

Beware of IRS' 2009 "Dirty Dozen" Tax Scams

WASHINGTON — The Internal Revenue Service today issued its 2009 "dirty dozen" list of tax scams, including schemes involving phishing, hiding income offshore and false claims for refunds.

"Taxpayers should be wary of scams to avoid paying taxes that seem too good to be true, especially during these challenging economic times," IRS Commissioner Doug Shulman said. "There is no secret trick that can eliminate a person's tax obligations. People should be wary of anyone peddling any of these scams."

Tax schemes are illegal and can lead to problems for both scam artists and taxpayers who risk significant penalties, interest and possible criminal prosecution.

The IRS urges taxpayers to avoid these common schemes:

Phishing

Phishing is a tactic used by Internet-based scam artists to trick unsuspecting victims into revealing personal or financial information. The criminals use the information to steal the victim's identity, access bank accounts, run up credit card charges or apply for loans in the victim's name.

Phishing scams often take the form of an e-mail that appears to come from a legitimate source, including the IRS. The IRS never initiates unsolicited e-mail contact with taxpayers about their tax issues. Taxpayers who receive unsolicited e-mails that claim to be from the IRS can forward the message to phishing@irs.gov. Further [instructions](#) are available at IRS.gov. To date, taxpayers have forwarded scam e-mails reflecting thousands of confirmed IRS phishing sites. If you believe you have been the target of an identity thief, [information](#) is available at IRS.gov.

Hiding Income Offshore

The IRS aggressively pursues taxpayers and promoters involved in abusive offshore transactions. Taxpayers have tried to avoid or evade U.S. income tax by hiding income in offshore banks, brokerage accounts or through other entities. Recently, the IRS provided guidance to auditors on how to deal with those hiding income offshore in undisclosed accounts. The IRS draws a clear line between taxpayers with offshore accounts who voluntarily come forward and those who fail to come forward.

Taxpayers also evade taxes by using offshore debit cards, credit cards, wire transfers, foreign trusts, employee-leasing schemes, private annuities or life insurance plans. The IRS has also identified abusive offshore schemes including those that involve use of electronic funds transfer and payment systems, offshore business merchant accounts and private banking relationships.

Filing False or Misleading Forms

The IRS is seeing scam artists file false or misleading returns to claim refunds that they are not entitled to. Frivolous information returns, such as [Form 1099-Original Issue Discount \(OID\)](#), claiming false withholding credits are used to legitimize erroneous refund claims. The new scam has evolved from an earlier phony argument that a "strawman" bank account has been created for each citizen. Under this scheme, taxpayers fabricate an information return, arguing they used their "strawman" account to pay for goods and services and falsely claim the corresponding amount as withholding as a way to seek a tax refund.

Abuse of Charitable Organizations and Deductions

The IRS continues to observe the misuse of tax-exempt organizations. Abuse includes arrangements to improperly shield income or assets from taxation and attempts by donors to maintain control over donated assets or income from donated property. The IRS also continues to investigate various schemes involving the donation of non-cash assets, including easements on property, closely-held corporate stock and real property. Often, the donations are highly overvalued or the organization receiving the donation promises that the donor can purchase the items back at a later date at a price the donor sets. The Pension Protection Act

of 2006 imposed increased penalties for inaccurate appraisals and new definitions of qualified appraisals and qualified appraisers for taxpayers claiming charitable contributions.

Return Preparer Fraud

Dishonest return preparers can cause many headaches for taxpayers who fall victim to their ploys. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Taxpayers should choose carefully when [hiring a tax preparer](#). As the saying goes, if it sounds too good to be true, it probably is. No matter who prepares the return, the taxpayer is ultimately responsible for its accuracy. Since 2002, the courts have issued injunctions ordering dozens of individuals to cease preparing returns, and the Department of Justice has filed complaints against dozens of others, which are pending in court.

