



Brenda J. McGivern, CPA

Accounting • Bookkeeping • Taxes

## Don't Be Taken By Tax Scams

We remind taxpayers not to fall victim to a variety of tax scams. These schemes take numerous shapes, ranging from promises of special tax refunds to illegal ways of “untaxing” yourself. Frequently, taxpayers are charged money for the incorrect advice by those promoting the scheme. If people think something may be unscrupulous, they can report suspected tax fraud to the IRS at 1-800-829-0433.

The IRS urges people to avoid these common schemes:

### **Return preparer fraud**

Unscrupulous return preparers can cause a lot of problems for taxpayers who use their services. Abusive return preparers derive financial gain by diverting a portion of the taxpayer's refund for their own benefit, charging inflated fees for the return preparation services, and increasing their clientele by advertising guaranteed larger refunds. Taxpayers should choose carefully when hiring a tax preparer. No matter who prepares the tax return, the taxpayer is ultimately responsible for all of the information on that tax return.

### **Credit counseling agencies**

Many taxpayers seek help from non-profit credit counseling organizations in managing their debt or “repairing” damaged credit, but an increasing number of complaints to federal and state agencies indicates that some organizations are engaging in questionable activities. Consumers need to be wary of the “quick fixes” offered by some organizations that may actually drive them deeper into debt.

### **Misuse of Trusts**

Promoters of abusive tax transactions are increasingly urging taxpayers to transfer assets into trusts. The promoters promise a variety of benefits, such as the reduction of income subject to tax, deductions for personal expenses paid by the trust and reduction of gift or estate taxes. Abusive trust arrangements will not produce the tax benefits advertised by their promoters. Before entering any trust arrangements, taxpayers should seek the advice of a trusted tax professional.

### **“Claim of Right” Doctrine**

In this emerging scheme, people file returns and attempt to take a deduction equal to the entire amount of their wages. The scam promoters advise them to label the deduction as “a necessary expense for the production of income” or “compensation for personal services actually rendered”. This deduction has no basis in law.

### **Corporation Sole**

Promoters of this scam advise taxpayers to apply for incorporation under the pretext of being a “bishop” or “overseer” of a one-person, phony religious organization or society to avoid paying federal income taxes, child support and other personal debts. The idea is that the arrangement entitles the individual to exemption from federal income taxes as a nonprofit, religious organization as described in tax laws.

### **Identity Theft**

Identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing credit cards, apply for new loans, credit cards, services or benefits in the victim's name and even file fraudulent tax returns. For taxpayers, it pays to be choosy about disclosing personal and financial

information. And the IRS encourages taxpayers to carefully select a reputable tax professional.

### **Offshore Transactions**

Some people use offshore transactions to avoid paying United States income tax. Use of an offshore credit card, trust or other arrangement to hide or underreport income or to claim false deductions on a federal tax return is illegal.

### **No Taxes Withheld from Your Wages**

Illegal schemes are being promoted that instruct employers not to withhold federal income tax or employment taxes from wages paid to their employees. These schemes are based on an incorrect interpretation of tax law and have been refuted in court. If you have concerns about your employer and employment taxes, you can get help by calling the IRS at 1-800-829-1040.

### **African-Americans get a Special Tax Refund**

Thousands of African-Americans have been misled by people offering to file for tax credits or refunds related to reparations for slavery. There is no such provision in the tax law. Some unscrupulous promoters have encouraged clients to pay them to prepare a claim for this refund. But the claims are a waste of money. Promoters of reparations tax schemes have been convicted and imprisoned. The IRS reminds taxpayers that they could face up to a \$500 penalty for filing such claims if they do not back away from the claim.

### **Improper Home-Based Business**

This scheme purports to offer tax "relief" but in reality is illegal tax avoidance. The promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. But, the tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

### **Frivolous Arguments**

Frivolous arguments are false arguments that are unsupported by law. When a scheme promoter says "I don't pay taxes — why should you" or urges you to "untax yourself for \$49.95," beware. The ads may say that paying taxes is "voluntary," but that's just plain wrong. The U.S. courts have continuously rejected this and other frivolous arguments. Unfortunately, hundreds of people across the country have paid for the "secret" of not paying taxes or have bought "untax packages." Then they find out that following the advice contained in them can result in civil and/or criminal penalties. Numerous sellers of the bogus schemes have been convicted on criminal tax charges.

### **Share/Borrow EITC Dependents**

Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the Earned Income Tax Credit. For example, a client with four children only needs to list two to get the maximum EITC credit. The preparer will list two children on the first client's return and the other two on another client's tax return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

Two lessons to remember:

- Anyone who promises you a bigger refund without knowing your tax situation could be misleading you, and
- Never sign a tax return without looking it over to make sure it's honest and correct.