INTERNAL REVENUE SERVICE

IRS News Release

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IRS Releases the "Dirty Dozen" Tax Scams for 2014;

Identity Theft, Phone Scams Lead List

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WASHINGTON — The Internal Revenue Service today issued its annual "Dirty Dozen" list of tax scams, reminding taxpayers to use caution during tax season to protect themselves against a wide range of schemes ranging from identity theft to return preparer fraud.

The Dirty Dozen listing, compiled by the IRS each year, lists a variety of common scams taxpayers can encounter at any point during the year. But many of these schemes peak during filing season as people prepare their tax returns.

"Taxpayers should be on the lookout for tax scams using the IRS name," said IRS Commissioner John Koskinen. "These schemes jump every year at tax time. Scams can be sophisticated and take many different forms. We urge people to protect themselves and use caution when viewing e-mails, receiving telephone calls or getting advice on tax issues."

Illegal scams can lead to significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice (DOJ) to shutdown scams and prosecute the criminals behind them.

The following are the Dirty Dozen tax scams for 2014:

Identity Theft

Tax fraud through the use of identity theft tops this year's Dirty Dozen list. Identity theft occurs when someone uses your personal information, such as your name, Social Security number (SSN) or other identifying information, without your permission, to commit fraud or other crimes. In many cases, an identity thief uses a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund.

The agency's work on identity theft and refund fraud continues to grow, touching nearly every part of the organization. For the 2014 filing season, the IRS has expanded these efforts to better protect taxpayers and help victims.

The IRS has a special section on IRS.gov dedicated to identity theft issues, including YouTube videos, tips for taxpayers and an assistance guide. For victims, the information includes how to contact the IRS Identity Protection Specialized Unit. For other taxpayers, there are tips on how taxpayers can protect themselves against identity theft.

Taxpayers who believe they are at risk of identity theft due to lost or stolen personal information should contact the IRS immediately so the agency can take action to secure their tax account. Taxpayers can call the IRS Identity Protection Specialized Unit at 800-908-4490. More information can be found on the special identity protection page.

Pervasive Telephone Scams

The IRS has seen a recent increase in local phone scams across the country, with callers pretending to be from the IRS in hopes of stealing money or identities from victims.

These phone scams include many variations, ranging from instances from where callers say the victims owe money or are entitled to a huge refund. Some calls can threaten arrest and threaten a driver's license revocation. Sometimes these calls are paired with follow-up calls from people saying they are from the local police department or the state motor vehicle department.

Characteristics of these scams can include:

- Scammers use fake names and IRS badge numbers. They generally use common names and surnames to identify themselves.

- Scammers may be able to recite the last four digits of a victim's Social Security Number.

- Scammers "spoof" or imitate the IRS toll-free number on caller ID to make it appear that it's the IRS calling.

- Scammers sometimes send bogus IRS emails to some victims to support their bogus calls.

- Victims hear background noise of other calls being conducted to mimic a call site.

After threatening victims with jail time or a driver's license revocation, scammers hang up and others soon call back pretending to be from the local police or DMV, and the caller ID supports their claim.

In another variation, one sophisticated phone scam has targeted taxpayers, including recent immigrants, throughout the country. Victims are told they owe money to the IRS and it must be paid promptly through a pre-loaded debit card or wire transfer. If the victim refuses to cooperate, they are then threatened with arrest, deportation or suspension of a business or driver's license. In many cases, the caller becomes hostile and insulting.

If you get a phone call from someone claiming to be from the IRS, here's what you should do: If you know you owe taxes or you think you might owe taxes, call the IRS at 1.800.829.1040. The IRS employees at that line can help you with a payment issue – if there really is such an issue.

If you know you don't owe taxes or have no reason to think that you owe any taxes (for example, you've never received a bill or the caller made some bogus threats as described above), then call and report the incident to the Treasury Inspector General for Tax Administration at 1.800.366.4484.

If you've been targeted by these scams, you should also contact the Federal Trade Commission and use their "FTC Complaint Assistant" at FTC.gov. Please add "IRS Telephone Scam" to the comments of your complaint.

Phishing

Phishing is a scam typically carried out with the help of unsolicited email or a fake website that poses as a legitimate site to lure in potential victims and prompt them to provide valuable personal and financial information. Armed with this information, a criminal can commit identity theft or financial theft.

If you receive an unsolicited email that appears to be from either the IRS or an organization closely linked to the IRS, such as the Electronic Federal Tax Payment System (EFTPS), report it by sending it to phishing@irs.gov.

It is important to keep in mind 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. The IRS has information online that can help you protect yourself from email scams.

False Promises of "Free Money" from Inflated Refunds

Scam artists routinely pose as tax preparers during tax time, luring victims in by promising large federal tax refunds or refunds that people never dreamed they were due in the first place.

