

The IRS Issues “Dirty Dozen” Tax Scams

The Internal Revenue Service just issued a warning that scammers may try using the April 18 tax deadline to prey on hard-working taxpayers by impersonating the IRS and others with fake phone calls and emails.

Even after the tax deadline passes, you should know the telltale signs of a scam and tips to protect yourself from a variety of phone scams and phishing emails.

After the tax deadline, scammers will be promising a refund or threatening you with an unexpected tax bill.

SCAMS

Identity Theft:

Criminals will attempt to file fraudulent returns by stealing and using *your* Social Security number and then filing a tax return and claiming *your* tax return.

What to do or not do:

- Be extremely careful with your personal information.
- Be cautious when viewing and opening e-mails from people or organizations you do not recognize, receiving telephone calls or getting advice on tax issues.
- Keep your personal information secure by protecting your computers and only giving out your Social Security numbers when absolutely necessary.

Read: [IR-2016-12](#)

Phone Scams:

You may receive a phone call from a criminal who claims he/she’s an IRS agent. The scam artist may threaten you with police arrest, deportation and license revocation. Or the caller may claim you are entitled to a large refund that you know you are not entitled to.

You can tell it is a phone scam when the caller demands immediate payment, or calls about taxes you owe without first having mailed you a bill. It is a scam if the caller demands that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe. And you know it is a scam if the caller requires you to use a specific payment method for your taxes, such as a prepaid debit card or asks for your credit or debit card numbers over the phone. And it is certainly a scam if the caller threatens to bring in local police or other law-enforcement groups to have you arrested for not paying.

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What to do or not do:

- Do not give out *any* information!
- Get the “agent’s” name and a phone number to call back. Then call your local IRS office and ask to be connected to the person who called. If there is no such person, report the attempted scam.
 - Call 800-366-4484 or go to “[IRS Impersonation Scam Reporting](#)” web page.
 - You can also report an attempted scam to the Federal Trade Commission. Use the “[FTC Complaint Assistant](#)” on [FTC.gov](#). (Put "IRS Telephone Scam" in the notes.)

Read [IR-2016-14](#)

Phishing:

Not a fun sport – unless you are the shark! Seriously, you need to be on guard not to fall for fake e-mails or websites looking to steal your social security number, passwords, or other personal information. Criminals will pose as a person or organization you might recognize and trust. For instance, they may hack into the e-mail account of a friend or charity and send mass e-mails under another person’s or charity’s name. They may pose as a bank, credit card company, tax software provider or government agency. Criminals sometimes create websites that appear legitimate but contain phony log-in pages. These criminals hope you will take the bait to get your money, passwords, Social Security number and other key information. **NOTE:** The IRS will *never* send you an e-mail about a bill or refund out of the blue.

What to do – or not do:

- Do not click on an e-mail claiming to be from the IRS. Be wary of strange e-mails and websites that may be nothing more than scams to steal your personal information.

Read [IR-2016-15](#)

Return Preparer Fraud:

Most tax preparers are honest and ethical. But there are many unscrupulous return preparers. Some dishonest preparers set up shop each filing season to perpetrate refund fraud, identity theft and other scams that hurt taxpayers.

What to do or not do:

- Ask if the preparer has an IRS Preparer Tax Identification Number (PTIN). Paid tax return preparers are required to register with the IRS, have a PTIN and include it on your filed tax return.
- Inquire whether the tax return preparer has a professional credential (enrolled agent, certified public accountant, or attorney), belongs to a professional organization or attends continuing education classes. A number of tax law changes, including the Affordable Care Act provisions, can be complex. A competent tax professional needs to be up-to-date in these matters. Tax return preparers are not required to have a professional credential, but make sure you understand the qualifications of the preparer you select. IRS.gov has more information regarding the [national tax professional organizations](#).
- Check the preparer's qualifications. Use the [IRS Directory of Federal Tax Return Preparers with Credentials and Select Qualifications](#). This tool can help you find a tax return preparer with the qualifications that you prefer. The Directory is a searchable and sortable listing of certain preparers registered with the IRS.
- Check the preparer's history. Ask the Better Business Bureau about the preparer. Check for disciplinary actions and the license status for credentialed preparers. For CPAs, check with the State Board of Accountancy. For attorneys, check with the State Bar Association. For Enrolled Agents, go to [IRS.gov](#) and search for "verify enrolled agent status" or check the [Directory](#).
- Ask about service fees. Preparers are not allowed to base fees on a percentage of their client's refund. Also avoid those who boast bigger refunds than their competition. Make sure that your refund goes directly to you – not into your preparer's bank account.
- Ask to e-file your return. Make sure your preparer offers IRS e-file. Paid preparers who do taxes for more than 10 clients generally must offer electronic filing. The IRS has processed more than 1.5 billion e-filed tax returns. It is the safest and most accurate way to file a return.
- Provide records and receipts. Good preparers will ask to see your records and receipts. They will ask questions to determine your total income, deductions, tax credits and other items. Do not rely on a preparer who is willing to e-file your return using your last pay stub instead of your Form W-2. This is against IRS e-file rules.
- Make sure the preparer is available. In the event questions come up about your tax return, you may need to contact your preparer after the return is filed. Avoid fly-by-night preparers.
- Understand who can represent you. Attorneys, CPAs, and enrolled agents can represent any client before the IRS in any situation. Non-credentialed tax return preparers can represent clients before the IRS in only limited situations, depending upon when the tax return was prepared and signed. For all returns prepared and signed after Dec. 31, 2015, a non-credentialed tax return preparer can represent clients before the IRS in limited situations only if the preparer is a participant in the IRS Annual Filing Season Program.

