

 Fact Sheet

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Return Preparer Fraud

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Return Preparer Fraud generally involves the preparation and filing of false income tax returns by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. Preparers may also manipulate income figures to obtain fraudulent tax credits, such as the Earned Income Tax Credit.

In some situations, the client (taxpayer) may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns. However, when the IRS detects the false return, the taxpayer must pay the additional taxes and interest and may be subject to penalties and criminal prosecution.

The IRS Return Preparer Program focuses on enhancing compliance in the return-preparer community by investigating and referring criminal activity by return preparers to the Department of Justice for prosecution and/or asserting appropriate civil penalties against unscrupulous return preparers.

While most preparers provide excellent service to their clients, the IRS urges taxpayers to be very careful when choosing a tax preparer. You should be as careful as you would in choosing a doctor or a lawyer. It is important to know that even if someone else prepares your return, you are ultimately responsible for all the information on the tax return.

Helpful Hints When Choosing a Return Preparer

- Avoid tax preparers who claim they can obtain larger refunds than other preparers
- Avoid preparers who base their fee on a percentage of the amount of the refund.
- Use a reputable tax professional who signs your tax return and provides you with a copy for your records.
- Consider whether the individual or firm will be around to answer questions about the preparation of your tax return months, or even years, after the return has been filed.
- Review your return before you sign it and ask questions on entries you don't understand.

- No matter who prepares your tax return, you (the taxpayer) are ultimately responsible for all of the information on your tax return. Therefore, never sign a blank tax form.
- Find out the person's credentials. Is he or she an Accredited Tax Preparer, Enrolled Agent, Certified Public Accountant (CPA), Licensed Public Account or Tax Attorney? Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection and appeals. Other return preparers may only represent taxpayers for audits.
- Find out if the preparer is affiliated with a professional organization that provides its members with continuing education and resources and holds them to a code of ethics.
- Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received?
- Tax evasion is a risky crime, a felony, punishable by five years imprisonment and a \$250,000 fine.

IRS cautions taxpayers to be wary of claims by preparers offering larger refunds than other preparers. Check it out with a trusted tax professional or the IRS before getting involved.

Criminal Investigation Statistical Information

	FY 2002	FY 2003	FY 2004
Investigations Initiated	254	229	206
Prosecution Recommendations	89	169	167
Indictments/Information	61	109	121
Convictions	64	67	117
Incarceration Rate*	86.8%	83.7%	84.4%
Avg. Months to Serve	23	19	19

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination.

Criminal and Civil Legal Actions

The following case summaries are excerpts from public record documents on file in the court records in the judicial district in which the legal actions were filed.

Tax Preparer Sentenced to 33 Months

On Dec. 16, 2004, in Hartford, Conn., Patrick A. Triumph, a self-employed tax return preparer, was sentenced to 33 months in prison to be followed by three years supervised release. In July 2004, Triumph was indicted on 38 counts of aiding and abetting in the preparation of false tax returns, one count of interfering with the administration of IRS laws and one count of knowingly and willfully failing to appear in

court when required. Triumph was found guilty by jury on Sept. 20, 2004, on 10 counts of aiding and abetting in the preparation of false tax returns.

Court Bars South Florida Man From Selling Bogus Trusts and Preparing Federal Tax Returns for Others

On Dec. 3, 2004, in Ft. Lauderdale, Fla., Louis Ratfield of Lake Worth, Fla., was permanently barred by a federal court from preparing federal income tax returns for others and from representing customers before the IRS. Ratfield also was barred from selling a fraudulent tax scheme involving sham trusts. According to papers filed in the case, Ratfield told customers they could use his trusts to get “tax deductions for the expenses incurred in being alive.”

Court Bars Ohio Men’s Fraudulent Tax Schemes

On Nov. 8, 2004, in Akron, Ohio, James L. Binge and Terrence A. Bentivegna were permanently barred by a federal court from preparing income tax returns for customers and from representing customers before the IRS. The court found that the two Canton-area men prepared income tax returns that hid customers’ income and claimed improper deductions. They also sold sham trusts and falsely advised customers that they need not report income earned within the United States. Binge and Bentivegna were also barred from selling or promoting tax fraud schemes.

