7 Common Tactics of Abusive Tax Preparers

Fraudulent **tax preparers** can get taxpayers like you in a lot of trouble. Often without the knowledge of the taxpayers, abusive preparers use techniques that attempt to reduce their clients' taxable income or make it appear that clients qualify for tax refunds. At first glance, this may seem advantageous for the taxpayer. According to the IRS, however, submitting fraudulent tax returns will have severe implications on the taxpayer and not on the dishonest tax preparer.

So, you really need to be careful when choosing a tax preparer. The kind of preparer you hire can spell the difference between having smooth dealings with the IRS and paying stiff penalties or even doing jail time. Here are 7 of the most common techniques used by unscrupulous tax preparers.

1. Making Up Supplemental Incomes and Losses

Under Schedule C of the income tax return, you will find the Supplemental Income and Loss section. A dishonest preparer will try to lessen any additional income and expand supplemental losses to diminish total income tax to be paid.

2. Declaring Unpaid Expenses as Actual Deductions

If you have your own business, you are allowed to deduct business-related expenses that have been incurred. An abusive tax preparer will, however, deduct even the unpaid business expenses, which results in inflated deductions and reduced income tax.

3. Claiming Fictitious or Ineligible Dependents

Taxation laws allow personal exemptions or deductions based on qualified dependents. Taking full advantage of this type of deduction will result in lower income taxes. Some preparers add fictitious dependents to increase personal exemptions and reduce income tax.

4. Adding Fictitious Items in the Itemized Deductions

Under Schedule A of the income tax return, a taxpayer is required to provide an itemized computation of the deductions being claimed. Here, abusive tax preparers can insert bogus claims regarding contributions to charitable institutions or expenses on medical and dental services.

5. Using Inadmissible Credits and Exaggerated Exemptions

It is a common tendency for dishonest tax preparers to inflate deductions to lessen the taxable income and, therefore, the total tax payable. One area in which deductions can be abused is the Earned Income Tax Credit, or EITC. Unscrupulous tax preparers may claim EITC even if their clients are deemed ineligible under the law.

6. Falsifying Supporting Documents

The tax return is to be submitted along with supporting schedules, documents and forms. There are tax preparers who put fabricated details in the related documents to conveniently support the falsified items in the tax return.

7. Asking Fees Based on the Amount of a Client's Tax Refund

One common tactic among abusive tax preparers to pull a fast one on their clients and not just to defraud the government is to base their professional fees on how much refund or savings their clients get. This is the main reason why a dishonest preparer wants you to get big refunds or savings. Basing the fees on tax refunds or savings is a telltale sign that a tax preparer is indeed unscrupulous.

In the end, always remember that, as a taxpayer, the accuracy of your tax return is your sole responsibility. It does not matter if you hire a tax preparer. If you want to hire a preparer, be sure to consider the person's reputation and experience.