

Summary of Preparer Penalties

IRC 6694 - Understatement of taxpayer's liability by tax return preparer.

IRC 6694(a) Understatement due to unreasonable positions. Penalty is the greater of \$1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.

IRC 6694(b) Understatement due to willful or reckless conduct. Penalty is the greater of \$5,000 or 75% of the income derived by the tax return preparer with respect to the return or claim for refund.

IRC 6695 - Other assessable penalties with respect to the preparation of tax returns for other persons.

IRC 6695(a) - Failure to furnish copy to taxpayer. The penalty is \$50 for each failure to comply with IRC § 6107 regarding furnishing a copy of a return or claim to a taxpayer. The maximum penalty imposed on a tax return preparer should not exceed \$26,500 in calendar year 2020.

IRC 6695(b) - Failure to sign return. The penalty is \$50 for each failure to sign return or claim for refund as required by regulations. The maximum penalty imposed on a tax return preparer should not exceed \$26,500 in calendar year 2020.

IRC 6695(c) - Failure to furnish identifying number. The penalty is \$50 for each failure to comply with IRC 6109(a)(4) regarding furnishing an identifying number on a return or claim. The maximum penalty imposed on a tax return preparer should not exceed \$26,500 in calendar year 2020.

IRC 6695(d) - Failure to retain copy or list. The penalty is \$50 for each failure to comply with IRC 6107(b) regarding retaining a copy or list of a return or claim. The maximum penalty imposed on a tax return preparer should not exceed \$26,500 in calendar year 2020.

IRC 6695(e) - Failure to file correct information returns. The penalty is \$50 for each failure to comply with IRC 6060. The maximum penalty imposed on a tax return preparer should not exceed \$26,500 in calendar year 2020.

IRC 6695(f) - Negotiation of check. The penalty in calendar year 2020 is \$530 for a tax return preparer who endorses or negotiates any check made in respect of taxes imposed by Title 26 which is issued to a taxpayer.

IRC 6695(g) - Failure to be diligent in determining eligibility for certain tax benefits. This penalty is for failure to determine eligibility or the amount for earned income credit, child tax credit, additional child tax credit, other dependent credit, American opportunity credit and/or the head of household filing status. The penalty for returns filed in 2020 is \$530 for each failure on each return.

IRC 6700- Promoting abusive tax shelters

IRC 6700 The penalty is for taxpayers who organize or sell abusive tax shelters. The penalty is calculated differently depending on the taxpayer's conduct. If the taxpayer makes false statements regarding the tax benefits of the transaction which he knows or has reason to know that are false, the penalty is equal to 50% of the gross income derived from the activity. If the taxpayer provides a gross valuation overstatement the penalty is \$1,000 for each organization or sale (or if lesser, 100% of the income derived from the activity).

IRC 6701- Penalty for aiding and abetting understatement of tax liability.

IRC 6701 The penalty is \$1,000 (\$10,000 if the conduct relates to a corporation's tax return) for aiding and abetting in an understatement of a tax liability. Any person subject to the penalty shall be penalized only once for documents relating to the same taxpayer for a single tax period or event.

IRC 6713- Disclosure or use of information by preparers of returns.

IRC 6713 The penalty is \$250 for each unauthorized disclosure or use of information furnished for, or in connection with, the preparation of a return. The maximum penalty on any person shall not exceed \$10,000 in a calendar year. If a disclosure or use is made in connection with a crime relating to the misappropriation of another person's taxpayer identity, whether or not such crime involves any tax filing, the penalty increases \$1,000 for each use of disclosure, with a maximum of \$50,000 per person per calendar year. This penalty applies to disclosures or uses that are made on or after July 1, 2019.

IRC 7206- Fraud and false misstatements.

IRC 7206 Guilty of felony and, upon conviction, a fine of not more than \$100,000 (\$500,000 in the case of a corporation), imprisonment of not more than three years, or both (together with the cost of prosecution).

IRC 7207- Fraudulent returns, statements, or other documents.

IRC 7207 Guilty of a misdemeanor and, upon conviction, a fine not more than \$10,000 (\$50,000 in the case of a corporation), imprisonment of not more than one year, or both.

IRC 7216- Disclosure or use of information by preparers of returns.

IRC 7216 Guilty of a misdemeanor for knowingly or recklessly disclosing information furnished in connection with a tax return or using such information for any purpose other than preparing or assisting in the preparation of such return. Upon conviction, a fine of not more than \$1,000, imprisonment for not more than 1 year, or both (together with the costs of prosecution).

IRC 7407- Action to enjoin tax return preparers.

IRC 7407 A federal district court may enjoin a tax return preparer from engaging in certain proscribed conduct, or in extreme cases, from continuing to act as a tax return preparer altogether.

IRC 7408- Action to enjoin specified conduct related to tax shelters and reportable transactions

IRC 7408 A federal district court may enjoin a person from engaging in certain proscribed conduct (including any action, or failure to take action, which is in violation of circular 230).

Note: Please see the Internal Revenue Code, corresponding Treasury Regulations, and other related published guidance for additional information on each penalty section.