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## How to Choose a Tax Preparer and Avoid Preparer Fraud

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Return preparer fraud 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, for example, manipulate income figures to fraudulently obtain tax credits, such as the Earned Income Tax Credit.

In some situations, the client, or taxpayer, may not know of the false expenses, deductions, exemptions and/or credits shown on his or her tax return.

However, when the IRS detects a fraudulent return, the taxpayer — not the return preparer — must pay the additional taxes and interest and may be subject to penalties.

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. The IRS can also assert appropriate civil penalties against unscrupulous return preparers.

While most preparers provide honest service to their clients, the IRS urges taxpayers to be careful when choosing a preparer — as careful as they would be choosing a doctor or lawyer. Even if someone else prepares a tax return, the taxpayer is ultimately responsible for all the information on the return. For that reason, taxpayers should never sign a blank tax form. And they should review the return before signing it and ask questions on entries they don't understand.

### Helpful Hints When Choosing a Return Preparer

- Be cautious of tax preparers who claim they can obtain larger refunds than other preparers.
- Avoid preparers who base their fee on a percentage of the refund.
- Use a reputable tax professional who signs the tax return and provides a copy.
- Consider whether the individual or firm will be around to answer questions about the preparation of the tax return months, or even years, after the return has been filed.

- Check the person's credentials. Only attorneys, certified public accountants (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 of returns they actually prepared.
- 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 friends and family whether they know anyone who has used the tax professional and whether they were satisfied with the service they received.

Reputable preparers will ask to see receipts and will ask multiple questions to determine whether expenses, deductions and other items qualify. By doing so, they are trying to help their clients avoid penalties, interest or additional taxes that could result from an IRS examination.

Tax evasion is a risky crime, a felony, punishable by five years imprisonment and a \$250,000 fine.

### **Criminal and Civil Legal Actions**

Here are recent statistics on tax fraud from the IRS Criminal Investigation Division.

<b>Criminal Investigation Statistical Information on Return Preparer Fraud</b>			
	FY2008	FY2007	FY2006
Investigations Initiated	214	218	197
Prosecution Recommendations	134	196	153
Indictments/Informations	142	131	135
Sentenced	124	123	109
Incarceration Rate *	81.5%	81.3%	89.0%
Average Months to Serve	18	19	18

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

Some return preparers have been convicted of or have pleaded guilty to felony charges.

Additionally, the courts have issued more than 290 permanent injunctions against abusive tax scheme promoters and abusive return preparers since 2001. 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.

### **Houston Tax Preparer Sentenced to Prison**

On Sept. 26, 2008, in Houston, Tex., Rosalind D. Jones was sentenced to 21 months in prison and ordered to pay \$175,206 in restitution to the IRS for filing false income tax returns. In January 2008, Jones pleaded guilty by admitting that she prepared false tax returns in order to create or to increase income tax refunds for her clients. On the count to which she pleaded guilty, Jones admitted that the false items she placed on the tax return in question claimed a false income tax refund of \$4,195. Without the false items, the taxpayer was entitled to a tax refund of only \$26.

### **Tax Return Preparer Sentenced to Five Years in Prison for Filing False Claims for Tax Refunds and Identity Theft**

On Aug. 25, 2008, in Pensacola, Fla., Deborah R. Adams, operator of Archer Tax and Accounting Services, was sentenced to 60 months in prison, to be followed by three years of supervised release, and ordered to pay \$62,802 in restitution to the IRS. Adams pleaded guilty in May 2008 to 31 counts of preparing and filing false federal income tax returns and 13 counts of identity theft. According to court documents, she filed 31 false federal income tax returns during tax years 2003 through 2005. Adams also prepared false returns with the personal identity information and Social Security numbers stolen from former clients and had the false refunds also deposited to bank accounts she controlled. Adams filed fraudulent claims for tax refunds totaling \$102,000.

### **New Jersey Man Who Prepared Hundreds of Fraudulent Tax Returns Sentenced to Six Years**

On May 14, 2008, in Newark, N.J., Romanus Okorie was sentenced to 72 months in prison for filing fraudulent tax returns on behalf of numerous New Jersey residents resulting in a loss to the government in excess of \$2.5 million. He was also ordered to pay a \$100,000 fine and was prohibited from working as a tax preparer for three years following his release from prison. On Jan. 22, 2008, a jury had convicted Okorie of 10 counts of willfully preparing materially false tax returns. Evidence presented at trial showed that more than 100 clients were audited, and the total tax loss based on the audited returns exceeded \$1 million. The government presented further evidence that in 2003 Okorie prepared approximately 250, and in 2004 close to 300, tax returns, all but one generating a refund. The government estimated that the actual tax loss for the returns prepared by Okorie — more than 600 — exceeded \$4 million.

