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TAXWATCH

Some tax pros get it wrong

Limited study of paid preparers' returns finds many mistakes

By [Andrea Coombes](#), MarketWatch
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SAN FRANCISCO (MarketWatch) -- In a limited study of tax returns completed by unlicensed paid preparers, 17 out of 28 -- or 61% -- were prepared incorrectly, including one that showed the taxpayer owing \$4,903 more than he really did, according to a study by the Treasury Inspector General for Tax Administration, which provides independent oversight of IRS activities.

While most of the mistakes resulted in an underpayment of taxes or a too-big refund, sometimes it was the taxpayer, not the government, who would have paid for the mistake, according to the study in which TIGTA auditors posed as regular taxpayers and visited tax preparation offices in a single metropolitan area.



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Six returns overstated the amount taxpayers owed by a total of \$7,798, with the most glaring of these showing the \$4,903 overpayment. Another return had a \$1,043 overpayment, while the others were under \$1,000. The returns prepared for the study were never filed; the auditors told the preparers they would file the returns themselves, but didn't.

Given the study's small sample size, the findings cannot be generalized to all paid preparers.

Other returns understated taxes owed and overstated refunds due, shorting the government by a total of \$20,626. Taking the 17 returns together, all told the government would have been out \$12,828 had the returns been filed. For the study, TIGTA auditors created five different taxpayer scenarios, including single, married filing jointly and head of household, with incomes ranging from \$16,000 to \$85,000.

Overall, only 11 of the 28 returns showed the correct amount for tax owed or refund due. In 2007, the IRS processed about 83 million individual income tax returns filed by paid preparers, according to the report.

The auditors went to tax preparers at 12 commercial chains and 16 small, independently owned businesses. The report does not name practitioners and does not say in which metro area the study was conducted. [See the full report on TIGTA site \(PDF\)](#).

Six returns were prepared with "willful or reckless" disregard for the tax rules while another 11 simply had mistakes. For instance, one of those six preparers claimed a charitable deduction on the return, even after the auditor posing as a taxpayer said he had made no charitable contributions that year. That same preparer also added a property-tax deduction for a car -- even though the taxpayer didn't say anything or offer any documentation verifying he was eligible for that deduction, according to the report.

Those six preparers filed 973 tax returns during the past tax season, according to the report. "We have referred matters that we encountered to the IRS so that any appropriate follow-up actions can be taken," the report said.

A focus on unlicensed preparers

The study focused on unlicensed and unenrolled preparers, specifically those who were not certified public accountants, enrolled agents or tax attorneys.

"Unenrolled and unlicensed preparers are not regulated. There have been ongoing concerns from Congress and other stakeholders about the lack of required training or demonstration of ability to apply tax law correctly for these unregulated tax return preparers," said J. Russell George, the Treasury Inspector General for Tax Administration, in an email message.

Attorneys and certified public accountants are regulated by state licensing agencies and associations such as the American Bar Association and the American Institute of Certified Public Accountants. Meanwhile, enrolled agents must pass an IRS test and are essentially approved by the IRS to practice.

There are an estimated 800,000 unenrolled and unlicensed tax preparers, said Paul Cinquemani, director of government relations with the National Association of Tax Professionals, which represents tax preparers both licensed and unlicensed.

The report said the IRS does not have a database of preparers and that the IRS "acknowledges that it does not know how many paid preparers exist and cannot determine the full extent of noncompliance and incompetence among practitioners."

"Anyone -- regardless of training, experience, skill or knowledge -- is allowed to prepare federal income tax returns for others for a fee," the report said. Only two states, California and Oregon, require these preparers to register with state agencies and meet continuing-education requirements, according to the report. Currently, proposed bills in the U.S. House and Senate aim to better regulate tax-return preparers.

The report recommends that every tax preparer be assigned a single identification number to make it easier for the IRS to ascertain which preparers are causing the most errors. Currently, tax preparers can file taxes using a variety of different identifiers, including their own Social Security number, their practitioner tax ID number or their company's employer ID number. The IRS responded to TIGTA's recommendation by saying it will study the issue.

Ask about education

Given that taxpayers are ultimately responsible for the information filed on their return, it behooves consumers to be careful when hiring a paid preparer, whether licensed or not -- even licensed professionals may make mistakes.

Whether you go with a licensed or unlicensed preparer, it's important to assess whether there are any complaints against that person. That's easier to do when the tax preparer is licensed or registered with a state or other agency. But another option is checking your local Better Business Bureau. Also, find a practitioner who is a member in good standing of a trade or professional group.

And, be sure to ask about education before laying down your money. "I'd say, 'Give me some evidence you've had continuing education this year,'" said Cinquemani, of the NATP. "If they could produce nothing, or wouldn't tell me anything, I'd go down to the next one," he said.

For taxpayers seeking a preparer, NATP's Web site offers a "find a professional" tool. Cinquemani said complaints against members are investigated, and tax preparers who don't meet the association's standards are "dismissed automatically." [See the site.](#)

Also, try the National Association of Enrolled Agents. [See the site.](#)

And the American Institute of Certified Public Accountants. [See the site.](#)

A spokesman for H&R Block said the company supports the study's recommendation to register tax preparers. "We strongly support tax professional certification," said Gene King, an H&R Block spokesman, adding that "the typical H&R Block client is seen by a preparer with eight-plus years experience and 450 hours of training." About 5% of the company's tax practitioners are Circular 230 certified, he said. Circular 230 generally refers to attorneys, certified public accountants and enrolled agents.

Jackson Hewitt said it, too, agrees with the report's recommendation, adding that it "recognizes that ongoing education of tax preparers is critical," said Kristen Sharkey, a spokeswoman. "Jackson Hewitt has implemented compliance systems and education programs that are designed to ensure high levels of competency and training," she said, adding that the company "has publicly stated to the IRS that they welcome more uniform standards and compliance efforts to all tax preparers." Jackson Hewitt said it employs both enrolled and unenrolled preparers, but does not disclose specific numbers.

Wide variation in fees charged

Consumers should also shop around on fees. The report found a range of fees charged for the same taxpayer scenario. For instance, auditors were charged five different amounts by five different preparers to complete a return for the same hypothetical taxpayer -- that of a divorced wage-earning parent with one child under 17 -- in the same metropolitan area.

The fees ranged from \$74 to \$271. Paying more did not guarantee a more accurate return: Three preparers who charged \$74, \$150 and \$271, respectively, provided correct returns, while the others contained errors. One practitioner who charged \$200 prepared a return that was "willfully or recklessly" prepared, according to the report.

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