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THE TAX LAWYER

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Ex-Con Returns IRS Refund Check Mistake--Only \$12B More To Collect

The IRS paid out between \$12 billion and \$13 billion in bogus tax credits in 2012, \$132 billion over the last decade. So says the Treasury Inspector General for Tax Administration. He claims [the IRS is violating Executive Order 13520](#), which President Obama signed to reduce improper payments. The President told the IRS and other agencies to reduce the astounding volume of mistaken payouts, but it's something the IRS seems largely unable to do.



(Photo credit: swanksalot)

The IRS defends its position by noting that it tries to promote the [Earned Income Tax Credit](#). That tax credit for low income taxpayers is a key area for erroneous payouts by the IRS. Looking on the positive side, the IRS seems pleased that it is promoting the credit, noting that nearly 80% of persons eligible for the tax credit actually claim it.

The staggering volume of bogus payouts is because of complexity, the IRS claims. Still, compared to the rest of the tax code, that's a hard argument to follow. Following the money seems to elude the IRS too. The Earned Income

Tax Credit is a **refundable** credit, so you can claim it even if you pay no income tax whatsoever.

And people claim it in droves. In fact, between 21% and 25% of claims in 2012 were erroneous, the report claims. What does that mean in dollars? About \$12 billion to \$13 billion.

Couldn't the IRS recoup erroneous payments? You might think so. Occasionally, the IRS makes an example of someone who grabs an erroneous refund. For example, [Stephen McDow](#) was actually [jailed](#) for spending a \$110,000 refund the IRS erroneously gave him.

Erroneous tax refunds happen more frequently than you might expect. The fact that you receive a refund doesn't mean your return has been audited or approved. The IRS generally has [three years](#) to audit. Often, a refund will be processed and the audit comes later.

If you receive a [tax refund](#), make sure it's yours. Refreshingly, that's what Sherman O.T. Powell did. Mr. Powell, a reformed pickpocket, received a \$7,542 refund from the IRS. It wasn't his, he knew. After four decades of hustling and stealing, and time in Attica, he had turned his life around. See [Ex-pickpocket gone straight returns \\$7G tax-refund that wasn't his](#).

Mr. Powell held the check with his name on it and surely would have had an easy time cashing it. But he knew it was a mistake, no matter how tempting the check with the Treasury Department seal may have been. Mr. Powell noted that when the check arrived, "I was so happy. I ran out into the hallway and ran throughout the building. I knew it was a blessing from the Lord."

But the money wasn't his so he returned it. Mr. Powell is a church deacon, teaches Sunday school, and occasionally preaches. "I said to myself, 'Sherman, you can't spend this money no matter how good it looks. This isn't your money.'"

Then with a laugh, he added: "The Lord giveth and the Lord taketh away. He gave me the check and now I have to give it back." See [Ex-pickpocket gone straight returns \\$7G tax-refund that wasn't his](#).

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.