### **North Carolina Professional Tax Return Preparer Sentenced to 70 Months**

On Feb. 28, 2008, in Charlotte, N.C., Lloyd Anthony Bastfield, a professional tax return preparer for approximately 18 years, was sentenced to 70 months in prison and ordered to pay \$6 million in restitution. Bastfield pleaded guilty in April 2007 to conspiring to defraud the United States by filing false tax returns claiming nearly \$6 million in false claims for refunds for individuals between 2001 and 2005, and evading over \$171,000 in personal income taxes owed by him for the years 2000 through 2004. According to a Bill of Information, Bastfield admitted that between 2001 and 2005, he prepared and electronically filed more than 10,000 fraudulent income tax returns for individual clients which claimed false and fictitious education income tax credits.

### **Phony Tax Return Preparer Posed as CPA and Prepared Fraudulent Returns**

On Oct. 2, 2007, in Atlanta, Ga., Larry Vonzell Black was sentenced to 15 months in prison, to be followed by three years of supervised release. Black pleaded guilty to charges of filing false claims with the IRS on July 16, 2007. According to information presented in court, he falsely told members of the public, friends and acquaintances that he was a certified public accountant trained to prepare tax returns. He advertised his tax preparation services at a booth set up in a check-cashing store in metropolitan Atlanta. Under the guise of preparing legitimate tax returns, he obtained personal information, including Social Security numbers and W-2 forms, from taxpayers. He then submitted false claims by forging a signature on each taxpayer's tax return, directing the payment of refunds to himself and distributing only a small portion of the fraudulent refunds to his victims. In all, Black submitted false claims for over \$46,000.

### **Western Tax Service Return Preparers Sentenced for Filing False Tax Returns**

On Oct. 15, 2007, in Santa Ana, Calif., Kelly Agbonmoba David, aka David Kelly, was sentenced to 46 months in prison. David's co-defendant, Anthony Todd Stefani, was sentenced to 27 months in prison. Both men had been found guilty on charges of conspiracy to defraud the United States and of aiding and assisting in the filing of false tax returns with the IRS. According to the indictment, David was hired in 1999 to assist in the preparation of income tax returns for DeAngelo Tax Service and, later, Western Tax Service. Co-defendant Stefani was employed by Western Tax Service to prepare income tax returns in 2001. The indictment further states that the tax preparers were trained in how to make false, misleading and inaccurate statements on clients' tax returns, usually without the knowledge of their clients. The preparers at DeAngelo and Western Tax Services prepared and filed over 11,000 income tax returns for years 1998 through 2001. Other individuals sentenced for their role in the conspiracy were Samuel DeAngelo, sentenced on Sept. 24, 2007, to 51 months in prison; Douglas Shields, sentenced on Aug. 6, 2007, to 15 months in prison; Jeffrey Russell Wright, sentenced on Sept. 17, 2007, to six months in prison followed by six months home detention; and Erin Cordes, sentenced on Sept. 24, 2007, to one year of probation which includes six months of home detention.

### **San Jose Tax Preparer Sentenced for Preparing False Tax Returns, Banned for Life from Working as a Tax Consultant**

On Nov. 1, 2007, in San Jose, Calif., Jonathan Wendy was sentenced to 12 months and one day in prison to be followed by one year of supervised release. In addition, the judge imposed two special supervised release conditions that Wendy agreed to in the plea agreement — a lifetime ban on working as a tax consultant, and filing complete and accurate federal tax returns for tax years 1998 through 2005. Wendy pleaded guilty on Nov. 1, 2006, to one count of aiding or inducing another to file a false tax return. According to his plea agreement, Wendy, who was a tax preparer for over 20 years, admitted that on July 27, 1999, he prepared a federal income tax return for the 1998 tax year which falsely listed taxable income as \$94,347, when he knew the correct amount was approximately \$104,929. Wendy also admitted that he intentionally reduced the tax liability by creating numerous false or grossly inflated deductions on the return. In addition to the specific count to which he pleaded guilty, Wendy admitted preparing 17 other individual tax returns and falsely listing the taxable amount claimed on each

return. As a result of his conduct, the amount of tax owing to the government by those taxpayers was more than \$70,000.