Sacramento Tax Preparer Sentenced to 21 Months in Prison for False Tax Return Scheme

On Nov. 4, 2004, in Sacramento, Calif., Brent Daniel Shaw was sentenced to 21 months in prison in connection with his participation in a scheme involving the filing of false returns with both the California Franchise Tax Board (FTB) and the Internal Revenue Service (IRS). Shaw pleaded guilty to mail fraud, aiding and assisting in the preparation of a false income tax return and forging endorsements on treasury checks. Shaw admitted that he would provide his tax return clients with a correct copy of their state and federal income tax returns, and then would alter the returns prior to actually sending them in to the FTB and the IRS. The returns Shaw submitted without the knowledge and consent of his clients included bogus deductions to reduce the taxpayers’ state and federal tax liability, which in turn caused the issuance of larger refunds than were actually due. Upon receipt of falsely inflated refund checks, which Shaw directed the IRS and FTB to mail directly back to him, Shaw would forge his clients’ signatures and personally deposit or cash the refund checks. Shaw then issued new checks to his clients for the amount of the refund they were led to believe they were getting. Shaw improperly kept the difference between the correct refund amount and the fraudulent and inflated refund amount.

Irving, Texas, Tax Preparer Sentenced

On Oct. 21, 2004 in Irving, Texas, Leanne Denice Shroul was sentenced to 36 months in prison following her guilty plea in May 2004. Shroul, who operated Executive Financial Consultants, pleaded guilty to three counts of aiding and assisting in the preparation and presentation of a false and fraudulent tax return.

Shroul was a trained tax return preparer however, she would inaccurately and falsely advise and counsel her clients that the following things were deductible on the Schedule

A form: personal clothing worn to work; personal hygiene items; vitamins; gym fees; haircuts; manicures and pedicures; mileage to and from work; and money spent at restaurants. ShROUT also admitted she prepared amended tax returns for clients using basically the same methodology and claiming the taxpayer was owed more. She admitted to preparing at least 788 false tax returns or false amended tax returns approximately beginning in 1999 and continuing through June 2002.

Court Stops Fraudulent Tax-Return Preparer

On Oct. 19, 2004, in Norfolk, Va., Ronald M. Green was permanently barred by a federal court from preparing federal income tax returns for others and representing people before the IRS. The court found that Green had prepared fraudulent tax returns for customers in Virginia, Maryland, Pennsylvania, New York, South Carolina, Alabama, Texas, Arizona and California.

Hamden Tax Preparer Sentenced to Four-Year Federal Prison Term

On Oct. 13, 2004, in New Haven, Conn., John K. Cannon was sentenced to 48 months in prison followed by one year of supervised release for assisting clients of his tax preparation business with filing materially false federal income tax returns and for failing to file his own federal income tax return for the 2001 calendar year. Cannon was also ordered to pay all back taxes with any penalties and interest and accepted a permanent injunction that will bar him from engaging in the business of preparing income tax returns or from further acting as an income tax preparer in the future. Cannon, who had been self-employed as a tax preparer for approximately 40 years, admitted that between 1999 and 2001, he willfully prepared hundreds of federal income tax returns in which he falsely represented that his clients were lawfully entitled to claim itemized deductions, business expenses, rental expenses and other deductions to which they were not entitled. Cannon also acknowledged that he intentionally sought to interfere with the Internal Revenue Service's ability to investigate and audit his preparation of those returns and that as a result of his actions he deprived the IRS of nearly \$1 million in tax revenue. Cannon further admitted that he willfully failed to file his own income tax return for the calendar year 2001, as required by law, despite earning more than \$250,000 from his tax preparation business that year.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest IRS office. This information can be communicated in writing or by phone. You can contact the IRS by phone at 1-800-829-0433.