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THE TAX LAWYER

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### Cell Block Taxes: Who Regulates Taxes From Prison?

If you pay your taxes and file on time, you might think the IRS has a good handle on every tax return that's filed and every tax refund that's sent out. But a new report says refund fraud by prisoners remains a significant problem. See [Further Efforts Are Needed to Ensure the Internal Revenue Service Prisoner File Is Accurate and Complete.](#)



The report comes from the [Treasury Inspector General for Tax Administration](#) a government watchdog. It contains some startling statistics. The number of fraudulent tax returns filed by prisoners and identified by the IRS has increased from more than 18,000 returns in 2004 to more than 91,000 returns in 2010. The refunds claimed on these returns increased from \$68 million to \$757 million.

The good news? It turns out the IRS prevented \$722 million in fraudulent refunds during 2010. On the other hand, it released more than \$35 million. The graph shows the fraudulent tax returns filed by prisoners in 2004 through 2010 and the related refunds.

<b>Fraudulent Tax Returns Filed by Prisoners</b>				
Calendar Year	Fraudulent Tax Returns	Refunds Claimed (Millions)	Refunds Prevented (Millions)	Refunds Issued (Millions)
2004	18,103	\$68.1	\$54.6	\$13.4
2005	21,254	\$80.4	\$67.5	\$12.8
2006	N/A	N/A	N/A	N/A
2007	37,447	\$165.9	\$136.6	\$29.2
2008	47,898	\$190.4	\$162.1	\$28.3
2009	44,944	\$295.1	\$256.0	\$39.1
2010	91,434	\$757.6	\$722.4	\$35.2

Last year a report revealed that many prisoners are registered as return preparers with the IRS. See [More Tax Return Preparers Are Filing Electronically, but Better Controls Are Needed](#). The IRS is taking steps to regulate tax return preparation to weed out what the IRS Commissioner calls “unscrupulous preparers.” Recently, though, that effort ran into a roadblock in court. See [Federal Judge Shoots Down IRS Attempt To Regulate All Paid Tax Preparers](#).

The IRS started by having return preparers register and obtain their own Preparer Tax Identification Number ([PTIN](#)). Preparers must [register](#) with the IRS and pass a [competency exam](#). Attorneys, CPAs or enrolled agents already enrolled to practice before the IRS are exempt from the test. But there have been some hiccups, including a notable flap over whether people working as preparers would be [fingerprinted](#).

With the new court decision, we’ll see what happens to all of this. See [IRS Stopped ‘Dead In Its Tracks’ In Efforts To Regulate Tax Preparers](#).

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