

# Tax Tribulations

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- ▶ Most taxpayers dread preparing their tax returns each year or even assembling the needed information if they use a tax preparer.
- ▶ This article highlights not only the complexity of the tax code, but also the attempts by some to scam taxpayers or file fraudulent tax returns.

As you finalize and perhaps agonize over the assembly of your tax-related documents and the preparation of your tax returns, now might be the perfect time to review the latest information on tax compliance, scams, and fraud.

## Tax Compliance

According to the Taxpayer Advocate Service (TAS), an independent organization within the IRS created to help taxpayers resolve problems with the agency, the most critical issue confronting taxpayers is the federal tax code's complexity. TAS estimates that 6.1 billion hours are spent annually by individuals and businesses complying with the intricate web of tax code. Further, TAS believes more than 3 million full-time workers would be required just to comply with the tax code, equivalent to the workforce of one of the largest U.S. industries.

Exactly how long is the tax code? TAS concedes that even it doesn't know, but estimates that the federal tax code is 3.8 million words long, equivalent to 11,045 single-spaced pages. Not surprisingly then, roughly 60% of individual taxpayers pay a professional to prepare their tax returns and another 29% of tax filers purchase tax preparation software to do it themselves. Despite assistance from tax professionals and software, the IRS fielded 110 million calls in its most recent fiscal year.

TAS itself advocates for reform to reduce the tax code's complexity. TAS also believes that the IRS is challenged by its increasing role as a benefits administrator, not just a tax collector. Recent examples include the home buyer tax credit, the Making Work Pay credit, and forthcoming changes as a result of the health care reform law.

## Tax Scams

The IRS has warned taxpayers about scammers who may contact them via e-mail, telephone, facsimile, or letter in an effort to obtain bank and investment account numbers, Social Security

numbers, credit card and PIN numbers, and other confidential information to commit identity theft or steal money. Many of these schemes may appear valid initially due to the use of the IRS name and logo.

However, the IRS (1) does not ask for detailed personal and financial information, such as PINs and passwords that are used to gain access to accounts and (2) does not initiate communication with taxpayers through e-mail. If you receive such a "phishing" e-mail, the IRS suggests that you not reply to the e-mail or open any attachment or click on any link. In addition, the IRS asks that you forward the e-mail to the agency at [phishing@irs.gov](mailto:phishing@irs.gov).

If you receive a telephone call, facsimile, or letter from someone claiming to be with the IRS and you suspect they are not, contact the IRS at (800) 829-1040 to determine if the IRS has a need to contact you. For other than phishing attempts, such as the misuse of the IRS name, logo, or forms, you are encouraged to contact the Treasury Inspector General for Tax Administration (TIGTA) at (800) 366-4484.

## Tax Fraud

One example of tax fraud is that last year nearly 50,000 prison inmates claimed more than \$130 million in tax refunds, or an average of \$2,600 per claimant. These inmates did not supply any wage information to the IRS according to TIGTA, which issued a report on the matter. TIGTA, however, believes that the IRS should investigate further to determine the extent to which refunds were fraudulently claimed.

Fraudulent tax returns from inmates are part of a broader problem, however. During last year's tax filing season, the IRS identified almost 250,000 fraudulent tax returns, a 50% increase over the prior year, preventing nearly \$1.5 billion in fraudulent refunds.