

The Top 12 Tax Frauds

A look at the IRS “dirty dozen” list.

Provided by Jeff Zufall

Have you heard of the “dirty dozen?” Each year, the IRS lists the top 12 recurring federal tax offenses – frauds, cheats, feints and schemes that ethically challenged taxpayers, tax preparers and crooks try to perpetrate. Watch for these scams in all seasons, not just tax season.

Identity theft. Casually discarded or displayed personal information is an open invitation to criminals. Even when we are vigilant, multiple firewalls and strong passwords can fail to protect us. The Government Accountability Office says fraudsters stole \$5.8 billion in false refunds in 2013 and the Treasury Inspector General Tax Administration thinks the losses will hit \$21 billion next year. The IRS says it is “making progress” fighting this problem.¹

Criminals posing as “tax professionals.” Each year, roughly 60% of taxpayers get help with their 1040s at tax preparation businesses. As the IRS notes, nearly all of these businesses are legitimate. Exceptions do exist, however. Sometimes a fraudster will rent a storefront with a mission of collecting SSNs and other personal information pursuant to claiming phony refunds.²

Unwarranted or excessive refunds. Annually, some taxpayers and tax preparers claim refunds that are embellished or wholly unjustified. A preparer may tout that it will get you a big refund but then claim a percentage of it. Worse yet, they may ask you to sign a blank return.²

Phishing. This is tax fraud via email. A scammer will send a message mimicking communication from the IRS or the Electronic Federal Tax Payment System (EFTPS). If you get an email like that, forward it to phishing@irs.gov. Neither the IRS nor the EFTPS has a policy of initiating contact with taxpayers through email.²

Threatening calls. Crooks will sometimes target elders or immigrants with phone scams, pretending to be the IRS or another federal agency. (Sometimes even the caller ID will suggest this.) They will assert that the other party owes thousands in back taxes. The only solution, they contend, is immediate payment through a pre-loaded debit card or a money order. The caller may even know the last four digits of their Social Security Number or volunteer what is supposedly an IRS employee badge number to make the con more believable. A follow-up call from “the DMV” or “the police” may be next. Such behavior can be reported to the Treasury Inspector General for Tax Administration at (800) 366-4484 or the IRS at (800) 829-1040.³

Sham charities. An old wisecrack says that you can make a lot of money running a non-profit organization. A specious charity may ask you for cash, your SSN, your banking information and more. If anything seems fishy, ask for visual proof of the organization’s tax-exempt status, and check it out further at irs.gov using the Exempt Organizations Select Check search box.²

Tax shelter schemes. Tax evasion is different from legal tax avoidance. Some unprincipled tax and estate “consultants” seem to confuse the two, much to the chagrin of their clients who run afoul of the IRS. Watch out for aggressively marketed “tax shelters” that seem too good to be true or sketchily detailed.²

Hiding taxable income. How many taxpayers file fraudulent 1099s? Enough for this ploy to make the IRS top 12 list for 2015. Any hint of bogus documentation to cut taxes or boost refunds becomes especially egregious when a paid preparer attempts it.²

Inventing income that was never earned to get credits. The IRS notes that some of the shadier tax prep services sometimes convince clients to try this. It is fairly easy to disprove.²

Stashing taxable income or money offshore. In recent years, the IRS has scrutinized taxpayers with undeclared foreign bank accounts and the financial organizations that have offered them. Its Offshore Voluntary Disclosure Program (OVDP) encourages taxpayers to quietly disclose such accounts and become compliant with IRS rules.²

Claiming unwarranted fuel tax credits. Few taxpayers can legitimately claim these, yet some try thanks to urging from third-party preparers. Most taxpayers don’t own farms, mining or fishing businesses or companies whose vehicles operate mostly on local roads.²

Frivolous arguments against income tax. Assorted seminar speakers and books claim that federal taxes are unconstitutional and that Americans have only an implied obligation to pay them. These arguments carry little weight in the courts and before the IRS. The IRS imposes a \$5,000 fine for filing a frivolous return, and Section 1 of the Internal Revenue Code imposes income tax on all Americans, specifically 26 U.S.C. § 1 and 26 U.S.C. § 1(a). IRC Section 6072 establishes April 15 as the annual federal tax deadline.^{2,4}

One thing to remember in light of this list: you are legally responsible for the content input into your 1040 form, even if a third party prepares it.²

Jeff Zufall may be reached at (636) 394-5524 or orjeff.zufall@natplan.com.
www.capadvgrp.com

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

- 1 - blog.credit.com/2015/03/the-solution-to-tax-id-theft-is-an-unpopular-one-slower-refunds-110478/ [3/5/15]
- 2 - irs.gov/uac/Newsroom/IRS-Completes-the-Dirty-Dozen-Tax-Scams-for-2015 [2/12/15]
- 3 - cleveland.com/business/index.ssf/2015/01/nearly_3000_people_in_us_have.html [1/23/15]
- 4 - docs.law.gwu.edu/facweb/jsiegel/Personal/taxes/JustNoLaw.htm [3/13/15]

Securities and advisory services offered through National Planning Corporation (NPC), member FINRA/SIPC, and a Registered Investment Adviser. Capital Advisory Group, Inc. and NPC are separate and unrelated companies