

IRS Fact Sheet

Media Relations Office (Delaware)

Gregg Semanick

Media Contact: 973.921.4138

www.IRS.gov/newsroom

gregg.j.semanick@irs.gov

Public Contact: 800.829.1040

IRS Alerts Delawareans About Tax Return Preparer Fraud

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WILMINGTON-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 tax credits, such as the Earned Income Tax Credit, fraudulently.

In tax year 2003, nearly 215,000 Delaware taxpayers used a paid tax professional to prepare their tax returns. This represents 55 percent of the filers in Delaware.

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 — 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 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. Taxpayers should be as careful as they would be in choosing a doctor or a lawyer. It is important to know that even if someone else prepares a tax return, the taxpayer is ultimately responsible for all the information on the tax return.

Helpful Hints When Choosing a Return Preparer

- Be careful with 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. Only attorneys, CPAs, enrolled agents and licensed public accountants 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 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.

Criminal Investigation Statistical Information on Return Preparer Fraud

	FY 2005	FY 2004	FY 2003
Investigations Initiated	248	206	229
Prosecution Recommendations	140	167	169
Indictments/Informations	119	121	109
Sentenced	118	90	49
Incarceration Rate*	85.6%	84.4%	83.7%
Avg. Months to Serve	18	19	19

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

Criminal and Civil Legal Actions

Some return preparers have been convicted of, or have pleaded guilty to, felony charges. Additionally, the courts have issued 132 permanent injunctions against abusive tax scheme promoters and abusive return preparers since 2003. 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.

Dover Delaware Man Sentenced for Conspiring to File False Income Tax Returns

On July 2, 2005 in Wilmington, DE, Micah Obadiah Cuffee Jr. was sentenced to 18 months in prison followed by three years of supervised release and ordered to pay restitution of \$16,840 for conspiring to file false income tax returns. Cuffee submitted false W-2 forms to receive more than \$30,000 in improper refunds. Micah Cuffee, Sr. (father of Michah Jr.) of Felton Delaware was sentenced to 37 months incarceration and three years supervised release for filing 16 fraudulent federal tax returns which sought undeserved refunds. Ten of the returns were filed by Cuffee in the names of unwitting Delaware Correctional Center inmates, with whom Cuffee previously had been incarcerated.

Philadelphia Tax Return Preparer Incarcerated

Adrian Brown, a resident of Philadelphia and a former H&R Block employee, was sentenced at the end of 2005 to 9 months incarceration and 3 years federal probation for her role in preparing 34 fraudulent tax returns. She defrauded the IRS of \$98,000.00. The returns she prepared were for the tax years 2000-2001 and were prepared while she was employed as an H&R Block employee. She claimed deductions she knew to be fraudulent, "in that the returns included false charitable contributions, gambling losses, and unreimbursed losses. The judge also barred her from preparing tax returns in the future.

Former Accountant and Employee of Accounting Firm Sentenced for Tax Fraud Conspiracy, Bank Fraud and Mail Fraud

On March 3, 2005 in Baltimore, MD, Charles G. Fagan was sentenced to 42 months in prison followed by three years supervised release and ordered to pay \$349,249 in restitution. On March 10, 2005, Ashok Thakur an employee of Fagan's was sentenced to 18 months in prison followed by 2 years supervised release and fined \$63,501 in connection with his guilty plea to conspiracy to defraud the government, bank fraud, and mail fraud. Both men were sentenced in connection with their guilty pleas to crimes committed from 2000 to 2003 in connection with schemes to defraud the IRS as well as several clients of his accounting practice.

District of Columbia Man Sentenced to Two Years in Prison for Filing False Claims on Tax Returns

On December 12, 2005, in Greenbelt, MD, Eugene Love was sentenced to two years in prison, followed by three years supervised release, for filing false claims on federal income tax returns. Love was also ordered to pay \$190,416 in restitution; \$60,035 to IRS and \$130,381 to HSBC Taxpayer Services, the entity that provided Refund Anticipation Loans based on the false application for refunds. According to the guilty plea, from about December 2001 through March 2002, Love was an office manager at Instant Tax Service. As the office manager Love was responsible for preparing and submitting tax returns on behalf of Instant Tax customers. The returns were filed electronically using the Electronic Filer Identification Number, which was assigned to Love. During this period, Love prepared 56 personal income tax returns using false W-2 information. A Refund Anticipation Loan (RAL) was requested for each of these claims and issued in the client's name. Each of the 56 RALs issued as a result of this fraudulent scheme were cashed and funds paid to Love

Tax Preparer Sentenced to 18 Months for Preparing False Tax Returns

On August 15, 2005 in Greenbelt, MD, Harold Gilbert was sentenced to 18 months in prison followed by one year supervised release for preparing fraudulent tax returns. Gilbert prepared several fraudulent tax returns listing abnormally high Schedule A deductions for medical and dental expenses, charitable contributions and unreimbursed business expenses, such as job travel, job supplies and job uniforms. As part of the plea agreement, Gilbert admitted to tax loss of \$146,559.21.

Tax Return Preparer Sentenced to Prison

On April 28, 2005, in Greenbelt, MD, Karen D. Harrison was sentenced to 15 months in prison followed by three years of supervised release for income tax evasion and aiding and abetting the filing of false tax returns. According to evidence at trial, Harrison operated a tax return business from 1997 through 1999, and prepared hundreds of income tax returns for her clients. Several of her former clients testified that Harrison prepared returns claiming tax deductions to which the clients were not entitled. In 1998 Harrison received more than \$88,000 for her tax return preparation business. For that year, she filed her own income tax return reporting that she received only \$38,000, failing to report more than \$50,000

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, report this activity using IRS Form 3949-A, Information Referral. You can download Form 3949-A from the IRS Web site at IRS.gov or call 1-800-829-3676 to order by mail. Send the completed form, or a letter detailing the alleged fraudulent activity, to Internal Revenue Service, Fresno, CA 93888. Please include specific information about who you are reporting, the activity you are reporting and how you became aware of it, when the alleged violation took place, the amount of money involved and any other information that might be helpful to an investigation. Although you are not required to identify yourself, it is helpful to do so. Your identity can be kept confidential. You may also be entitled to a reward.

For additional information on how to report suspected tax fraud and abusive tax preparers call the IRS at 1-800-829-0433.