fuel Tax Credit The Fuel Tax Credit is a business credit generally limited to use of certain types of fuel for off-highway business use.

A frivolous claim for the Fuel Tax Credit is typically one for a taxpayer who has not used these types of fuel for off-highway business use. For example: • In Louisiana, the Justice Department filed suit to enjoin a New Orleans-area return preparer from preparing returns, in part, because she allegedly claimed false Fuel Tax Credits on her customers' returns; and • In New York, a federal court sentenced a return preparer to 36 months in prison for preparing false tax returns that included fictitious claims for fuel tax credits for her customer.

Falsely Inflating Refund Claims with False Claims for Education Credits Education credits are available for certain higher education related expenses. Dishonest preparers claim education credits for customers who have not attended a qualifying educational institution. For example: • In Mississippi, a federal court enjoined a return preparer that the government alleged made fraudulent claims for education credits; and • In California, a return preparer pleaded guilty to preparing false tax returns and admitted that she prepared returns that claimed false education credits. Return Preparer Fraud In addition to the tax scams, listed above, unscrupulous return preparers may be prosecuted or enjoined for other types of return preparer fraud.

For example: • In Idaho, a return preparer pleaded guilty to filing false returns without his clients' knowledge. He included false medical and education expenses to inflate their refunds and then diverted part of the refund into a bank account he controlled; • In Illinois, a federal court enjoined a return preparer from preparing returns that the government alleged had claimed false filing statuses and dependents for her customers; and • In Florida, a federal court enjoined the owner of a return preparation business that had at one time stores in Alabama, Florida, Georgia, and North Carolina.

The federal court found that the owner and his preparers engaged in a series of widespread fraudulent schemes and ordered the owner to pay the United States

more than \$950,000 in fees he received from preparing tax returns. The IRS is reminding taxpayers that there is information available on the IRS's website regarding the 2017 individual income tax return filing season. The IRS has some tips on their website for choosing a return preparer and has launched a free directory of federal return preparers.

In addition to tips on choosing a return preparer, the IRS warned taxpayers and tax professionals to be aware of scammers impersonating as the IRS. Earlier this year, the IRS alerted the public and tax professionals to some common scams to be aware of and ways to report suspicious activity. In the past decade, the Tax Division has obtained convictions and injunctions against hundreds of unscrupulous return preparers. Information about these cases is available on the Justice Department's website.

An alphabetical listing of persons enjoined from preparing returns can be found on this page. If you believe that one of the enjoined persons or businesses may be violating an injunction, please contact the Tax Division with details.