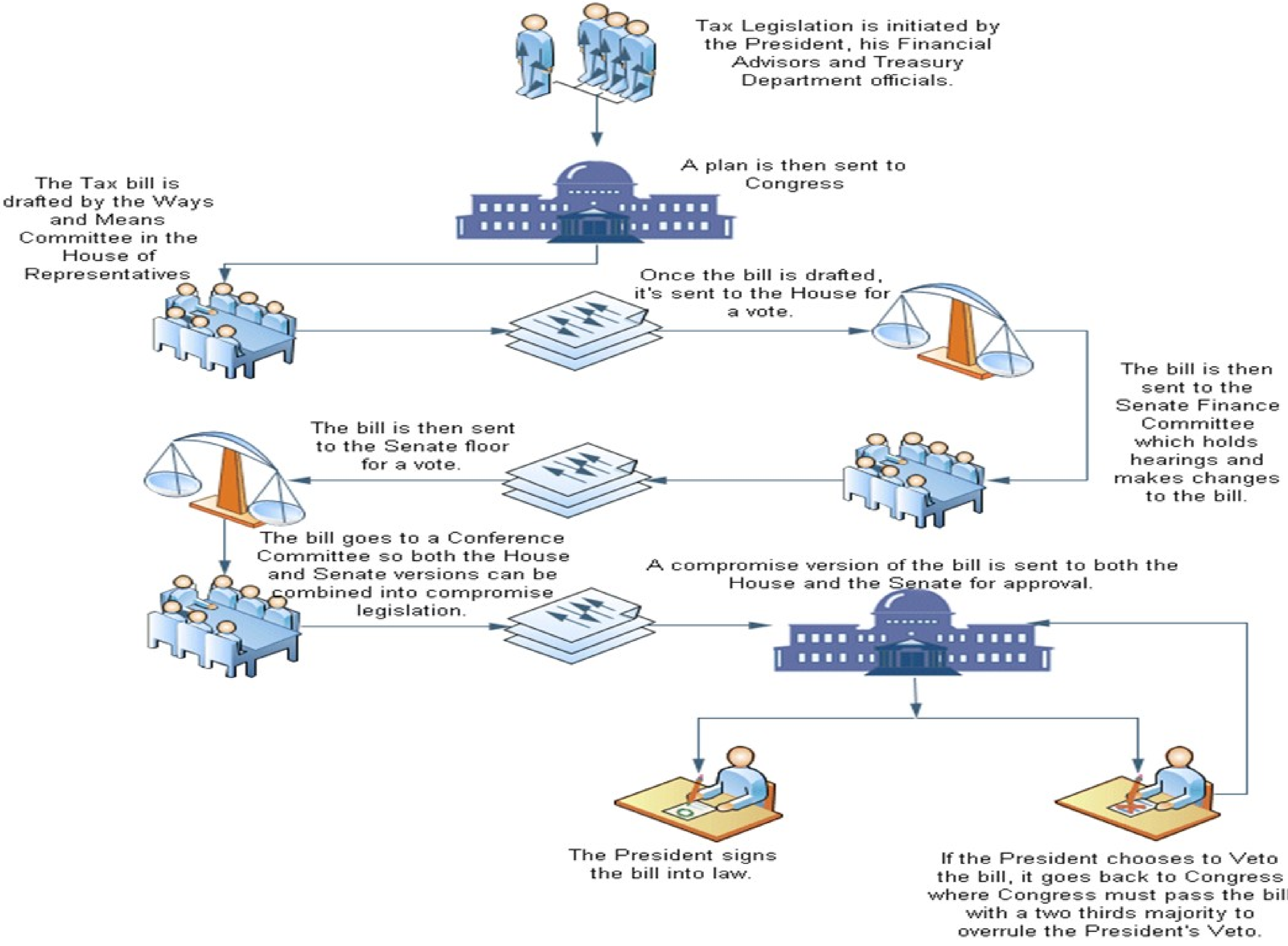
Training Series

Tax Preparer's Responsibilities

How does a Bill become a Tax Law Flowchart



Agenda

- Legal Requirements For Tax Preparers
- Responsibilities of a Tax Preparer
- The Tax Return Preparation Process
- Taxpayer Identification Numbers
- Tax Preparer’s Ethics

Legal Requirements For Tax Preparers

Legal Requirements For Tax Preparers

New Law

- A new law requires many paid tax return preparers to electronically file federal income tax returns prepared and filed for individuals, trusts, and estates starting Jan. 1, 2011.