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- Never sign a blank return. Don't use a tax preparer that asks you to sign an incomplete or blank tax form.
- Review your return before signing. Before you sign your tax return, review it and ask questions if something is not clear. Make sure you're comfortable with the accuracy of the return before you sign it.
- Report tax preparer misconduct to the IRS. You can report improper activities by tax return preparers and suspected tax fraud to the IRS. Use Form 14157, Complaint: Tax Return Preparer. If you suspect a return preparer filed or changed the return without your consent, you should also file Form 14157-A, Return Preparer Fraud or Misconduct Affidavit. You can get these forms on [IRS.gov](https://www.irs.gov).

Read [IR-2016-16](#) and <https://www.irs.gov/Tax-Professionals/Choosing-a-Tax-Professional>

Offshore Tax Avoidance Scams:

For years, financial scammers have been suggesting hiding income and wealth offshore (overseas) – and for years the IRS has been catching and successfully prosecuting cases against both those who do and the financial organizations that help them. Specifically, individuals attempt to evade taxes by hiding income in offshore banks, brokerage accounts or nominee entities and then using debit cards, credit cards or wire transfers to access those funds. Others have employed foreign trusts, employee-leasing schemes, private annuities or insurance plans for the same purpose.

While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requirements that need to be fulfilled. U.S. taxpayers who maintain such accounts and who do not comply with reporting requirements are breaking the law and risk significant penalties and fines, as well as the possibility of criminal prosecution.

What to do – or not:

The best course of action is not to get involved in such tax avoidance scams. But if you have, find counsel who will help you voluntarily bring the issue to the attention of the IRS and work out an arrangement to catch up on your tax-filing/paying responsibilities. The IRS offers a special program called the [Offshore Voluntary Disclosure Program \(OVDP\)](#) to enable people to meet their filing and tax paying obligations.

Read [IR-2016-17](#)

Inflated Refund Claims:

We would all like to pay as little in tax as possible. But you need to be wary of unscrupulous tax preparers or others promising inflated refunds.

What to do – or not do:

Walk away from anyone who asks you to sign a blank return, promises you a big refund before looking at your records, or charges you fees based on a percentage of the refund. Do not fall for flyers, advertisements, or phony store fronts. Be very careful about “too good to be true” arrangements you hear about through word of mouth. To find victims, scammers often work through community or religious or other affinity groups where trust is high and promise inflated refunds based on fictitious Social Security Benefits and false claims for education credits, the Earned Income Tax Credit or American Opportunity Tax Credit – or prey on non-English speaking persons.

You will always receive a copy of the tax return an honest preparer has filed on your behalf but victims of scams frequently are not given a copy of what was filed. Victims also report that the fraudulent refund is deposited into the scammer’s bank account. The scammers deduct a large “fee” before paying victims, a practice not used by legitimate tax preparers.

Read [IR-2016-18](#) and for a Directory of Federal Tax Return Preparers with Credentials, click [here](#).

Fake Charities:

Many scammers, particularly toward the end of the year, pretend they are legitimate charitable organizations to attract donations from unsuspecting contributors. Often, they use names similar to familiar or nationally-known organizations.

Another long-standing type of abuse or fraud involves scams that occur in the wake of significant natural disasters. Following major disasters, it is common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists can use a variety of tactics. Some scammers operating bogus charities may contact you by telephone or email to solicit money or financial information. They may even directly contact disaster victims and claim to be working for or on behalf of the IRS to help the victims file casualty loss claims and get tax refunds. They may attempt to get personal financial information or Social Security numbers that can be used to steal the victims’ identities or financial resources. Bogus websites may solicit funds for disaster victims.

