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Falsifying Income to Claim Tax Credits

The Internal Revenue Service today warned taxpayers about schemes to erroneously claim tax credits is on the annual list of tax scams known as the “Dirty Dozen” again for the 2015 filing season.

“Scam artists don't miss a trick and they can entice taxpayers to falsely inflate income on returns to claim tax credits they are not entitled to receive," said IRS Commissioner John Koskinen. "Taxpayers are ultimately responsible for the information on their tax returns, and I urge everyone to file the most accurate return possible."

Compiled annually, the “Dirty Dozen” lists a variety of common scams that taxpayers may encounter anytime but many of these schemes peak during filing season as people prepare their returns or hire professionals to do so.

Illegal scams can lead to significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice (DOJ) to shutdown scams and prosecute the criminals behind them.

Don’t Create Fake Income to Qualify for a Credit

Some people falsely increase the income they report to the IRS. This scam involves inflating or including income on a tax return that was never earned, either as wages or as self-employment income, usually in order to maximize refundable credits.

Just like falsely claiming an expense or deduction you did not pay, claiming income you did not earn in order to secure larger refundable credits such as the Earned Income Tax Credit could have serious repercussions. This could result in taxpayers facing a large bill to repay the erroneous refunds, including interest and penalties. In some cases, they can even face criminal prosecution.

Taxpayers may encounter unscrupulous return preparers who make them aware of this scam. Remember: Taxpayers are legally responsible for what’s on their tax return even if it is prepared by someone else. Make sure the preparer you hire is up to the task.

Here are a few tips when choosing a tax preparer:

- Check to be sure the preparer has an IRS Preparer Tax Identification Number (PTIN). Anyone with a valid 2015 PTIN is authorized to prepare federal tax returns. Tax return preparers, however, have differing levels of skills, education and expertise. An important difference in the types of practitioners is “representation rights”. You can learn more about the several different types of return preparers on IRS.gov/chooseataxpro.

- Ask the tax preparer if they have a professional credential (enrolled agent, certified public accountant, or attorney), belong to a professional organization or attend continuing education classes. A number of tax law changes, including the Affordable Care Act provisions, can be complex. A competent tax professional needs to be up-to-date in these matters. Tax return preparers aren't required to have a professional credential, but make sure you understand the qualifications of the preparer you select.

- Check on the service fees upfront. Avoid preparers who base their fee on a percentage of your refund or those who say they can get larger refunds than others can.

- Always make sure any refund due is sent to you or deposited into your bank account. Taxpayers should not deposit their refund into a preparer's bank account.

- Make sure your preparer offers IRS e-file and ask that your return be submitted to the IRS electronically. Any tax professional who gets paid to prepare and file more than 10 returns generally must file the returns electronically. It's the safest and most accurate way to file a return, whether you do it alone or pay someone to prepare and file for you.

- Make sure the preparer will be available. Make sure you'll be able to contact the tax preparer after you file your return – even after the April 15 due date. This may be helpful in the event questions come up about your tax return.

- Provide records and receipts. Good preparers will ask to see your records and receipts. They'll ask you questions to determine your total income, deductions, tax credits and other items. Do not rely on a preparer who is willing to e-file your return using your last pay stub instead of your Form W-2. This is against IRS e-file rules.

- Never sign a blank return. Don't use a tax preparer that asks you to sign an incomplete or blank tax form.

- Review your return before signing. Before you sign your tax return, review it and ask questions if something is not clear. Make sure you're comfortable with the accuracy of the return before you sign it.

- Ensure the preparer signs and includes their PTIN. Paid preparers must sign returns and include their PTIN as required by law. The preparer must also give you a copy of the return.

- Report abusive tax preparers to the IRS. You can report abusive tax return preparers and suspected tax fraud to the IRS. Use Form 14157, Complaint: Tax Return Preparer. If you suspect a return preparer filed or changed the return without your consent, you should also file Form 14157-A, Return Preparer Fraud or Misconduct Affidavit. You can get these forms on IRS.gov.

IRS.gov has general information on reporting tax fraud. More specifically, you report abusive tax preparers to the IRS on Form 14157, Complaint: Tax Return Preparer. Download Form 14157 and fill it out or order by mail at 800-TAX FORM (800-829-3676). The form includes a return address.

The IRS reminds taxpayers that tax scams can take many forms beyond the "Dirty Dozen," and people should be on the lookout for many other schemes. More information on tax scams is available at IRS.gov.