



# Internal Revenue Service Criminal Investigation Tax Fraud Alert

## Return Preparer Enforcement Program

[www.irs.gov](http://www.irs.gov)

IRS Keyword: Fraud

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### Overview

The IRS Criminal Investigation Return Preparer Program (RPP) was implemented in 1996, and established procedures to foster compliance by identifying, investigating and prosecuting abusive return preparers. The program was developed to enhance compliance in the return-preparer community by engaging in enforcement actions and/or asserting appropriate civil penalties against unscrupulous or incompetent return preparers. This is a significant problem for both the IRS and our taxpayers. Abusive return preparers frequently prepare bad returns for large numbers of taxpayers who, at best, are stuck with paying additional taxes and interest and at worse, depending on culpability, are subject to penalties and maybe even criminal prosecution.

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Taxpayers should be very careful when choosing a return preparer. You should be as careful as you would in choosing a doctor or a lawyer. While most preparers provide excellent service to their clients,

a few unscrupulous return preparers file false and fraudulent tax returns and ultimately defraud their clients. It is important to know that even if someone else prepares your return, you are ultimately responsible for all the information on the tax return.

### Definition

A Return Preparer is defined as any person (including a partnership or corporation) who prepares for compensation all or a substantial portion of a tax return or claim for refund under the income tax provisions of the Internal Revenue Code. Return Preparer Fraud generally involves the orchestrated preparation and filing of false income tax returns (in either paper or electronic form) by unscrupulous preparers who may claim, for example:

- inflated personal or business expenses,
- false deductions,
- unallowable credits or excessive exemptions,
- fraudulent tax credits, such as the Earned Income Tax Credit (EITC).

The preparers' clients may or may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns.

### Return Preparation and Electronic Filing

The advent of electronic filing of income tax returns (ELF) and the availability of Refund Anticipation Loans (RAL) has provided additional means for abusive preparers to commit fraud.

Criminal Investigation, since 1977, has been screening suspected fraudulent returns. This is done by the Criminal Investigation Fraud Detection Centers (FDC) at each of the ten IRS campuses where tax returns are filed. The purpose of the FDC is to detect refund fraud and return preparer schemes and refer them to the Criminal Investigation field offices for further investigation. Since its inception, Criminal Investigation, at the processing centers, has been successful in identifying in excess of \$2 billion in fraudulent refunds.

CI in conjunction with Information Technology Services (ITS) has developed the Electronic Fraud Detection System (EFDS). EFDS is a computer system used by CI that greatly enhances CI's ability to identify and stop fraudulent filings. EFDS receives computer identification output of potentially fraudulent electronic filed tax returns, provides increased data for analysis and assists in the development of information relating to paper and ELF schemes. CI also uses *YOUR* leads to identify fraudulent return schemes.

### Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal Revenue Service office. This information can be communicated by phone or in writing to your local IRS office.

You can contact the IRS by phone at 1-800-829-0433.

## Tactics Used by Dishonest Abusive Return Preparers

Dishonest return preparers use a variety of methods to formulate fraudulent and illegal deductions reducing taxable income. These include, but are not limited to, the following:

- Preparing fraudulent Schedule C, Profit or Loss from Business, claiming deductions for expenses that have not been paid by the taxpayer to offset Form 1099, Miscellaneous Income, or income earned from outside employment,
- Including false and inflated itemized deductions on Schedule A, Itemized Deductions, for:
  - charitable contributions
  - medical and dental expenses
- Claiming false Schedule E, Supplemental Income and Loss, losses
- Claiming false dependents

### Helpful Hints when choosing a Return Preparer to ensure you don't hire an Abusive Return Preparer

IRS Criminal Investigation (CI) reminds you;

- Taxpayers are responsible for the accuracy of all entries made on their tax returns, which include related schedules, forms and supporting documentation. This remains true whether the return is prepared by the taxpayer or by a return preparer.
- Be careful in selecting the tax professional who will prepare your return. Some basic tips and guidelines to assist taxpayers in choosing a reputable tax professional are:
  - Avoid return 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 that signs your tax return and provides you with a copy for your records.
  - Consider whether the tax professional offers electronic filing options and other payment options that you want.
  - Consider whether the individual or firm will be around to answer questions about the preparation of your tax return, months, even years, after the return has been filed.
  - Never sign a blank tax form.
  - Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received?
- Tax Evasion is a crime, a felony, punishable up to 5 years imprisonment and a \$250,000 fine.
- When in doubt, check it out! Taxpayers hearing claims from preparers offering larger refunds than other preparers are encouraged to check it out with a trusted tax professional or the IRS before getting involved.

