Hoopes, Adams & Alexander, PLC
BUSINESS LAW • LITIGATION • ESTATE PLANNING

JOHN R. HOOPES
RONALD P. ADAMS
PATRICIA A. ALEXANDER
RYAN M. SCHARBER

WRITER'S E-MAIL
JPalella@halaw.com

May 16, 2013

IRS Releases "Dirty Dozen" Tax Scams for 2013

Some of this year's top scams are directed at innocent taxpayers, while others are committed by taxpayers in a futile and costly attempt to avoid taxes.


Ron Adams

For each of the last several years, the Internal Revenue Service has issued an annual list of the 12 latest or most pervasive tax scams targeted at – or committed by – individual and business taxpayers.

Predictably, many of the most common tax scams are "annuals," peaking during the tax filing season, while others are "perennial" and can strike at any time during the year. The IRS cautions that taxpayers be aware so they can protect themselves against claims that sound too good to be true. Taxpayers who buy into illegal tax scams can end up facing significant penalties and interest and even criminal prosecution.

Here are the tax scams that made the 2013 "Dirty Dozen" list.

1. IDENTITY THEFT

Tax fraud through the use of identity theft tops this year's Dirty Dozen. The IRS's ID theft strategy focuses on prevention, detection and victim assistance. During 2012, the IRS protected $20 billion of fraudulent refunds, including those related to identity theft. This compares to $14 billion in 2011. Taxpayers who believe they are at risk of identity theft due to lost or stolen personal information should immediately contact the IRS so the agency can take action to secure their tax account. If you have received a notice from the IRS, call the phone number on the notice. You may also call the IRS's Identity Protection Specialized Unit at 800-908-4490. Find more information on the IRS identity protection web page.

2. PHISHING

"Phishing" typically involves an unsolicited email or a fake website that seems legitimate but lures victims into providing personal and financial information. Once scammers obtain that information, they can commit identity theft or financial theft.

The IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels. If you receive an unsolicited email that appears to be from the IRS, send it to phishing@irs.gov.

3. RETURN PREPARER FRAUD

Here's one to keep in mind for next year. Although most return preparers are reputable and provide good service, you should choose carefully when hiring someone to prepare your tax return. Only use a preparer who signs the return they prepare for you and enters their IRS Preparer Tax Identification Number (PTIN). For tips about choosing a preparer, visit www.irs.gov/chooseataxpro.

4. HIDING INCOME OFFSHORE

One form of tax evasion is hiding income in offshore accounts. This includes using debit cards, credit cards or wire transfers to access those funds. While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requirements taxpayers need to fulfill. Failing to comply can lead to penalties or criminal prosecution.

5. "FREE MONEY" AND SOCIAL SECURITY

Beware of scammers who prey on people with low income, the elderly and church members around the country. Scammers use flyers and ads with bogus promises of refunds that don't exist. The schemes target people who have little or no income and normally don't have to file a tax return. In some cases, a victim may be due a legitimate tax credit or refund but scammers fraudulently inflate income or use other false information to file a return to obtain a larger refund. By the time people find out the IRS has rejected their claim, the promoters are long gone.

6. IMPERSONATION OF CHARITABLE ORGANIZATIONS

Following major disasters, it's common for scam artists to impersonate charities to get money or personal information from well-intentioned people. 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. Taxpayers need to be sure they donate to recognized charities.

7. FALSE/INFLATED INCOME AND EXPENSES

Falsely claiming income you did not earn or expenses you did not pay in order to get larger refundable tax credits is tax fraud. This includes false claims for the Earned Income Tax Credit. In many cases the taxpayer ends up repaying the refund, including penalties and interest. In some cases the taxpayer faces criminal prosecution. In one particular scam, taxpayers file excessive claims for the fuel tax credit. Fraud involving the fuel tax credit is a frivolous claim and can result in a penalty of $5,000.

8. FALSE FORM 1099 REFUND CLAIMS

In this scam, the perpetrator files a fake information return, such as a Form 1099-OID, to justify a false refund claim.

9. FRIVOLOUS ARGUMENTS

Promoters of frivolous schemes advise taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. These are false arguments that the courts have consistently thrown out.

10. FALSELY CLAIMING ZERO WAGES

Filing a phony information return is an illegal way to lower the amount of taxes an individual owes. Typically, scammers use a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 to improperly reduce taxable income to zero. Filing this type of return can result in a $5,000 penalty.

11. DISGUISED CORPORATE OWNERSHIP

Scammers improperly use third parties' "form" corporations that hide the true ownership of the business. They help dishonest individuals underreport income, claim fake deductions and avoid filing tax returns. They also facilitate money laundering and other financial crimes.

12. MISUSE OF TRUSTS

Finally, there are legitimate uses of trusts in tax and estate planning. But some questionable transactions promise to reduce the amount of income that is subject to tax, increase deductions for personal expenses and reduce estate or gift taxes. Such trusts rarely deliver the promised tax benefits. They primarily help avoid taxes and hide assets from creditors, including the IRS.