

**IRS****Fact Sheet****Criminal Investigation**[www.treas.gov/irs/ci](http://www.treas.gov/irs/ci)

Report suspected tax fraud - 1-800-829-0433

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**Return Preparer Fraud Fact Sheet***Initiated Criminal Investigations Involving Return Preparers Have More Than Doubled  
In One Year*

The IRS Criminal Investigation Return Preparer Program focuses on protecting revenue by identifying, investigating and prosecuting abusive return preparers. Return preparer fraud generally involves the preparation and filing of false income tax returns (in either paper or electronic form) by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. Abusive preparers may also manipulate income figures to obtain fraudulent tax credits, such as the Earned Income Tax Credit.

In recent criminal investigations involving unscrupulous or abusive return preparers, IRS has found that these preparers derive financial benefit from the fraud in a number of ways, including:

- Diverting a portion of the refund for their own benefit,
- Charging inflated fees for the return preparation services, and
- Increasing their clientele by advertising guaranteed larger refunds

**Statistical Information \***

	FY 2001	FY 2002
Investigations Initiated	116	254
Prosecution Recommendations	73	89
Indictments/Informations	70	61
Convictions	63	64
Incarceration Rate**	92.9%	86.8%
Avg. Months to Serve (w/Prison)	20	27
Avg. Months to Serve (all Sent.)	19	23

\* How to Interpret CI Statistical Data. Because a financial investigation involves volumes of documents and financial data, a CI investigation may take several years to complete. For example, a CI investigation may be initiated in one year, recommended for prosecution in another year, and convicted/acquitted in yet another year. Therefore, the data shown in cases initiated does not represent the same universe of cases shown in other actions within a given fiscal year.

\*\*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Even more alarming is the significant increase during the first quarter of fiscal year 2003 (October 1, 2002 - December 31, 2002) in the number of criminal investigations referred to the Department of Justice for prosecution regarding individuals whose occupation includes:

	<u>1<sup>st</sup> Qtr 2002</u>	<u>1<sup>st</sup> Qtr 2003</u>
Accountant	12	28
Electronic Return Originator (ERO)	2	11
Return Preparer	15	40

### **Choosing a Tax Return Preparer**

Taxpayers should choose carefully when hiring a tax preparer. The majority of return preparers are professional, competent and provide excellent service to their clients. Unfortunately, unscrupulous tax return preparers can cause considerable financial and legal problems for their clients. Things to consider may include:

- Avoid tax 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 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.
- Review your return before you sign it and ask questions on entries you don't understand.
- No matter who prepares your tax return, you (the taxpayer) are ultimately responsible for all of the information on that tax return. Therefore, 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?

### **Significant Cases**

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

#### **Two Sisters Sentenced in \$8.7 Million Tax Fraud Conspiracy**

On December 6, 2002, in San Diego, California, Gwendolyn Jones and Deborah Hughes, sisters, were sentenced to 27 months in prison and ordered to pay a \$7,500 fine. Jones and Hughes, along with Brenice Hughes, husband of Deborah Hughes, operated a tax return preparation service under the name "Neighborhood Money Tree" from October 1998 until March 1999. According to plea agreements, Jones and Deborah and Brenice Hughes pleaded guilty to conspiring to file more than 3,100 false tax returns with the IRS claiming refunds of \$8.7 million. The defendants admitted to soliciting recipients of Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) by word of mouth and written flyers, by falsely claiming that such recipients may be eligible for hundreds or thousands of dollars in refunds due to the Earned Income Tax Credit (EITC) program. Brenice Hughes was previously sentenced to 30 months in prison.

### **Tax Preparer Sentenced to 27 Months**

On November 1, 2002, in Dallas, Texas, Billy W. Deen was sentenced to 27 months in prison without parole. Deen, who operated an accounting practice known as Billy Deen's Bookkeeping and Income Tax Service, pleaded guilty to aiding and abetting the preparation of false tax returns for the years between 1997 and 1999. Deen admitted to preparing tax returns for clients which included false business rental expenses and false income totaling approximately \$495,868 with a tax loss of approximately \$51,739.

### **Over \$2.7 Million in Bogus Refunds Claimed**

On October 24, 2002, in Baltimore, Maryland, Mark A. Knight was sentenced to 40 months in prison for aiding and assisting in the preparation and filing of more than 1100 fraudulent federal income tax returns seeking over \$2.7 million in bogus refunds from the IRS. Knight offered taxpayers his services in preparing amended income tax returns, falsely claiming that he was previously employed with the IRS. Knight charged his clients \$100 for each return prepared. Typically, Knight fraudulently claimed unreimbursed business expenses, false medical deductions, and personal property taxes on the returns he prepared.

### **Tax Preparer Sentenced To 5 Years in Prison**

On October 16, 2002, in Norfolk, Virginia, Emma G. Blount was sentenced to 60 months in prison after pleading guilty in June to conspiracy to defraud the government by filing false tax returns for clients. Blount was the owner and operator of six different tax preparation businesses that falsified income tax returns for taxpayers residing in Texas, North Carolina and Virginia between 1994 and April of 2002. The tax returns were materially false regarding filing status, medical and dental expenses, personal property taxes, charitable contributions, job expenses, rental property expenses and other miscellaneous items. Blount also failed to file her own income taxes from 1993 through April 2002. The IRS determined that Blount's crimes caused a loss in excess of \$2 million.

### **Employee of Return Preparation Service Assisted in Preparation of 106 False Returns**

On August 30, 2002, in Shreveport, LA, Freda Ann Holmes Edmond was sentenced to 96 months in prison and ordered to pay restitution in the amount of \$40,435. According to court documents, Edmond assisted in the preparation of 106 individual federal income tax returns for calendar year 1999 that were false and fraudulent. The returns inflated the taxpayers' wages and withholding, and fraudulently claimed deductions and credits to which the taxpayers were not entitled. The fraudulent returns claimed tax refunds of \$494,391 in excess of the amount the taxpayers were legally entitled to receive.

### **Tax Evasion is a Felony**

Unscrupulous tax return preparers are generally prosecuted for violations of Title 26 United States Code Section 7201, Attempt to Evade or Defeat Tax, a felony offense that carries a recommended imprisonment of not more than 5 years and a fine of not more than \$250,000 or Title 26, United States Code, Section 7206 (1) and (2), Fraud and False Statements, which carries a recommended imprisonment of up to 3 years and fines of up to \$250,000.

### **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 at the tax fraud hotline at 1-800-829-0433.

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