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## ACCOUNTING



### How to Avoid Ghost Tax Preparers & Other Scammers

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The American tax system is filled with tax breaks that can save you thousands of dollars, as long as you know where and how to look. But the system is decidedly not “user friendly,” which is why many taxpayers miss out. Finding a savvy tax preparer who understands the changing landscape and its moving parts is vital.

But your preparer still needs to operate within the law. An unscrupulous or incompetent tax preparer, at best, will leave you on the hook for the taxes you owe (including payback of any erroneous refunds you received) along with penalties and interest incurred. At worst? You could face jail time for their digressions.

“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,” the IRS states. That means that even when your tax preparer makes an “honest” mistake, the IRS expects you—the taxpayer—to take responsibility.

How do you know you’re working with a legitimate tax preparer? The answer isn’t as cut-and-dry as it should be. Tax preparers are federally unregulated currently, but bipartisan lawmakers want to bring back federal power to regulate paid tax return preparers and mandate minimum competency standards with registration, testing, and continued education. Believe it or not, most reputable tax professionals support these efforts

for regulation. Those already adhering to top professional and ethical standards understand the importance of rooting out tax preparers who do more harm than good.

In the meantime, what’s the best way to choose a tax preparer? First, understand the difference between a Certified Public Accountant (CPA) and other tax preparers. Business owners and high-net-worth individuals often choose to work with CPAs because they’re licensed by their state or territory’s board of accountancy and hold a degree in accounting. They can also represent their clients to the IRS on matters including audits, payments/collection issues, and appeals (so if something goes wrong, you’re not on your own). “In addition, CPAs must comply with ethical requirements and complete specified levels of continuing education in order to maintain an active CPA license,” the IRS states.

In contrast, unlicensed tax preparers aren’t regulated like CPAs, licensed tax attorneys, or IRS-sanctioned enrolled agents are. They have limited representa-

tion rights and currently have no federal standards to meet when it comes to knowing and adhering to tax laws.

To find the best tax preparer for you, consider looking for:

- An active preparer tax identification number (PTIN). Paid preparers must sign returns and include their PTIN on the return they file. To cross-check a PTIN, search the IRS Directory of Federal Tax Return Preparers with Credentials and Select Qualifications. If the tax preparer doesn’t appear on the list, ask them about it (it’s not mandatory but being listed proves that they’re dedicated to continuing education and professional standards).

- Clues that the tax preparer is who they say they are. If they claim to be a CPA, for instance, verify their license online. For Texas CPAs, you can search the Texas State Board of Public Accountancy’s database. The search will also turn up any disciplinary actions against the CPA. Also note, when you do your PTIN research above, that the number they give you belongs to them. Several recent court cases include tax preparers who used other people’s PTINs to file their clients’ taxes.

- E-filing of tax returns. Most paid preparers who file more than ten returns annually must file the most standard tax forms electronically. The IRS considers e-file the safest and most secure way to file taxes, in fact. You’ll be asked to sign the return electronically or sign an IRS e-file authorization (Form 8879). Then, once filed, the tax preparer should send you the e-file receipt.

- Best business practices. Legitimate tax preparers charge either flat or hourly rates. Those who base fees on a percentage of your refund or guarantee bigger refunds than their competitors can be up to no good. Before establishing a rela-

tionship, do not send a tax preparer your Social Security number, past returns, or other sensitive information. The IRS warns that some unscrupulous preparers have used this type of information to file false returns.

- Thoroughness. Once a relationship is established, a legitimate tax preparer will ask you for more information than is convenient. They’ll need records and receipts and will be picky about the documents you present (they’ll need W-2s, not just paycheck stubs, for instance). Tax preparers who don’t need to see these documents may either fabricate your tax situation or jump to conclusions, which can be costly if the IRS spots mistakes.

- Red-flag behavior (to avoid). For example, being asked to sign a blank return. You need to ensure you agree with what’s being claimed (the IRS will scrutinize your innocence once you sign your return), that your information (not your tax preparer’s) is provided for refunds, and that the preparer has signed and included their PTIN. Those who don’t sign returns and ask the taxpayer to file the return themselves are called “ghost preparers” and are named among the IRS’s most dangerous scammers.

When choosing a tax preparer, don’t be distracted by slick marketing, confusing titles, or well-known names. Instead, do your research and be sure that they are as wise and as ethical as they say they are.

*Steven Bankler has more than 44 years of experience in the accounting industry. Steven’s expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit [www.bankler.com](http://www.bankler.com) for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.*