### Statistical Information

*How to Interpret Criminal Investigation Data: Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.*

	FY 2001	FY 2002	FY 2003
Case Initiations	116	254	229
Prosecution Recommendations	73	89	169
Indictments/Informations	70	61	109
Convictions	63	64	67
Incarceration Rate*	92.9%	86.8%	83.7%
Average Months to Serve	19	23	19

\* Incarceration may include prison time, halfway house, home confinement, or a combination thereof.

***“If it sounds too good to be true, it probably is!” Seek expert advice before you subscribe to any scheme that offers instant wealth or exemption from your obligation as a United States Citizen to pay taxes. Buying into a tax evasion scheme can be very costly.***

## **FY 2003 Archive Significant Case Summaries**

*The following case summaries are excerpts from public record documents on file in the courts in the judicial district in which the cases were prosecuted.*

### **Man Sentenced in Income Tax Fraud**

On September 15, 2003, in Greenville, NC, Frank Lesters Bowden was sentenced to 84 months in prison, three years of supervised release, and a \$500 special assessment for conspiracy and federal tax violations. His co-defendant, Vickie Jones Peele was sentenced on May 28, 2003 and received a sentence of 18 months in prison, three years of supervised release, and a \$500 special assessment. Bowden and Peele were each convicted of conspiracy to defraud the United States Treasury/Internal Revenue Service and four counts of making false, fictitious, and fraudulent claims to the Internal Revenue Service for tax refunds. Evidence presented in court showed that Bowden and Peele prepared and filed IRS Forms 1041, which are used to report trust income, using the names of several taxpayers. The evidence further showed that none of the taxpayers for whom the forms were prepared and filed operated any trust accounts and that all of the figures on the 1041 Forms were fabricated. Bowden offered his services for \$100 in cash as a preparation and processing fee, and sometimes charged an additional 10% of the refund for check cashing.

### **California Woman, Daughter and Son Sentenced in Bogus Tax Refund Scheme**

On August 26, 2003, in Los Angeles, CA, Blanca Trujillo, Arlene Mora, and Richard Cortez were sentenced after admitting that they conspired to defraud the IRS by filing false income tax returns that claimed refunds. Trujillo was sentenced to 15 months in prison, Mora was sentenced to six months home detention and Cortez was sentenced to five months in prison. All three were also ordered to pay restitution in the amount of \$166,510. It was established at the sentencing hearing that the attempted loss to the government in the scheme was \$492,005. Trujillo, Mora, and Cortez admitted that they filed false 1997, 1998 and 1999 federal income tax returns claiming refunds

based primarily on fraudulent information regarding the Earned Income Credit.

### **Texas Man Sentenced to Serve 30 Months in Prison Following Federal Tax Conviction**

On August 12, 2003, in Dallas, TX, Emilio Chavez, Jr., a tax return preparer, was sentenced to 30 months in prison following his May 2003 guilty plea to one count of false, fictitious or fraudulent claims on income tax returns. Chavez was also ordered to pay \$126,315 in restitution to the IRS. During the 2001 filing season, Chavez prepared approximately 100 income tax returns and of those, 25 were fraudulent and claimed false income tax refunds. Chavez admitted that he would take basic Form W-2 information from clients and then would give them an oral estimate of their tax refund. Unknown to the client, Chavez would then prepare and report a fictitious Schedule C on their return showing the client to be a self-employed long haul trucker. The Schedule C would reflect fictitious amounts of income and expenses. Chavez also would prepare a fraudulent Form 4136, Credit for Federal Tax Paid on Fuels, which reflected that the client was entitled to a fuel tax credit. Chavez knew that by doing this, he would create a large fraudulent income tax refund to which the client was not entitled. Chavez electronically filed these fraudulent returns and requested that the refund be direct-deposited into a Refund Anticipation Loan account. When the refund was received, Chavez would issue a check to the client for the smaller estimated refund he had previously quoted and would keep the difference. The total amount of the fraudulent income tax refunds claimed by Chavez on the 25 false returns was \$318,407.

