

This article was originally published by Crown Financial Ministries in Do Well magazine, Vol. 3 Issue 1, in February 2013.  
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# TAX PREPARERS— CHOOSE WISELY

by Jerry Gaddis

**J**esus instructed His disciples to “give to Caesar what is Caesar’s and to God what is God’s” (Matthew 22:21). While this New Testament tax advice surely speaks to more than money, it also implies that overpaying the government could limit our ability to do Kingdom work.

Taxes are a big part of any budget and should be wisely managed like any other expense. With an Internal Revenue Code that is almost unfathomable in size and scope, and a Congress that changes the rules every year, one way to avoid overpaying the government is by hiring a tax professional to prepare your annual returns and to represent you in any dealings with the Internal Revenue Service (IRS).

In this issue we’ll sort through the IRS’s alphabet soup to give you the information you need to find the right tax professional. We’ll also review the new federal regulations imposed on the tax preparation community. We’ll cover what to look for in a tax preparer—and when to run screaming from the room.

### WHAT IT IS: Return Preparer Oversight

The guy who unclogs your toilet probably has a license. Same with the guy who mows your lawn and the individual who cuts your hair. The person who prepares your tax return probably doesn’t. At least not yet. In 2010 the IRS began its first-ever regulation of the tax-preparation industry, the Return Preparer Oversight Initiative. This initiative is designed to regulate the tax preparation industry, ensuring tax laws are correctly implemented and taxpayers are getting competent assistance when they pay for tax preparation services. The regulations will not be fully implemented for another year, but are well under way.

The first step is that everyone who prepares a return for compensation must have a Preparer Tax Identification Number (PTIN) and must include it in the Paid Preparer section of every return. Currently, PTINs are easy to acquire. When used correctly, they give the IRS the ability to monitor the activity of all preparers and to ensure the integrity of the American tax system. All PTIN holders are accountable to the IRS Office of Professional Responsibility (OPR) and must adhere to IRS Circular

230 (Regulations Governing Practice before the Internal Revenue Service).

The second step is basic competency testing for all PTIN holders. Those without credentials, known as Unenrolled Return Preparers, will be required to pass a basic tax competency exam before the end of this year if they want to continue working in the tax industry in 2014 and beyond. According to recent IRS estimates, approximately 350,000 of the 750,000 active PTIN holders are currently unenrolled. That doesn’t mean these preparers aren’t competent or trustworthy; it just means they have yet to demonstrate their competency to the IRS or another certifying agency and must do so before the end of this year.<sup>1</sup>

### WHAT TO LOOK FOR: Credentials

Part of the tax preparation process is disclosing personal and confidential information about you and your family. Playing games with your return can make you pen pals with the IRS. For these and other reasons, get to know your tax professional. Make sure your preparer has a PTIN and ask to see credentials. The IRS issues credentials for three kinds of preparers:

1. Unenrolled Return Preparers are people who have paid for a PTIN. They have not demonstrated any tax competency to the IRS and are not bound by any continuing education requirements. This year, 2013, is the last year before this credential is phased out.
2. The Registered Tax Return Preparer (RTRP) is the IRS’s entry-level credential. RTRPs have paid for a PTIN, passed a basic competency exam on taxation of individuals and agreed to complete 15 hours of continuing education on an annual basis.
3. The Enrolled Agent (EA) credential is the most expansive license granted to a tax professional by the IRS. To become an Enrolled



<sup>1</sup> As of this writing, the IRS has been enjoined through court action from enforcing the requirements for testing and continuing education; however, the IRS states it intends to take action to address the court's order.

