
TOO GOOD TO BE TRUE....

A Column on Consumer Issues by Attorney General Wayne Stenehjem's Consumer Protection and Antitrust Division

February 18, 2009

Preparing For Tax Season – Avoiding Scams

It happens every year – another tax season is upon us. If you are thinking about getting help from a tax preparation service, make sure you know what will be provided and how much it will cost. If you are considering applying for a refund anticipation loan, what should you know?

Before you visit a tax preparer, read your tax booklet, and collect any documents that might apply to your taxes, including last year's return. Check out the preparer's qualifications and reputation. If you have a complex tax return, the taxpayer is ultimately responsible for its accuracy, so be sure to double-check the figures and the social security numbers before the return is filed.

Taxpayers should be very careful when choosing tax preparers. While most preparers provide good service, a few unscrupulous tax preparers file fraudulent tax returns and ultimately defraud their clients. Here are some tips to consider before hiring a tax preparer:

- ❖ Get referrals from satisfied clients.
- ❖ Ask the preparer about their training, experience, and current knowledge of tax law.
- ❖ Find out whether the preparer has ever represented taxpayers in an audit, or has ever been denied eligibility to do so.
- ❖ Consider whether the individual or firm will be around to answer questions about the preparation of the tax return months or even years after the return has been filed.

Tax evasion scams, including fraudulent tax return preparation, cost taxpayers billions of dollars every year. Dishonest tax preparers can commit fraud in a number of ways such as inflated personal or business expenses, false deductions, unallowable credits, or excessive exemptions on returns prepared for their clients. Be sure to watch for any signs that the preparer may be less than honest. Some of the most common signs are:

- ✓ Claiming that they can obtain larger refunds than other preparers.
- ✓ Basing their fee on a percentage of the amount of the refund. Fees should be based on the complexity of the return, never on the size of the tax savings or refund.

- ✓ Claiming they can get you immediate payment of your return. Keep in mind that this is a loan (refund anticipation loan).
- ✓ Refusing to sign the tax return or provide a copy for your records. Always make sure you have something in hand that shows proof of what transpired and you should have a receipt for services rendered.

Refund anticipation loans (RAL) have become very popular with consumers, but there are some things you should consider before deciding to take this path. Refund anticipations loans allow you to spend today what you figure the government owes for your income tax refund. The pitch for these loans is “you don’t have to wait for the IRS to process your tax return and send you a check.” What they do not emphasize is that it is a “loan” so you pay interest for the convenience of using someone else’s money until yours arrives. More importantly, the fee you pay to get the loan, typically \$30 to \$125, figures out to be as much as 500% interest per year!

It appears that because of the economic times, credit checks are being done, usually without the applicant’s knowledge, before the refund anticipation loans are granted and many people are being denied. Even if you are denied the refund anticipation loan, you have to pay the fees associated with the process. Instead of receiving a loan for your money in two days, you don’t receive anything for the 10 to 14 days – which is about the time you would have waited to get the refund directly from the IRS. If the loan is granted, it generally comes in the form of a credit card or prepaid card. Unfortunately, there are fees and service charges that are not disclosed when the card is issued. By the time you have activated the card and paid all the fees, the total amount left on your card is substantially reduced from the amount you thought you would be receiving.

Remember to review the tax return before signing and ask questions on entries you do not understand. It is important to get a copy for your record once the return is completed and never sign a blank tax form or one that is filled out in pencil.

Here are two basic rules to remember to help you avoid tax scams:

- The IRS never sends unsolicited e-mails.
- The IRS never requests passwords, PINs, or other secret access information for bank or credit card accounts.

Tax season only comes once a year, but the better prepared we are, the less likely we will be to fall victim to a tax scam.

The Attorney General’s Consumer Protection Division investigates allegations of fraud in the marketplace. Investigators also mediate individual complaints against businesses. If you have a consumer problem or question, call the Consumer Protection Division at 328-3404, toll-free at 1-800-472-2600, or 1-800-366-6888 (w/TTY). This article and other consumer information is located on our website at www.ag.state.nd.us.

* * * * *