### **Trio Gets Federal Prison for Tax Fraud**

On July 7, 2003, in Atlanta, GA, Belinda Walker, Angie Abdussalaam and Keila Owensby were sentenced after pleading guilty to separate Criminal Informations, charging them with preparing fraudulent tax returns. Belinda Walker was sentenced to serve 10 months in prison, with half of the term to be served in community confinement, followed by one year supervised release and ordered to pay \$22,418 in restitution. Angie Abdussalaam, was sentenced to one

year in federal prison, followed by one year-supervised release and ordered to pay \$15,581 in restitution. Keila Owensby was sentenced to serve 10 months in prison, with half of the term to be served in community confinement, followed by one year supervised release and ordered to pay \$30,600 in restitution. The three defendants, who are sisters, enticed others to provide their social security number and the numbers of their children with the promise of money from an unspecified government program. Using this information the sisters would then prepare and file an individual tax return falsely reporting inflated wages and/or falsely claim dependents. The taxpayer received only a modest portion of the refund while the balance went to one of the sisters.

### **Virginia Man Sentenced to 24 Months in Tax Refund Scheme**

On June 3, 2003 in Roanoke, VA, Kim A. Prater was sentenced to serve 24 months in prison, followed by three years of supervised release. In addition, Prater was ordered to pay more than \$27,000 in restitution and \$1,000 in special assessments for his role in a scheme to generate false income tax refunds. Prater was convicted June 27, 2001 of ten counts of filing false claims for tax refunds during 1997 and 1998. Evidence presented during the trial and in court proceedings showed, Prater and accountant Donald R. Hill conspired to prepare false W-2 forms and false tax returns to claim tax refunds for Prater and individuals identified as employees of Prater's restaurant businesses. Prater, who owned and operated several restaurants during 1996 and 1997, and Hill, a UVA-Wise assistant accounting professor, caused the filing of as many as 20 tax returns claiming refunds of false tax withholdings and falsely claiming the earned income credit, which substantially increased the amount of the refunds claimed. Refunds obtained from the IRS and from banks via the rapid refund program were split by Prater, Hill, and the individual employees. More than \$70,000 in false refund claims were submitted resulting in refund payments of more than \$39,000. Hill pled guilty May 16 to conspiracy for his role in the scheme and faces a statutory maximum sentence of five years in prison, a fine of up to \$250,000, and payment of restitution when he is sentenced August 5.

### **Woman Gets 40 Months in Tax Fraud Schemes**

On May 27, 2003, in Wilmington, DE, Lisa Anderson was sentenced to 40 months in prison after pleading guilty to conspiracy to defraud the government with respect to claims and identity theft. According to the indictment, Anderson entered into agreements with at least fifteen other individuals to obtain the payment of false tax refunds from the IRS. For her part of the scheme, Anderson prepared false Wage and Earning Statements or Forms W-2 which were then presented to the IRS with the individuals' tax returns.

### **Tax Return Preparer Sentenced to 3 Years**

On May 27, 2003, in Indianapolis, IN, Allen Estes was sentenced to 36 months imprisonment, followed by one year of supervised release after being convicted on eleven counts of aiding and abetting the filing of a false tax return. The IRS discovered numerous instances of fictitious and inflated entries on 12 taxpayer tax returns for tax years 1995 - 1999, each time resulting in the taxpayers' liability being reduced. When discovered, the taxpayers had to pay back their tax liability and they had to pay back interest that had accrued since the filing of the false returns. Estes' benefit was charging sizeable fees, ranging from \$200 to \$19,000. Many of the false entries were made on individuals who had small business returns, making it difficult to detect the false entries. The loss to the United States was \$158,947, which has been paid back by the taxpayers. The interest they had to pay totaled \$23,720.50, which Estes must pay back in restitution.

