Chapter 4: Preparer Penalties, Sanctions and Audit Triggers

Tax Pro 360 | Tax Boot Camp by Dr. Geno Bradley



INTERNAL REVENUE CODE (IRC) SECTION 6694

YOUR SIGNATURE IS A LEGAL GUARANTEE. MISTAKES IN THIS INDUSTRY ARE RARELY VIEWED AS SIMPLE CLERICAL ERRORS—THEY ARE INTERPRETED BY THE IRS AS NEGLIGENCE OR INTENTIONAL DISREGARD FOR THE LAW.

THE PENALTY SEVERITY MATRIX

UNREASONABLE POSITIONS

Mental State: Taking a position with no realistic possibility of being sustained on its merits.

Financial Penalty: Greater of **$1,000** OR **50%** of the gross income derived from the return.

WILLFUL OR RECKLESS CONDUCT

Mental State: Willful attempt to understate tax liability or reckless disregard for rules and regulations.

Financial Penalty: Greater of **$5,000** OR **75%** of the gross income derived from the return.

PROCEDURAL FAILURE-TO-COMPLY PENALTIES

FAILURE TO SIGN

Every return prepared must bear your legal signature.

FAILURE TO FURNISH A COPY

Legal requirement to provide the client with a completed copy of their return.

FAILURE TO MAINTAIN RECORDS

Mandatory 3-year retention of prepared returns or a detailed client log.

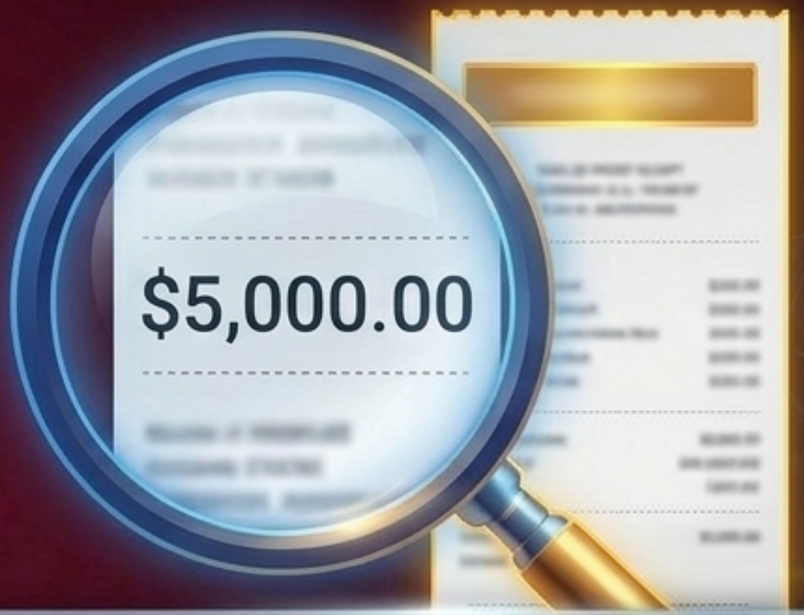
AUDIT TRIGGERS & THE IRS ALGORITHM



The IRS does not use a secret list of audit targets. They deploy sophisticated algorithms designed to detect statistical deviations and behavioral anomalies.

TOO GOOD TO BE TRUE INDICATORS





Suspicious Round-Number Estimates: Statistically improbable round numbers suggest estimating rather than accurate record-keeping.

HIGH-RISK TAX BEHAVIORS

Excessive Charitable Contributions

Disproportionate claims lacking non-cash documentation.



High-Risk Rental Losses

Passive activity loss claims lacking proof of material participation.



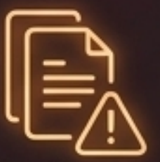
Section 183 Hobby Losses

Multi-year losses lacking a documented profit motive.