Scam artists use flyers, advertisements, phony store fronts and even word of mouth to throw out a wide net for victims. They may even spread the word through community groups or churches where trust is high. Scammers prey on people who do not have a filing requirement, such as low-income individuals or the elderly. They also prey on non-English speakers, who may or may not have a filing requirement.

Scammers build false hope by duping people into making claims for fictitious rebates, benefits or tax credits. They charge good money for very bad advice. Or worse, they file a false return in a person's name and that person never knows that a refund was paid.

Scam artists also victimize people with a filing requirement and due a refund by promising inflated refunds based on fictitious Social Security benefits and false claims for education credits, the Earned Income Tax Credit (EITC), or the American Opportunity Tax Credit, among others.

The IRS sometimes hears about scams from victims complaining about losing their federal benefits, such as Social Security benefits, certain veteran's benefits or low-income housing benefits. The loss of benefits was the result of false claims being filed with the IRS that provided false income amounts.

While honest tax preparers provide their customers a copy of the tax return they've prepared, victims of scam frequently are not given a copy of what was filed. Victims also report that the fraudulent refund is deposited into the scammer's bank account. The scammers deduct a large "fee" before cutting a check to the victim, a practice not used by legitimate tax preparers.

The IRS reminds all taxpayers that they are legally responsible for what's on their returns even if it was prepared by someone else. Taxpayers who buy into such schemes can end up being penalized for filing false claims or receiving fraudulent refunds.

Taxpayers should take care when choosing an individual or firm to prepare their taxes. Honest return preparers generally: ask for proof of income and eligibility for credits and deductions; sign returns as the preparer; enter their IRS Preparer Tax Identification Number (PTIN); provide the taxpayer a copy of the return.

Beware: Intentional mistakes of this kind can result in a $5,000 penalty.

Return Preparer Fraud

About 60 percent of taxpayers will use tax professionals this year to prepare their tax returns. Most return preparers provide honest service to their clients. But, some unscrupulous preparers prey on unsuspecting taxpayers, and the result can be refund fraud or identity theft.

It is important to choose carefully when hiring an individual or firm to prepare your return. This year, the IRS wants to remind all taxpayers that they should use only preparers who sign the returns they prepare and enter their IRS Preparer Tax Identification Numbers (PTINs).

The IRS also has a web page to assist taxpayers. For tips about choosing a preparer, details on preparer qualifications and information on how and when to make a complaint, visit www.irs.gov/chooseataxpro.

Remember: Taxpayers are legally responsible for what's on their tax return even if it is prepared by someone else. Make sure the preparer you hire is up to the task.

IRS.gov has general information on reporting tax fraud. More specifically, you report abusive tax preparers to the IRS on Form 14157, Complaint: Tax Return Preparer. Download Form 14157 and fill it out or order by mail at 800-TAX FORM (800-829-3676). The form includes a return address.

Hiding Income Offshore

Over the years, numerous individuals have been identified as evading U.S. taxes by hiding income in offshore banks, brokerage accounts or nominee entities and then using debit cards, credit cards or wire transfers to access the funds. Others have employed foreign trusts, employee-leasing schemes, private annuities or insurance plans for the same purpose.

The IRS uses information gained from its investigations to pursue taxpayers with undeclared accounts, as well as the banks and bankers suspected of helping clients hide their assets overseas. The IRS works closely with the Department of Justice (DOJ) to prosecute tax evasion cases.

While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requirements that need to be fulfilled. U.S. taxpayers who maintain such accounts and who do not comply with reporting requirements are breaking the law and risk significant penalties and fines, as well as the possibility of criminal prosecution.

Since 2009, tens of thousands of individuals have come forward voluntarily to disclose their foreign financial accounts, taking advantage of special opportunities to comply with the U.S. tax system and resolve their tax obligations. And, with new foreign account reporting requirements being phased in over the next few years, hiding income offshore is increasingly more difficult.

At the beginning of 2012, the IRS reopened the Offshore Voluntary Disclosure Program (OVDP) following continued strong interest from taxpayers and tax practitioners after the closure of the 2011 and 2009 programs. The IRS works on a wide range of international tax issues with DOJ to pursue criminal prosecution of international tax evasion. This program will be open for an indefinite period until otherwise announced.

The IRS has collected billions of dollars in back taxes, interest and penalties so far from people who participated in offshore voluntary disclosure programs since 2009. It is in the best long-term interest of taxpayers to come forward, catch up on their filing requirements and pay their fair share.

Impersonation of Charitable Organizations

Another long-standing type of abuse or fraud is scams that occur in the wake of significant natural disasters.

Following major disasters, it's common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists can use a variety of tactics. Some scammers operating bogus charities may contact people by telephone or email to solicit money or financial information. 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.