Frivolous Arguments

Promoters of frivolous schemes encourage people to make unreasonable and unfounded claims to avoid paying the taxes they owe. The IRS has a [list](#) of frivolous legal positions that taxpayers should stay away from. Taxpayers who file a tax return or make a submission based on one of the positions on the list are subject to a \$5,000 penalty. More information [is available](#) on IRS.gov.

False Claims for Refund and Requests for Abatement

This scam involves a request for abatement of previously assessed tax using [Form 843](#), Claim for Refund and Request for Abatement. Many individuals who try this have not previously filed tax returns. The tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program. The filer uses Form 843 to list reasons for the request. Often, one of the reasons given is "Failed to properly compute and/or calculate Section 83-Property Transferred in Connection with Performance of Service."

Abusive Retirement Plans

The IRS continues to uncover abuses in retirement plan arrangements, including Roth Individual Retirement Arrangements (IRAs). The IRS is looking for transactions that taxpayers are using to avoid the limitations on contributions to IRAs as well as transactions that are not properly reported as early distributions. Taxpayers should be wary of advisers who encourage them to shift appreciated assets into IRAs or companies owned by their IRAs at less than fair market value to circumvent annual contribution limits. Other variations have included the use of limited liability companies to engage in activity which is considered prohibited.

Disguised Corporate Ownership

Some taxpayers form corporations and other entities in certain states for the primary purpose of disguising the ownership of a business or financial activity. Such entities can be used to facilitate underreporting of income, fictitious deductions, non-filing of tax returns, participating in listed transactions, money laundering, financial crimes, and even terrorist financing. The IRS is working with state authorities to identify these entities and to bring the owners of these entities into compliance.

Zero Wages

Filing a phony wage- or income-related information return to replace a legitimate information return has been used as an illegal method to lower the amount of taxes owed. Typically, a [Form 4852](#) (Substitute Form W-2) or a "corrected" Form 1099 is used as a way to improperly reduce taxable income to zero. The taxpayer also may submit a statement rebutting wages and taxes reported by a payer to the IRS. Sometimes fraudsters even include an explanation on their Form 4852 that cites statutory language on the definition of wages or may include some reference to a paying company that refuses to issue a corrected Form W-2 for fear of IRS retaliation. Taxpayers should resist any temptation to participate in any of the variations of this scheme.

Misuse of Trusts

For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts. While there are many legitimate, valid uses of trusts in tax and estate planning, some promoted transactions promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. Such trusts rarely deliver the promised tax benefits and are being used primarily as a means to avoid income tax liability and hide assets from creditors, including the IRS.

The IRS has recently seen an increase in the improper use of private annuity trusts and foreign trusts to divert income and deduct personal expenses. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering into a trust arrangement.

Fuel Tax Credit Scams

The IRS is receiving claims for the fuel tax credit that are unreasonable. Some taxpayers, such as farmers who use fuel for off-highway business purposes, may be eligible for the fuel tax credit. But some individuals are claiming the tax credit for nontaxable uses of fuel when their occupation or income level makes the claim unreasonable. Fraud involving the fuel tax credit is considered a frivolous tax claim, potentially subjecting those who improperly claim the credit to a \$5,000 penalty.

How to Report Suspected Tax Fraud Activity

Suspected tax fraud can be reported to the IRS using [Form 3949-A](#), Information Referral. Form 3949-A is available for download from the IRS Web site at IRS.gov. The completed form or a letter detailing the alleged fraudulent activity should be addressed to the Internal Revenue Service, Fresno, CA 93888. The mailing should include specific information about who is being reported, the activity being reported, how the activity became known, when the alleged violation took place, the amount of money involved and any other information that might be helpful in an investigation. The person filing the report is not required to self-identify, although it is helpful to do so. The identity of the person filing the report can be kept confidential.

Whistleblowers also may provide allegations of fraud to the IRS and may be eligible for a reward by filing [Form 211](#), Application for Award for Original Information, and following the procedures outlined in [Notice 2008-4](#), Claims Submitted to the IRS Whistleblower Office under Section 7623.