Legal Requirements For Tax Preparers

New Law

- January 1, 2011— for preparers who anticipate filing 100 or more Forms 1040, 1040A, 1040EZ and 1041 during the year.
- January 1, 2012— for preparers who anticipate filing 11 or more 1040, 1040A, 1040EZ and 1041 during the year.

Legal Requirements For Tax Preparers

Acquiring a PTIN

Phase One of PTIN Process

- Create Your Account
- Apply for Your PTIN
- Pay Your Fee
- Get Your PTIN

Legal Requirements For Tax Preparers

Acquiring a PTIN

Phase Two of PTIN Process

Background Checks, Testing, and Education Requirements for Some Preparers

- **Supervised Preparers* and Non-1040 Preparers** will need to**
  - Renew their PTIN annually.
  - Submit fingerprints for a background check
- **All other preparers will need to**
  - Renew their PTIN annually.
  - Submit fingerprints for a background check
  - Pass a competency test
  - Take continuing education courses annually

Legal Requirements For Tax Preparers

PTIN Renewal

- PTINs that were obtained for the 2011 filing season will expire on December 31, 2011
- Renewal will be available in mid-October 2011.
- Preparers who applied for their PTINs on paper will be able to renew either online or on paper.
- Paper renewal will take 4-6 weeks to process. You must renew your PTIN before January 1, 2012.

Legal Requirements For Tax Preparers

Summary

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

Preparers' Duties

Preparers' Duties

- Compute taxes owed or overpaid, using adding machines or personal computers, and complete entries on forms, following tax form instructions and tax tables.
- Prepare or assist in preparing simple to complex tax returns for individuals or small businesses.
- Use all appropriate adjustments, deductions, and credits to keep

Preparers' Duties

- Clients' taxes to a minimum.
- Interview clients to obtain additional information on taxable income and deductible expenses and allowances.
- Review financial records such as income statements and documentation of expenditures to determine forms needed to prepare tax returns.

Preparers’ Duties

- Furnish taxpayers with sufficient information and advice to ensure correct tax form completion.
- Consult tax law handbooks or bulletins to determine procedures for preparation of atypical returns.
- Calculate form preparation fees according to return complexity and processing time required.
- Check data input or verify totals on forms prepared by others to detect errors in arithmetic, data entry, or procedures.

The Tax Return Preparation Process

Tax Preparation Process

lcoming the Taxpayer and Building the rapport

1. Greet the taxpayer and introduce yourself
2. Take a few moments for small talk (weather, traffic, etc.)
3. Explain the tax preparation processes
4. Use Active Listening
5. Ask Questions Effectively
6. Overcoming Communication Barriers

Tax Preparation Process

The Client Organizer/Checklist

1. The Client Organizer/Checklist
    1. Data Entry Form
    2. Copy of Taxpayer's Unexpired Government Issued ID
    3. Copy of Social Security Cards
    4. Copies of Dependents Social Security Cards if Applicable
    5. Proof of Income(W2/1099/Self Employment)
    6. Proof of Deductions/Interest Earned/School Credit

Tax Preparation Process

Completing the tax Return.

Welcome the taxpayer and get acquainted.

Welcome the Client. Use the Client Organizer to conduct a probing interview.

Tax Preparation Process

Completing The Tax Return

The components of the tax return completion process include:

- Understanding and applying tax law
- Obtaining a complete Client organizer
- Using references, resources, and tools, to ensure a high quality return

Use all of these important components to take the guess work out of return preparation

Tax Preparation Process

How to handle complex tax returns

- This is a complex return and I'll have it ready in a few days. Set a final appointment.
- "I'll have to research an issue…"
- "I don't know the answer to your question but I'll get you the answer".

