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Grassley: Hearing Exposes Shark-infested Waters for Tax Filers

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, said today’s hearing featuring a federal convict who easily stole identities and committed tax fraud, and revelations that paid tax preparers continue to operate with lax federal quality standards and oversight, highlights the dangers facing taxpayers this filing season.

“Taxpayers, beware,” Grassley said. “Sharks are in the water. The predators feed on the hope of making easy money. The ease of stealing identities and the lack of federal oversight of paid tax preparers are just chum for tax cheats. Be very careful with your personal financial information. If you use a paid preparer, choose someone you really trust.”

The Finance Committee holds an annual hearing to alert taxpayers to filing season dangers and question the Internal Revenue Service on ways to protect taxpayers, a tradition Grassley started when chairman. This year’s hearing highlighted two problems:

Identity theft to commit tax fraud. A federal inmate serving a prison sentence for tax fraud and other financial crimes testified that he easily used his mother’s W-2 tax form information, and other information, to defraud the U.S. government of thousands of dollars, which he used to travel around the world. He told the committee he even called the IRS to inquire about the status of his bogus refund.

Grassley said the IRS needs to pay aggressive attention to the filing of false tax returns using stolen identities. “Identity theft is one of the fastest-growing crimes in the United States, and it is increasingly being used in the filing of false returns,” Grassley said. “Yet the IRS has no systematic way of identifying cases involving claims of identity theft or the impact of these cases in terms of the dollar value of refunds issued. Resolution of cases involving identity theft can be time-consuming, frustrating and difficult for the victims. But instead of reaching out to help the taxpayers who fall victim, sometimes the IRS interrogates them as though they were the crooks.”

A failure to police paid preparers. Grassley said in 2006, more than 62 percent of all individual taxpayers used a paid preparer to complete their tax return. As a result, these preparers have a direct, substantial impact on tax compliance.

“Most tax return preparers are honest, knowledgeable individuals who serve the community well in providing sound financial advice, but there are clearly some sharks in the water,” Grassley said. “These sharks are preying on innocent taxpayers, either through bad advice, incompetence, or downright fraud.”

Grassley said he is concerned about the recent allegations against several franchises of Jackson Hewitt, the nation’s second-largest tax preparation firm. Examples of fraud alleged in the

April 3, 2007, federal cases against Jackson Hewitt include filing false returns claiming refunds based on phony W-2 forms; using fabricated businesses and business expenses on returns to claim bogus deductions; claiming fuel tax credits in absurd amounts for customers clearly not entitled to any credits; and massive fraud related to claiming the federal earned income tax credit.

“It’s great news that the IRS and the Department of Justice are working to close down these allegedly fraudulent tax preparation shops,” Grassley said. “But it would have been better to protect more taxpayers and discourage fraud if the prosecutors bolted the doors earlier in the filing season. As it was, by the time the Department of Justice filed suit, there were only two weeks left in the filing season.”

Grassley said last year’s undercover investigation of paid preparers conducted by the Government Accountability Office (GAO) at the committee’s request is yet another example of how dangerous the tax preparation waters can be. The GAO found that out of the nineteen paid preparers investigated, not one properly prepared a tax return. Yet, despite the GAO turning over its results to the IRS, almost a year later the IRS has yet to complete a single audit on a single tax return filed by any of those nineteen preparers. The IRS has not assessed preparer penalties on even one of those nineteen preparers in response to the GAO investigation.

“The inaction seems to indicate that the lifeguard is asleep,” Grassley said. “In the meantime, hundreds, if not thousands, of innocent taxpayers unwittingly bring their most private financial information to these same paid preparers every day. These preparers who gave inaccurate, if not intentionally fraudulent advice, have seen absolutely no repercussions from the IRS, continue preparing tax returns. They’re probably still giving the same bad advice.”

Grassley said the IRS and the Department of Justice need to pick up the pace on preparer cases. He also said Congress needs to take action to ensure that paid preparers are competent and ethical enough to maintain the integrity of the tax system. Last year, the committee passed a bill that would regulate paid preparers and provide better taxpayer protection and assistance, but it did not come before the full Senate for a vote.

“We need to look at getting a similar bill passed this year,” Grassley said. “I understand that no amount of regulation is going to prevent outright fraud, but Congress and the IRS can do much more to protect taxpayers. Anyone can hang a shingle and call himself a tax preparer. Taxpayers are paying for professional service, and they should get it.”

Grassley said Congress and the IRS should:

- Impose stringent oversight of the paid tax preparation community, and where applicable, impose penalties and prevent the practitioner from preparing returns and representing taxpayers before the IRS.
- Consider whether current law provides adequate protection to prevent identity theft used in the filing of false tax returns and what can be done better to assist identity theft victims in resolving their cases with the IRS, and;
- Consider whether the IRS is fulfilling its obligation to help taxpayers understand and comply with their tax obligations. This includes determining whether free electronic filing methods are effective in assisting taxpayers to determine their correct tax liability, and if not, determining the IRS’ proper role in ensuring that such a method exists.