

How to Choose a Tax Preparer

You must file a Federal income tax return on or before April 15, 2008 if your income is above a certain level. The amount varies depending on filing status, age and the type of income you receive. The same holds true for Arkansas Individual Income Tax.

The U.S. tax system is considered a "pay as you go" plan. Even if you do not have to file, you should file to get money back if Federal Income Tax was withheld from your pay, or you qualify for a refundable credit that may give you a refund even if you do not owe any tax. One refundable credit is the Earned Income Tax Credit, which is a federal income tax credit for eligible low-income workers. An article dedicated solely to that subject will be published in this space next week. Another is the Child Tax Credit, which may be available to you if you have at least one qualifying child.

There are several alternatives to consider when determining the method to use in filing your tax return. If you pay someone to prepare your tax return, choose that preparer wisely. Taxpayers are legally responsible for what's on their own tax returns even if prepared by someone else. Most return preparers are professional, honest and provide excellent service to their clients. Unqualified tax preparers may overlook legitimate deductions or credits that could cause clients to pay more tax than they should. Unqualified preparers may also make costly mistakes causing their clients to incur assessed deficiencies, penalties, and interest. Here are a few points to keep in mind when someone else prepares your return:

- Determine if the preparer's credentials meet your needs. Is he or she an Enrolled Agent, Certified Public Accountant (CPA) or Tax Attorney? Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection actions and appeals. Other return preparers may represent taxpayers only in audits regarding a return that they signed as a preparer. Ask questions. Inquire as to what kind of formal tax training the preparer has. Ask if they hold any professional licenses or designations, how long they have been preparing tax returns, are they open for business year-round (avoid preparers who completely close their offices right after April 15th every year), how much they charge and how they calculate their fees, and you can even ask for references.
- A Paid Preparer is required by law to sign the return and fill in the preparer areas of the form. Although the Preparer signs the return, you are responsible for the accuracy of every item on your return. In addition, the preparer must give you a copy of the return.
- Avoid preparers who claim they can obtain larger refunds than other preparers. If your returns are prepared correctly, every preparer should derive substantially similar numbers.
- Most preparers charge a flat rate for filing your return. Beware of a preparer who guarantees results or who bases fees on a percentage of the amount of the refund. A practitioner may not charge a contingent fee (percentage of your refund) for preparing an original tax return.

- Understand that the most reputable preparers will request to see your receipts and will ask you multiple questions to determine your qualifications for expenses, deductions and other items. By doing so they have your best interest in mind and are trying to help you avoid penalties, interest or additional taxes that could result from an IRS examination.
- Choose a preparer you will be able to contact and one who will be responsive to your needs. Ask who will actually prepare the return before engaging services. Avoid firms where your work may be delegated down to someone with less training or some unknown worker. You should know exactly who works with your tax matters at all times and how to contact him or her; after all, you are paying for it.
- Review the completed return to ensure all tax information, your name, address and Social Security number(s) are correct. Make sure that none of these spaces is left blank.
- Review and ensure you understand the entries and are comfortable with the accuracy of the return before you sign.
- Never sign a blank return, and never sign in pencil.
- If you have provided specific authorization in a power of attorney filed with the IRS, you may have copies of notices or refund checks mailed to your preparer or representative; but only you can sign and cash your refund check.
- A Third Party Authorization Check Box on Form 1040 allows you to designate your Paid Preparer to speak to the IRS concerning how your return was prepared, payment and refund issues and mathematical errors.
- Check **IRS.gov** for information regarding abusive shelters and other tax schemes and scams. Remember, if it sounds too good to be true, chances are it is.

Unfortunately, unscrupulous tax return preparers do exist and can cause considerable financial and legal problems for their clients. Examples of improper actions by unscrupulous preparers include the preparation and filing of false paper or electronic income tax returns that claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions.

Tax evasion is both risky and a crime, punishable by up to five years imprisonment and a \$250,000 fine. Remember, no matter who prepares a tax return, the taxpayer is legally responsible for all of the information on that tax return.