Taxpayer Identification Numbers

Taxpayer Identification Numbers

- Social Security Number "SSN"
- Employer Identification Number "EIN"
- Individual Taxpayer Identification Number "ITIN"
- Taxpayer Identification Number for Pending U.S. Adoptions "ATIN"
- Preparer Taxpayer Identification Number "PTIN"

Ethics

Law

- It is required that tax preparers stay up-to-date on both state and federal laws in regard to accounting
- It is not unheard of for tax law to change during a typical tax preparation season.
- Tax professionals require to educate themselves through by attending IRS Forums, take and pass the RTPR examination and 15 hours of CE annually.

Protecting Clients

- The laws passed on an annual basis may or may not affect a tax professional's clients.
- The key expectations of both tax professionals associations is that the professional use his knowledge of these laws to protect his clients.
- Some laws result in a client paying more; others result in a client paying less.
- The key job of a tax professional is in his knowledge and the application of that knowledge to protect his clients from possible fines or penalties.

Individual Needs

- A tax professional will be aware that each client has individual needs. One client may actually center his annual budget around receiving a large income tax refund at the beginning of the year.
- Some clients may need help tax planning through the year to avoid owing money at the end.
- Each client will have a unique need and the ethical requirement for tax professionals is to attempt to meet those needs in a legal and efficient method.

Legal Requirements For Tax Preparers

Fines and Penalties

- Failure to furnish copy of return - *IRC Section 6695(a)*
  - *$50 fine per return*

- Failure to sign a tax return - *IRC Section 6695(b)*
  - *$50 fine per return*

- Failure to keep copy of tax return or a list of taxpayers for 3 years - IRC Section 6695(d)
  - *$50 fine per return*

Privacy

- Tax professionals must take sufficient measures to ensure the privacy and confidentiality of their clients, according to IRS Circular 230.
- Due to the nature of their work, tax professionals are privy to extremely sensitive personal information on each client.
- It is the job of the tax professional to protect that information. Filing cabinets containing taxpayer information must be secured, should the IRS ever perform an audit of the tax professional's business.

Legal Requirements For Tax Preparers

Fines and Penalties

- Negligent or intentional disregard of tax rules and regulations – Internal Revenue Code (IRC) Section 6694(a)
  - *$250 fine per return or claim*

- Willful attempt to understate the liability for tax - *IRC Section 6694(b)*
  - *$1,000 fine per return or claim*

- Aiding and abetting understatement of tax liability - *IRC Section 6701(a)*
  - *$1,000 fine per return ($10,000 for corporations)*

Common IRS Schemes to Avoid

- Phishing.
- Hiding Income Offshore
- Filing False or Misleading Forms
- Abuse of Charitable Organizations and Deductions.
- Return Preparer Fraud
- Frivolous Arguments
- False Claims for Refund and Requests for Abatement.
- Abusive Retirement Plans.
- Disguised Corporate Ownership.
- Zero Wages
- Misuse of Trusts
- Fuel Tax Credit Scams

Examples of Fivilous Arguments

- Filing a tax return or payment of tax is voluntary.
- Only federal employees and persons living in Washington, D.C., are subject to federal income tax.
- Native Americans can avoid federal income tax because of a "Native American Treaty."
- Taxpayers can validate invalid returns or other invalid tax positions or documents by writing or stamping the phrase "nunc pro tunc" on the face of the return.
- Income and expenses can be attributed to a purported trust to avoid federal income tax liability.
- Taxes are only owed on foreign income under tax code Section 861.

Examples of Fivilous Arguments

- Taxpayers have basis in their labor equal to the fair market value of their wages, and therefore have no taxable gain.
- Taxpayers who reside in the U.S. are not citizens or persons within the meaning of the tax code.
- U.S. residents living abroad who can exclude U.S. taxable income under tax code Section 911 are in fact residents of a foreign country.
- Taxpayers can buy or sell the right to claim a child for purposes of the Earned Income Credit.
- Taxpayers can deduct all of their no business-related household expenses if they establish home businesses.

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