



Kelly Phillips Erb Contributor

I cover tax: paying tax is painful but reading about it shouldn't be.

Opinions expressed by Forbes Contributors are their own.

TAXES 1/08/2015 @ 9:56PM | 23,375 views

How Not To Choose A Tax Preparer: 10 Red Flags To Avoid

[Comment Now](#)

Get Free Beats Headphones.

That's just one of the tactics that tax preparers are rolling out this season in an effort to woo your business.

A poster in one window touted that the preparer would “Pay You \$100 To File Your [Taxes](#).” Other signs promise free food and beautiful girls. Desmond Hudson, an Enrolled Agent and owner of [Hudson Tax Services](#) in Philadelphia, PA, says that he wishes those same preparers advertised, “We have Enrolled Agents, Lawyers and CPAs.” In spite of nationwide efforts to [steer taxpayers towards qualified preparers](#), many taxpayers are still being lured by promotions that, according to Hudson, should make you think: *Am I going to a club or getting my taxes done?*

Competition for services remains fierce for the more than 50% of taxpayers who use a preparer at tax time. With about 150 million taxpayers seeking out tax preparation services, it's a serious business. Preparers may lure taxpayers in the door with the promise of low rates and fancy promotions but quickly add on fees for their services bringing those “low, low rates” way, way up.





INDIANAPOLIS, IN – SEPTEMBER 15: Detail view of sideline personnel wearing Beats headphones during the game between the Indianapolis Colts and Philadelphia Eagles at Lucas Oil Stadium on September 15, 2014 in Indianapolis, Indiana. The Eagles defeated the Colts 30-27. (Photo by Joe Robbins/Getty Images)

Other tax preparers are making promises that might not be legitimate. For example, preparers that claim you can get your refund faster by bringing in your last pay stub? Not if you're e-filing. [Per the IRS website](#):

“ Authorized IRS e-file Providers are prohibited from submitting electronic returns to the IRS prior to the receipt of all Forms W-2, W-2G, and 1099-R from the taxpayer.

And it's not just the act of submitting the returns without proper documents that's banned: preparers aren't even allowed to advertise that they can prepare returns without those documents. Those preparers who violate those rules may be subject to sanctions. If your preparer is willing to break those simple rules – and flaunt it – what other rules might they be violating?

For more help, here are ten tax preparer red flags to avoid:

- 1. Tax preparers who do not have a PTIN (Preparer tax identification number).** The IRS insists that anyone who prepares or assists in preparing federal tax returns for compensation must have a valid 2015 PTIN before preparing returns. If your preparer doesn't have a valid, current PTIN, he or she is not allowed to prepare that return.
- 2. Tax preparers who do not sign the return.** Not only must your preparer have a PTIN, he or she must sign the return (electronic signatures count). If the preparer doesn't sign your return, he or she is not allowed to submit the return.
- 3. Tax preparers who insist that you mail your own tax return.** In some limited circumstances, it may be necessary or desirable to mail in your tax return the old-fashioned way. Most preparers, however, are required to submit prepared returns electronically. If they won't give you the option (and there's not another explanation), you should be concerned.
- 4. Tax preparers who promise a higher refund than last year when your situation didn't change.** Tax rates didn't move much from 2013 to 2014. In fact, there weren't too many tax moves that bumped deductions and credits; if anything, it's the opposite result for many taxpayers (taxes are increasing). If your refund is much higher than it was last year and your situation didn't change much, your preparer might have inflated your deductions. Ask for an explanation before signing the return.
- 5. Tax preparers who want you to sign a blank tax return.** Didn't your mother tell you to read something before signing it? The same applies to tax returns. You are signing the return under penalty of perjury. You need to review it before you sign it. If it's blank, there's nothing to review – and thus, nothing to sign.

6. **Tax preparers who want you to direct deposit your refund into an account that doesn't belong to you.** There are a bunch of reasons that preparers might offer for suggesting this – from the convenience factor to the inference that the refund might arrive a little faster – but the bottom line is that it's prohibited by IRS. It's also a good way to lose your refund permanently (when the preparer conveniently goes missing).
7. **Tax preparers who base their fees on a percentage of your refund.** Tax preparers who base their fees on a percentage of your refund are, statistically, more likely to be engaging in fraud or conduct likely to cause you a headache later (again, when the preparer conveniently goes missing). Fees may be based on a number of factors from type of return (1040 versus a 1040-NR, for example) to number of schedules and complexity – but tax preparers may not base their fees on a percentage of the refund amount or, as explained in IRS Pub 1345, “compute their fees using any figure from tax returns.”
8. **Tax preparers who promise refunds by a certain date.** The IRS is emphatic that “[t]here are no guarantees” that refunds will be granted within a specific time. Offsets, processing problems, screens and other issues may keep refunds from being issued timely though most taxpayers who e-file and use direct deposit receive a refund within 10 business days. Tax preparers who make definitive claims to the contrary shouldn't be trusted.
9. **Tax preparers who guarantee a refund (or that you won't owe) even before seeing your tax documents.** Even preparers who prepare lots and lots of a return – and can size up taxpayers fairly quickly – can't actually know that you're getting a refund until you run the numbers. Be wary if they claim otherwise.
10. **Tax preparers who imply endorsement by the IRS.** The IRS doesn't actually endorse any individual preparer although it does recognize [certain credentials](#) such as CPAs, attorneys, Enrolled Actuaries and Enrolled Agents (arguably, EAs are the closest to endorsed preparers as IRS comes since the Enrolled Agent license is [actually issued by IRS](#)) and the newest designation, the AFSP, or Annual Filing Season Program; you can refer to [the IRS partner page](#) for details about different kinds of credentials. But having a license doesn't mean that IRS likes you any more than the next guy – and a tax preparer can't imply otherwise. Similarly, by rule, a tax preparer cannot use the IRS' name or initials or within its own name – and should not use the IRS or Treasury seal on its advertising materials. A preparer can, however, advertise that they are an “Authorized IRS e-file Provider.”

(Tax preparers might find it handy to review [IRS Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns](#), (downloads as a pdf) each filing season as it's updated periodically.)

As for taxpayers, about those free headphones... Those might be within the scope of the rules so long as the advertising is not otherwise “improper or misleading.” Hudson, however, cautions that you should consider how much you're really paying – including those extras – when the preparer is offering you “free” stuff in return.

Be cautious, not greedy. Hudson says that your goal at tax time should be to

“get your taxes done right, not to get a refund.” And that goes for those perks, too. While preparers who [think out of the box](#) might be clever, those who wave red flags should be avoided.

WATCH: The Smart Way To Start Budgeting

Want more taxgirl goodness? Pick your poison: follow me on [twitter](#), hang out on [Facebook](#) and [Google](#), play on [Pinterest](#) or check out my [YouTube](#) channel. For cases and tax related docs, visit [Scribd](#).

This article is available online at: <http://onforb.es/1BGoi57>

2015 Forbes.com LLC™ All Rights Reserved