### **U.S. Court Permanently Bars Washington State Woman's Bogus "Decoding" Tax Scheme**

On Aug. 22, 2008, a federal court permanently barred a Tacoma, Wash., woman from selling a tax scam. The court found that Sharon Kukhahn's "IMF Decoder" scheme falsely purported to "decode" IRS computer transcripts of customers' taxpayer accounts to show that the customers were not liable for federal income tax. Kukhahn operates businesses named IMF Decoder; Paralegal Research Advocates; and Advocates for Justice, Liberty and Freedom.

### **Federal Court Bars Oregon Family and Associate from Promoting Tax Fraud Scheme**

On April 11, 2008, an Oregon federal court permanently barred John Fitzgerald of Portland and his three daughters — Marilyn Dial, Martha Farr Sharp and Karen Gray — from marketing a tax fraud scheme involving sham nonprofit corporations that customers used to evade federal taxes. The civil injunction order also barred Noreen McCausland, a family associate, from promoting the scheme. Judge Michael W. Mosman of the U.S. District Court for the District of Oregon found that the defendants, through their business American Family Enterprise, Inc., operated "a one stop shop" for setting up sham nonprofit corporations in Oregon. The defendants falsely told customers they could put their income, assets and businesses into the sham corporations and would not have to file income tax returns or pay taxes.

### **Texas Man Barred from Promoting Home-Based Business Tax Scheme**

On Feb. 8, 2008, a federal court barred Thell G. Prueitt of Kingsland, Tex., from promoting a home-based business tax scheme, falsely advising customers they could claim tax deductions for non-deductible personal expenses, and other fraudulent deductions. The court also found that he promoted an ATM and pay phone tax scam, falsely advising customers that they could claim tax credits and deductions based on artificially inflated purchase prices.

### **California Preparer Promised Customers She Would Represent Them at IRS Audits**

On Oct. 2, 2008, a federal court permanently barred Bonnie Arnel, of Newman, Calif., from preparing federal income tax returns. According to the complaint, Arnel told customers she could "find the deductions the IRS [did] not want [her customers] to know about." Arnel also allegedly promised customers that, as part of her tax preparation services, she would represent them at IRS audits, when she had no intention of doing so and in fact never did.

### **Imprisoned Tax Defiers Barred from Preparing Tax Returns and Selling Tax Fraud Materials**

On Oct. 17, 2008, a federal court in Las Vegas permanently barred notorious tax defiers Irwin Schiff and his former associate, Cynthia Neun, from promoting Schiff's fraudulent "zero tax" plan. The pair was convicted on tax charges in October 2005 and is currently incarcerated. The permanent injunction ensures that Schiff and Neun cannot promote tax-fraud schemes from within prison or when they are released from prison.

## Reporting Suspected Tax Fraud Activity

Tax fraud or abusive return preparers can be reported to the IRS on Form 3949-A, Information Referral. This form is available as a download from the IRS Web site at IRS.gov or by calling (800) 829-3676 to order by mail. The completed form, or a letter detailing the alleged fraudulent activity, should be sent to Internal Revenue Service, Fresno, CA 93888.

The mailing should contain specific information about the individual or business, the activity, when the alleged violation took place, the amount of money involved, how the reporter became aware of it and any other information that might be helpful to an investigation. The identity of the person filing the report is not required but it could be helpful in an investigation and it can be kept confidential.

Rewards based on the amount of additional tax, penalties and interest owed can be made to individuals who report fraud. Form 211, Application for Award for Original Information, can be used to claim a reward.

The IRS' Whistleblower Office will make the final decision about whether an award will be paid and for how much. Award amounts are based on the value of the information you provided compared with the amount of additional tax, penalties and interest collected by the IRS.

### Related Items:

- [Form 3949-A, Information Referral](#)
- [Form 211, Application for Award for Original Information](#)
- [Standards of Practice for Tax Professionals](#)
- [Compliance & Enforcement](#)
- [Tax Scams/Consumer Alerts](#)