Information Matching Rejections

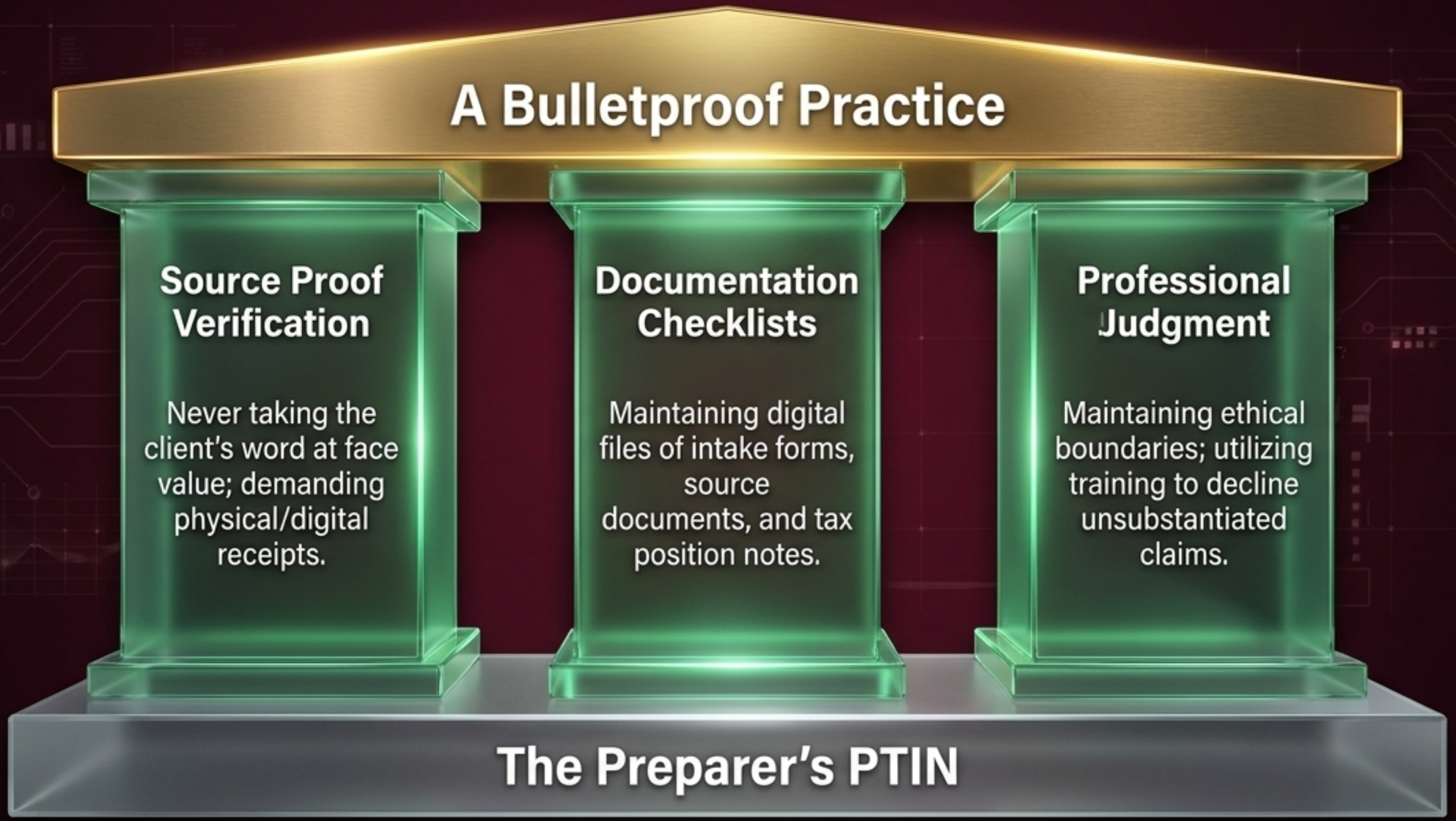
Discrepancies between reported income and IRS 1099/W-2 files.



Section 4.3 | Due Diligence: Your Best Defense

You are **not the IRS agent**. But you are **the gatekeeper**. Your reputation is built one return at a time, sustained by the integrity of every calculation.

The Three Pillars of Due Diligence



The Mitigation Matrix

Accuracy-Related Errors	Double-check software inputs & source matching.
Preparer Negligence	Request physical or digital proof of expenses.
Willful Conduct	Enforce strict ethical boundaries and decline false claims.
Procedural Gaps	Standardize mandated filing and signature checklists.

Position Evaluation Framework



The GBC Blueprint: Action Steps 1 & 2

1

Evaluate Return Positions

Ensure all tax positions meet the Substantial Authority threshold or possess a Reasonable Basis accompanied by Form 8275 disclosure under Section 6694.

2

Audit Unreasonable Claims

Proactively scrutinize suspicious round numbers, disproportionate expense deductions, and unsubstantiated home office or hobby loss claims.

The GBC Blueprint: Action Steps 3 & 4

3

Fulfill Procedural Signatures

Legally sign every processed return, furnish a complete copy to the taxpayer, and securely retain records for a minimum of 3 years.

4

Verify Source Proof

Demand physical or digital documentation for all claimed expenses; boldly decline positions that lack a reasonable legal or factual basis.

Synthesis: The Ironclad Practice



The accuracy of tax law must always outweigh the convenience of a quick refund.
Due diligence is not just a regulatory requirement—it is your ultimate professional armor.

IRS Penalties can be scary
• Handle Your Business or.....
Your Business may handle you

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