



Housing Fact Sheet-

Don't Jeopardize Your Section 8 Rent Assistance By Filing a False Tax Return!

The Problem:

Some Section 8 participants have been the victim of a scam which involves reporting non-existent business income to the IRS on the family's tax return in order to trigger a higher tax refund. In these cases, the tax preparer will sometimes promise that he/she can get the family "a larger tax refund than anyone else can" in exchange for a higher fee.

Why would anyone report more income to the IRS than they actually earned?

Low-income working families can qualify for the Earned Income Tax Credit (EITC). When a family's EITC is greater than the amount of income taxes owed, the family gets a refund. In many cases, the more income a family reports to the IRS, the larger the EITC will be.

How can a family report more income to the IRS than they earned? Don't they have to have proof of the income (e.g., like a W-2 form)?

If a family claims business income through self-employment, usually on tax form "Schedule C," there may be no W-2 form.

How can reporting non-existent business income to the IRS negatively affect my Section 8 rent assistance?

The housing authority calculates your share of the rent based upon your income. The more income you have, the more rent you can be required to pay. If the housing authority learns that you reported income to the IRS greater than the income you reported to the housing authority, the housing authority will use the higher income and may conclude that your rent portion was set too low. The housing authority will then recalculate your rent retroactively and seek to collect from you the amount the housing authority overpaid to your landlord. The housing authority may also terminate your participation in the Section 8 program.

What happens if the family can't afford to pay back the housing authority?

In some cases, the housing authority may offer a repayment agreement. In other cases, the housing authority may issue a notice of Section 8 termination.

Will filing an amended tax return with the family's correct income solve the problem with the housing authority?

Maybe. A family can request reversal of the termination decision if the family requests a hearing to challenge the Section 8 termination. A hearing officer will review the evidence at the hearing to see if the family violated program rules.

What are the consequences of filing an amended return with the IRS to remove the false income?

A family should consult a tax professional, and possibly a tax lawyer, before filing an amended tax return. Removing the false income from the family's tax return will likely result in the family having to pay back to the IRS the refund it obtained from the false income, plus interest and penalties. If the family knowingly filed a false tax return, the family may face criminal prosecution.

How can I make sure that I don't become a victim of this tax scam?

If you are paying the tax preparer, make sure the tax preparer has a PTIN (Preparer Tax Identification Number). Avoid tax preparers who base their fee on a percentage of your refund or who claim they can get larger refunds than other preparers.

Review the entire return (including the income sections and all attachments) before signing it. Don't be afraid to ask questions!

Never sign a blank return. Make sure the paid preparer signs the return and includes his/her PTIN on the return. The preparer must give you a copy of the return - make sure you get a complete copy.

Legal Services of Eastern Missouri, Inc. (LSEM), provides this educational information as a public service. It is not legal advice.

Sometimes the laws change. Always consult a lawyer, if you can, before taking legal action.

The mission of LSEM is to provide high-quality civil legal assistance and equal access to justice for low-income people in Eastern Missouri.

You may find additional legal educational materials at the websites of the Missouri statewide legal aid programs (www.lsmo.org), LSEM (www.lsem.org) and the Missouri Bar (www.mobar.org). Contact us by phone at (314) 534-4200.

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