You can report suspected tax fraud and abusive tax preparers to the IRS on Form 3949-A, Information Referral or by sending a letter to Internal Revenue Service, Fresno, CA 93888. Download Form 3949-A from IRS.gov or order by calling 800-829-3676.

Many commercial tax preparers love to sell "rapid refunds." Rapid refunds are also known as refund anticipation loans (RAL).

Rapid or "instant" refunds are really loans. In order to receive their money early, consumers are charged a loan fee. The Annual Percentage Rate (APR) on these loans can range from 40% to over 700%. Electronic filing fees and fees for tax preparers can also be added which can end up costing you 10% or more of your total tax refund. In addition,

since the refunds are loans, they must be repaid if the Internal Revenue Service (IRS) delays or denies you a refund or gives a refund that is smaller than you expected.

Worse yet, as electronic filing becomes more common, these offers don't deliver your refund that much faster. Typically, they will speed up your refund by only a week or two, depending on your situation. If you file your tax return electronically and request the IRS deposit your refund directly into your bank account, you will receive your refund in about 10 days.

If you fall for these schemes, you are putting money from your refund into the pockets of a bank and a tax preparation company. Keep all of your hard-earned money and tax credits for yourself and your family. **Say no** to all forms of up-front tax refund offers.

A 2005 study found that tax preparers and lenders stripped about **\$1.57 billion** in fees each year from the earned-income tax credits paid to working parents. If you don't want to be a part of this sad statistic, **just say no**.

The upcoming tax season is expected to start on time for everyone except certain taxpayers potentially affected by late enactment of the Alternative Minimum Tax patch legislation. Following extensive work in recent weeks, the IRS expects to be able to begin processing returns for the vast majority of taxpayers in mid-January. However, as many as 13.5 million taxpayers using five forms related to the Alternative Minimum Tax (AMT) legislation will have to wait to file tax returns until the IRS completes the reprogramming of its systems for the new law. The IRS has targeted Feb. 11, as the potential starting date for taxpayers to begin submitting the five AMT-related returns affected by the legislation.

The IRS also reminds taxpayers that printed tax packages went to the printer in November before the AMT changes were enacted. The packages reflect the law in effect at the time of printing.

You're affected if you intended to file your return before Feb. 11 and claim one of the following credits, for which the IRS forms won't be updated until then; education tax credit (Form 8863), credit for dependent-care expenses (Schedule 2 on Form 1040A), credit for buying energy-efficient products (Form 5695), or mortgage-interest credit available to people receiving certain types of housing assistance (Form 8396). Those who claim the dependent-care credit can get around the delay by filing Form 1040, which has already been fixed.

There are several alternatives to hiring a tax professional or completing the return yourself. You may want to visit a volunteer site. The IRS Volunteer Income Tax Assistance (VITA) Program or the Tax Counseling for the Elderly (TCE) Program offer free tax help if you qualify. In addition to free tax return preparation assistance, most sites also offer free electronic filing (e-filing). Individuals taking advantage of the e-file program will receive their refunds in half the time compared to returns filed on paper – even faster if you have your refund deposited directly into your bank account.

The VITA Program offers free tax help to low- to moderate-income (generally, \$40,000 and below) people who cannot prepare their own tax returns. VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations. To locate the nearest VITA site, call 1-800-829-1040.

The Tax Counseling for the Elderly (TCE) Program provides free tax help to people age 60 and older. For more information on TCE call 1-800-829-1040. To locate the nearest AARP Tax-Aide site, call 1-888-227-7669.

Taxpayers with \$54,000 or less in Adjusted Gross Income can use Free File to electronically file their returns for free. Free File will only be available by visiting the official IRS web site at [IRS.gov](https://www.irs.gov). In all, 90 million taxpayers qualify for this free service. This will allow you to get a faster refund, in as little as 10 days with Direct Deposit, and file your taxes any hour of the day or night.

Interactive forms and online federal income tax filing is available for free to low-income Arkansans. Legal Aid of Arkansas is currently partnering with I-CAN! E-file to provide this service. You don't need to know tax law or even fill out a tax form. Simply go to our website at www.arlegalservices.org, follow the link, and answer the questions on each page. If you don't have time to finish now, you can come back and continue later.

