according to the most recent IRS Oversight Board Survey of Taxpayer Attitudes. Unfortunately, successful fraud for many individuals will require either lying to their ...

Dave McClure • May. 27, 2015

A whopping 11 percent of Americans believe that it is okay to cheat on their taxes, according to the most recent IRS Oversight Board Survey of Taxpayer Attitudes. Unfortunately, successful fraud for many individuals will require either lying to their accountant – or involving them in the fraud.

For the accountant, the penalties will likely include any rights to practice before the IRS, the ability to prepare tax returns, fines and penalties. For the taxpayer, the penalties fall into three categories:

- For attempts to evade or defeat paying taxes, the taxpayer is guilty of a felony and is subject to imprisonment for up to 5 years, a fine of up to $250,000 for individuals or $500,000 for corporations, or both penalties — plus the cost of prosecution (26 USC 7201).

- For fraudulent or false statements, the taxpayer is guilty of a felony and is subject to imprisonment for up to 3 years, a fine of up to $250,000 for individuals or $500,000 for corporations, or both penalties — plus the cost of prosecution (26 USC 7206(1)).

- The willful failure to file a return, supply information, or pay tax as required by law (including the failure to pay estimated tax or a final tax, and the failure to make a return, keep records, or supply information) is considered a lesser crime. The IRS will generally gibe taxpayers an opportunity to make the failure right, including payment of penalties. If found to be willfully disobeying, however, the taxpayer is guilty of a misdemeanor and is subject to imprisonment for up to 1 year, a fine of up to $100,000 for individuals or $200,000 for corporations, or both

- Loss of the right to keep and bear firearms
- Loss of the right to serve on a jury.
- Barred from service in the US Armed Forces
- Barred from federal employment or holding a federal office
- In some cases, barred from hold state office or employment
- Some restrictions on travel (e.g., the inability to obtain a visa to enter another country
- Restrictions on many Federal licenses, including private pilot and radio licenses, and some financial licenses that may include brokerage and import/export licenses.

Few CPAs commit tax fraud, because of their strong personal and professional sense of ethics. But the Internal Revenue Service examines the behavior of the tax preparer in cases of fraud that involve a professional tax preparer. In addition, the IRS has recently announced that it will review the action of payroll service providers (including CPAs) for

- **Check everything.** Verify the client’s address and phone to ensure that they actually exist. Supporting documents could include a pay stub or utility bill. For children claimed when filing Earned Income Tax Credits, make copies of birth certificates and social security cards. Also make copies of 1099s and interest statements. Scan and retain these with other client records. A well-designed tax workflow product will automatically scan, organize and file such documents.
- **Know which taxpayers are most likely to commit fraud.** According to FindLaw (see http://tax.findlaw.com/tax-problems-audits/income-tax-fraud-vs-negligence.html), the list includes “Service workers paid mostly in cash and self-employed taxpayers running cash-based businesses have been identified as the taxpayers committing most of the tax fraud because it is easy to under report cash income. Restaurant and clothing store owners, car dealers, salespeople, doctors,

lawyers, accountants, and hairdressers were ranked as the top offenders in a

- Name and Address of person or business you are reporting
- The individual's social security number or the business' employer identification number
- A brief description of the alleged violation(s), including how you became aware or obtained information about the violation(s)
- The years involved
- The estimated dollar amount of any unreported income
- Your name, address and telephone number

Income Tax • IRS • Taxes