### **Husband and Wife Team Sentenced in Tax Refund Scheme**

On April 28, 2003, in Fresno, CA, Antonio Ramos and his wife Blanca Ramos were sentenced in connection with a conspiracy to defraud the IRS. Antonio Ramos was sentenced to 18 months in prison, followed by three years supervised release and a \$100 assessment. Blanca Ramos was sentenced to 36 months probation and an assessment of \$100. The case was part of a crackdown by the IRS on numerous tax refund schemes. The schemes consisted of individuals who submitted false 1040 Indi-

vidual Income Tax returns to the IRS in order to receive false refund checks. The Ramos' admitted that in furtherance of the scheme to defraud the IRS, they made or presented, or assisted in causing to be made or presented, 1040 Individual tax returns for non-existent individuals or tax returns which contained false Forms W-2. As a result of the scheme, over \$13.3 million in false claims for refunds were submitted to the IRS.

### **Dallas Man Sentenced to Almost 4 Years in Federal Prison for Fraudulent Schemes**

On April 18, 2003, in Dallas, TX, Curtis R. Howard was sentenced to 46 months in prison following his January 2003 guilty plea. Howard pled guilty to offenses arising from two similar but unrelated criminal schemes in which he recruited dozens of individuals to file false tax returns and use "hot checks" to purchase stamps from the U.S. Postal Service. Howard pled guilty to one count of aiding and assisting the preparation and presentation of false tax returns and one count of theft from the U.S. Postal Service. In addition, Howard was ordered to pay \$167,131 in restitution as follows: \$41,653 to the IRS, \$112,708.30 to the U.S. Postal Service, and \$12,770.15 to Household Bank, who made refund anticipation loans on false tax returns. According to IRS officials, Howard is responsible for the filing of at least 33 false returns related to 1999 taxes on which more than \$150,000 in false refunds were claimed.

### **Ohio Tax Return Preparer Sentenced to Prison**

On April 15, 2003, in Cincinnati, OH, Nancy L. Wallace was sentenced to three years and four months in prison, followed by three years of supervised release and ordered to pay restitution to the IRS and her clients in the amount of \$935,867. Wallace pled guilty on December 2, 2002 to one count of conspiracy and one count of aiding and assisting in the preparation and presentation of a false income tax return. Wallace admitted that she helped her clients to evade more than \$300,000 and that her actions cost the IRS almost \$950,000 in lost taxes. The defendant also admitted that she misappropriated and diverted her clients' funds for her personal use and failed to repay all of

the funds. Wallace agreed as part of the plea to fully cooperate with IRS in the determination of her own tax liability, and to prepare and file within a reasonable time, accurate income tax returns for herself and any related entity for the years 1992 to 2001.

### **Unscrupulous Tax Preparer Sentenced to 30 Months in Prison**

On February 28, 2003, in Houston, TX, Dominic Etim Ene was sentenced to 30 months in prison for including false information on the U.S. Individual Income Tax returns of several clients during 1996 and 1997 tax years. The sentence imposed included an upward adjustment for obstruction of justice based upon the court finding that Ene had lied during his testimony during trial. A jury found Ene guilty in November 2002 of five counts of preparing and filing false individual income tax returns. During the trial, Ene's clients testified that they did not have the businesses as listed in the returns, did not suffer the loss claimed by Ene, nor were they entitled to the resulting refund. Further, Ene received a portion of the refund as his fee.

### **Preparer Created 91 False Returns**

On February 3, 2003, in Fresno, CA, Alma Corchado Torres was sentenced to 15 months in prison and ordered to repay \$76,249 in restitution to the IRS. Torres pleaded guilty December 5, 2002 admitting to willfully preparing false tax returns and aiding and abetting. Torres prepared 91 false income tax returns for migrant farm laborers for calendar year 1996. Torres claimed false Earned Income Tax Credits (EITC) and false deductions for dependency exemptions then forged the taxpayer's signatures on the returns. Instead of using the taxpayers' addresses on the return, Torres used her own post office box, the post office box of a friend, or her Aunt's street address. When the refund checks were received, Torres forged the signatures on the checks and deposited the refund to her own bank account or cashed them.

*For more summaries, visit [www.irs.gov](http://www.irs.gov) and enter IRS Keyword Fraud.*