

IRS' "dirty dozen"

Each year the IRS alerts the public to the 12 worst tax scams that have been brought to its attention. The list changes slightly from year to year, and there never seems to be a problem coming up with candidates.

Identity theft. This is the number one problem, as identity thieves have been known to file false tax returns to obtain fraudulent tax refunds. The first tip-off for the taxpayer may be a note from the IRS that more than one tax return has been filed. Reportedly, the IRS screening procedures in 2011 protected more than \$1.4 billion from getting into the wrong hands.

Phishing. Scammers send e-mails that purport to be from the IRS, hoping that an unsuspecting recipient will open it or an attachment. This can lead to identity theft. The IRS never initiates contact via e-mail.

Return preparer fraud. An estimated 60% of taxpayers now find their returns so complicated that they have to pay a professional to help them file. Some tax return preparers are fraudsters. Bad signs: promises of larger than normal refunds; failure to give you a copy of the return; charging a percentage of the refund as a preparation fee.

Hiding income offshore. A major crackdown on foreign accounts has been accompanied by a voluntary disclosure program, to permit taxpayers with offshore accounts to resolve their tax liabilities. Some \$3.4 billion was collected under that program in 2009, \$1 billion so far from a second round conducted in 2011.

"Free money" from the IRS and tax scams involving Social Security. The targets of these scams are low-income individuals and the elderly. Flyers have been appearing in some churches around the country.

False or inflated income and expenses. Interestingly, some taxpayers are now claiming income that they have not earned, in order to maximize their refundable credits. Some are inappropriately claiming the fuel credit that is available to farmers and others who use fuel for off-highway business purposes.

False 1099 refund claims. Contrary to the claims of some scam artists, the federal government does not maintain secret accounts for U.S. citizens that may be accessed by issuing 1099-OID forms.

Frivolous arguments. The argument that the income tax is unconstitutional is not going to work. The IRS maintains a list of frivolous arguments that will lead to additional penalties.

Falsely claiming zero wages. Some fraudsters have advised filing a Form 4852 to try to get wages adjusted down to zero. Filing this Form falsely can lead to a \$5,000 penalty.

Abuse of charitable organizations and deductions. Deductions for donations of non-cash assets is a problem area.

Disguised corporate ownership. Disguising ownership is associated with money laundering and other financial crimes. The IRS is working with state authorities to identify these entities.

Misuse of trusts. This is the one that bothers us the most. Trusts are a legitimate, long-established wealth management tool. Some trusts have tax benefits; some do not. They are *not* a means to create deductions for personal expenses.