What to do – or not do:

- To be sure your money goes to legitimate and currently tax-deduction eligible charities, use some readily available and free IRS tools available at [IRS.gov](https://www.irs.gov).
- Be wary of charities with names that are similar to familiar or nationally known organizations. Some phony charities use names or websites that sound or look like those of respected, legitimate organizations. [IRS.gov](https://www.irs.gov) has a search feature, Exempt Organizations [Select Check](#), which allows people to find legitimate, qualified charities to which donations may be tax-deductible. Legitimate charities will provide their Employer Identification Numbers (EIN), if requested, which can be used to verify their legitimacy through EO Select Check. Double check using a charity's EIN.
- Do not give out personal financial information, such as Social Security numbers or passwords to anyone who solicits a contribution from you. Scam artists may use this information to steal your identity and money. People use credit card numbers to make legitimate donations but please be very careful when you are speaking with someone who has called you and you have not yet confirmed they are calling from a legitimate charity.
- Do not give or send cash. For security and tax record purposes, contribute by check or credit card or another way that provides documentation of the gift.
- To help disaster victims, donate to recognized charities. If you are a disaster victim, call the IRS toll-free disaster assistance telephone number (1-866-562-5227) if you have questions about tax relief or disaster related tax issues.

Read [IR-2016-20](#)

Padding or Falsifying Deductions on Returns:

Avoid the temptation of falsely inflating deductions or expenses on your return in an attempt to under pay what you owe or receive a larger refund.

What to do – or not do:

- Do not overstate deductions such as charitable contributions and business expenses. Don't improperly claim credits such as the Earned Income Tax Credit or Child Tax Credit.
- Use recognized tax software. That is one of the best ways to ensure you file an accurate return and claim only the tax benefits you are eligible to receive. [IRS Free File](#) is an option to use online software programs to prepare and e-file tax returns for free. [Community-based volunteers](#) at locations around the country also provide free face-to-face tax assistance to qualifying taxpayers helping make sure they file their taxes correctly, claiming only the credits and deductions for which they're entitled by law.

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Read [IR-2016-21](#)

Excessive Claims for Business Credits:

The fuel tax credit is a tax benefit generally not available to most taxpayers. It is generally limited to off-highway business use, including use in farming.

What to do – or not do:

Simple. Do not tax credits you are not entitled to. For example, avoid misuse of the research credit. Improper claims generally involve failures to participate in or substantiate qualified research activities and/or satisfy the requirements related to qualified research expenses.

Read [IR-2016-22](#)

Falsifying Income to Claim Credits:

Some individuals have invented income to erroneously qualify for tax credits, such as the Earned Income Tax Credit. Taxpayers are sometimes talked into doing this by scam artists.

What to do – or not do:

File the most-accurate return possible. Remember that you are legally responsible for what is on your return. You do not want to be facing big bills to pay back taxes, interest and penalties – or worse yet – possible criminal prosecution and jail time.

Read [IR-2016-23](#)

Abusive Tax Shelters:

Abusive tax schemes have evolved from simple structuring of abusive domestic and foreign trust arrangements into sophisticated strategies that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued from offshore financial institution. These are among the many complex personal and business related schemes that *claim* special tax structures will help you to avoid paying taxes. The IRS is committed to stopping complex tax avoidance schemes and the people who create and sell them.

Trusts, which are typically legitimate and important planning tools, often are perverted into abusive tax structures. Unscrupulous promoters may urge you to transfer large amounts of assets or a successful on-going business into trusts. You should become suspicious that a trust may be tainted if a promoter promises reduced taxable income, inflated deductions for personal

expenses, reduced (even to zero) self-employment taxes, and reduced estate or gift transfer taxes. Questionable trusts rarely deliver the tax benefits promised and are used primarily as a means of avoiding income tax liability and hiding assets from creditors, including the IRS. Likewise, private annuity trusts and foreign trusts can be both legal and ethical – but can also be twisted into an abusive tool that goes beyond the letter and spirit of the tax law.

Another abuse involving a legitimate tax structure involves certain small or “micro” captive insurance companies. Tax law allows businesses to create “captive” insurance companies to enable businesses to protect against certain risks. The insured claims deductions for premiums paid for the insurance policies while the premiums end up with a captive insurance company owned by the owners of the insured or family members. The captive insurance company, in turn, can elect under a separate section of the tax code to exclude up to \$1.2 million of its net premium income per year, so that the captive is taxed only on its investment income.