Category	PTIN	Tax Compliance Check	Background Check	IRS Test	Continuing Education	Practice Rights
<b>Enrolled Agents</b>	Yes	Yes	Proposals Pending	Yes ( <u>Special Enrollment Exam</u> )	72 hours every 3 years	Unlimited
<b>Registered Tax Return Preparers</b>	Yes	Yes	Proposals Pending	Yes ( <u>RTRP Test</u> )	15 hours per Year	Limited
<b>CPAs</b>	Yes	Yes	Proposals Pending	No	Varies	Unlimited
<b>Attorneys</b>	Yes	Yes	Proposals Pending	No	Varies	Unlimited
<b>Supervised Preparers</b>	Yes	Yes	Proposals Pending	No	No	Limited
<b>Non-1040 Preparers</b>	Yes	Yes	Proposals Pending	No	No	Limited

Agent, one must pass a comprehensive three-part exam that covers individual tax returns, business tax returns and representation before the IRS. EAs must have a PTIN, pass a tax compliance check and complete a minimum of 72 hours of continuing education every three years. EAs generally have unlimited representation rights before the IRS. For more on the Enrolled Agent program see IRS publication 4693A.

Certified Public Accountants (CPA) and Tax Attorneys may also prepare income tax returns if they have a PTIN. They are licensed by their individual state boards and adhere to those standards and practices. Their specialized training and continuing education may or may not be in the field of taxation; many specialize in it but others do not.

This chart (above), compliments of the IRS, provides an overview of tax return preparer requirements.

Sometime in 2014 the IRS is expected to provide an online directory of all PTIN holders with their contact information and credentials to help you find an appropriate tax preparer for your situation. Until then, you may find a CPA or Tax Attorney through your state board of licensing, and you can find an Enrolled Agent through the National Association of Enrolled Agents at [www.NAEA.org](http://www.NAEA.org).

#### **WHEN TO RUN SCREAMING FROM THE ROOM: Warning Signs of a Bad Preparer**

In the 100 years since the government acquired the right to tax income, people have been looking for ways to scam the system. Sometimes a taxpayer understates revenue or overstates expenses.

**WITH ALL THE UNCERTAINTY THAT HAS BEEN USHERED IN WITH THE NEW YEAR, THERE'S NEVER BEEN A BETTER TIME TO TALK ABOUT HOW TO FIND THE RIGHT PROFESSIONAL TO PREPARE YOUR RETURN AND HELP YOU WITH YOUR TAX ISSUES. —ED.**

Other times an unscrupulous or incompetent preparer submits bogus returns that create fraudulent refunds. Here are some signs that your preparer is not playing by the rules:

- Paid preparers are required to have a PTIN, to sign the return and to complete the Paid Preparer Use Only section on the bottom of the 1040. Any preparer unwilling or unable to provide this information should be avoided.
- Paid Preparers should be able to give you an estimate of the price before preparing the return. This is actually more difficult than it sounds, but it can be done. Also, never work with a preparer



<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			
Form <b>1040</b> (2012)					

who charges a contingent fee. This is likely a violation of ethical standards (Circular 230) and gives the preparer incentive to falsify the return for his or her own benefit.

- If your situation doesn't change much from year to year, your refund or balance due shouldn't, either. Beware of a new preparer who generates a refund that sounds too good to be true.
- Legitimate preparers are available year-round and stand behind their work. If your preparer's office has wheels, or he uses a disposable cellphone and a free g-mail account, you might want to find someone else with whom to share your personal information.
- Finally, paid preparers are not to accept your refund. Under no circumstances should all or part of your refund be directly deposited into a preparer's bank account. If a preparer offers this service, run screaming from the room.

**CONCLUSION**

Many people are surprised to learn that the tax preparation industry has been completely unregulated for 100 years. While EAs, CPAs and attorneys have long adhered to standards of ethics and practice, many tax preparers have not. Now that the IRS is regulating the entire industry, it's a good time to get to know your tax preparer a little

better and to make sure his or her credentials are a good match for your needs.

**ONE LAST THING**

Even if you've done everything right and followed all the advice here, the most important thing to do is to review your tax return *before* you sign and submit. Ask as many questions as necessary to understand what it says and why. No matter how much help you receive preparing the return (or how much you pay for it!) *you* are ultimately responsible for the information on the return and *you* are the one who will hear from the IRS if they have any questions. DW

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