But in the abusive structure, unscrupulous promoters persuade the owners of closely held entities to participate in schemes to create captive insurance companies onshore or offshore and cause the creation and sale of the captive “insurance” policies to the closely held entities. The policies may cover ordinary business risks or esoteric, implausible risks for exorbitant “premiums,” while the insureds continue to maintain their far less costly commercial coverages with traditional insurers. Captive “insurance” policies may attempt to cover the same risks as are covered by the entities’ existing commercial coverage, but the captive policies’ “premiums” may be double or triple the premiums of the policy owners’ commercial policies. Annual premium amounts are frequently targeted to the amounts of deductions business entities seek in order to reduce their taxable income. In these abusive schemes, total premiums can equal up to \$1.2 million annually to take full advantage of the premium income exclusion provision. Underwriting and actuarial substantiation for the insurance premiums paid are either absent or illusory. The promoters manage the entities’ captive insurance companies for substantial fees, assisting taxpayers unsophisticated in insurance, to continue the charade from year to year. The Protecting Americans from Tax Hikes Act of 2015 reins in certain of the micro captive abuses that the IRS is currently combatting. Those provisions are effective for small insurance companies’ taxable years beginning after Dec. 31, 2016.

What to do or not do:

Pay no more – or less – than what you are legally obligated to pay in taxes. Beware of people peddling tax shelters that sound too good to be true. If you are in doubt, seek an independent opinion regarding complex products or arrangements you are being offered. Before buying into any arrangement that promises to “eliminate” or “substantially reduce” your tax liability, especially if it uses unnecessary steps or a form that does not match its substance, then that arrangement is likely an abusive scheme. Avoid any plan or entity designed to conceal the true nature and ownership of your taxable income and/or assets.

Read [IR-2016-25](#)

Frivolous Tax Arguments:

For decades, snake-oil vendors turned tax avoidance promoters have claimed dozens of arguments why you should not have to pay any tax. They employ frivolous schemes to encourage you to make unreasonable and outlandish claims – which have no hope of succeeding.

Some of their ludicrous ploys include these outrageous claims:

- Compliance with the internal revenue laws is voluntary or optional and not required by law.
- The Internal Revenue Code is not law.
- A taxpayer's income is excluded from taxation when the taxpayer rejects or renounces United States citizenship because the taxpayer is a citizen exclusively of a State that is claimed to be a separate country or otherwise not subject to the laws of the United States.
- Wages, tips, and other compensation received for the performance of personal services are not taxable income or are offset by an equivalent deduction for the personal services rendered.
- United States citizens and residents are not subject to tax on their wages or other income derived from sources within the United States, as only foreign-based income or income received by nonresident aliens and foreign corporations from sources within the United States is taxable.
- Only certain types of taxpayers are subject to income and employment taxes, such as employees of the Federal government, corporations, nonresident aliens, or residents of the District of Columbia or the Federal territories.
- Only certain types of income are taxable, for example, income that results from the sale of alcohol, tobacco, or firearms or from transactions or activities that take place in interstate commerce.
- Federal income taxes are unconstitutional or a taxpayer has a constitutional right not to comply with the Federal tax laws.
- A "reparations" tax credit exists, including arguments that African-American taxpayers may claim a tax credit on their Federal income tax returns as reparations for slavery or other historical mistreatment, that Native Americans are entitled to an analogous credit (or are exempt from Federal income tax on the basis of a treaty), or similar arguments.

The penalty for filing a frivolous tax return is \$5,000 and applies to anyone who submits a purported tax return or other specified submission, if any portion of the submission is based on a position the IRS identified as frivolous or reflects a desire to delay or impede administration of the tax laws.

Promote or adopt a frivolous position and you also risk a variety of other penalties. For example, you might be responsible for an accuracy-related penalty, a civil fraud penalty, an erroneous refund claim penalty, or a failure to file penalty. Worse yet, taxpayers who rely on frivolous arguments and schemes may also face criminal prosecution for attempting to evade or defeat tax. Similarly, taxpayers may be convicted of a felony for willfully making and signing under penalties of perjury any return, statement, or other document that the person does not believe to be true and correct as to every material matter. Persons who promote frivolous arguments and those who assist taxpayers in claiming tax benefits based on frivolous arguments may be prosecuted for a felony.

What to do – or not do:

Do not use frivolous tax arguments in an effort to avoid paying tax. You always have the right to contest your tax liabilities in court but you do not have the right to disobey the law or disregard your responsibility to pay taxes. The penalty for filing a frivolous tax return is \$5,000.

Read [IR-2016-27](#) and [IRB 2010-17](#)

THE IRS WILL NEVER...

- Call to demand immediate payment over the phone, nor will the agency call about taxes owed without first having mailed you a bill.
- Threaten to immediately bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.

WHAT TO DO OR NOT DO:

If you get a phone call from someone claiming to be from the IRS and asking for money and you don't owe taxes, here's what you should do:

- Do not give out any information. Hang up immediately.
- Contact TIGTA to report the call. Use their "[IRS Impersonation Scam Reporting](#)" web page or call 800-366-4484.
- Report it to the Federal Trade Commission. Use the "[FTC Complaint Assistant](#)" on [FTC.gov](#). Please add "IRS Telephone Scam" in the notes.
- If you think you might owe taxes, call the IRS directly at 1-800-829-1040.

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Sources

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