They may attempt to get personal financial information or Social Security numbers that can be used to steal the victims' identities or financial resources. Bogus websites may solicit funds for disaster victims. The IRS cautions both victims of natural disasters and people wishing to make charitable donations to avoid scam artists by following these tips:

- To help disaster victims, donate to recognized charities.

- Be wary of charities with names that are similar to familiar or nationally known organizations. Some phony charities use names or websites that sound or look like those of respected, legitimate organizations. IRS.gov has a search feature, Exempt Organizations Select Check, which allows people to find legitimate, qualified charities to which donations may be tax-deductible.

- Don't give out personal financial information, such as Social Security numbers or credit card and bank account numbers and passwords, to anyone who solicits a contribution from you. Scam artists may use this information to steal your identity and money.

- Don't give or send cash. For security and tax record purposes, contribute by check or credit card or another way that provides documentation of the gift.

Call the IRS toll-free disaster assistance telephone number (1-866-562-5227) if you are a disaster victim with specific questions about tax relief or disaster related tax issues.

False Income, Expenses or Exemptions

Another scam involves inflating or including income on a tax return that was never earned, either as wages or as self-employment income in order to maximize refundable credits. Claiming income you did not earn or expenses you did not pay in order to secure larger refundable credits such as the Earned Income Tax Credit could have serious repercussions. This could result in repaying the erroneous refunds, including interest and penalties, and in some cases, even prosecution.

Additionally, some taxpayers are filing excessive claims for the fuel tax credit. Farmers and other taxpayers who use fuel for off-highway business purposes may be eligible for the fuel tax credit. But other individuals have claimed the tax credit although they were not eligible. Fraud involving the fuel tax credit is considered a frivolous tax claim and can result in a penalty of $5,000.

Frivolous Arguments

Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. The IRS has a list of frivolous tax arguments that taxpayers should avoid. These arguments are wrong and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law or disregard their responsibility to pay taxes.

Those who promote or adopt frivolous positions risk a variety of penalties. For example, taxpayers could be responsible for an accuracy-related penalty, a civil fraud penalty, an erroneous refund claim penalty, or a failure to file penalty. The Tax Court may also impose a penalty against taxpayers who make frivolous arguments in court.

Taxpayers who rely on frivolous arguments and schemes may also face criminal prosecution for attempting to evade or defeat tax. Similarly, taxpayers may be convicted of a felony for willfully making and signing under penalties of perjury any return, statement, or other document that the person does not believe to be true and correct as to every material matter. Persons who promote frivolous arguments and those who assist taxpayers in claiming tax benefits based on frivolous arguments may be prosecuted for a criminal felony.

Falsely Claiming Zero Wages or Using False Form 1099

Filing a phony information return is an illegal way to lower the amount of taxes an individual owes. 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 may also 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 variations of this scheme. Filing this type of return may result in a $5,000 penalty.

Some people also attempt fraud using false Form 1099 refund claims. In some cases, individuals have made refund claims based on the bogus theory that the federal government maintains secret accounts for U.S. citizens and that taxpayers can gain access to the accounts by issuing 1099-OID forms to the IRS. In this ongoing scam, the perpetrator files a fake information return, such as a Form 1099 Original Issue Discount (OID), to justify a false refund claim on a corresponding tax return.

Don’t fall prey to people who encourage you to claim deductions or credits to which you are not entitled or willingly allow others to use your information to file false returns. If you are a party to such schemes, you could be liable for financial penalties or even face criminal prosecution.

Abusive Tax Structures

Abusive tax schemes have evolved from simple structuring of abusive domestic and foreign trust arrangements into sophisticated strategies that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued from offshore financial institutions.

IRS Criminal Investigation (CI) has developed a nationally coordinated program to combat these abusive tax schemes. CI's primary focus is on the identification and investigation of the tax scheme promoters as well as those who play a substantial or integral role in facilitating, aiding, assisting, or furthering the abusive tax scheme (e.g., accountants, lawyers). Secondarily, but equally important, is the investigation of investors who knowingly participate in abusive tax schemes.

What is an abusive scheme? The Abusive Tax Schemes program encompasses violations of the Internal Revenue Code (IRC) and related statutes where multiple flow-through entities are used as an integral part of the taxpayer's scheme to evade taxes. These schemes are characterized by the use of Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), International Business Companies (IBCs), foreign financial accounts, offshore credit/debit cards and other similar instruments. The schemes are usually complex involving multi-layer transactions for the purpose of concealing the true nature and ownership of the taxable income and/or assets.

Form over substance are the most important words to remember before buying into any arrangements that promise to "eliminate" or "substantially reduce" your tax liability. The promoters of abusive tax schemes often employ financial instruments in their schemes. However, the instruments are used for improper purposes including the facilitation of tax evasion.

The IRS encourages taxpayers to report unlawful tax evasion. Where Do You Report Suspected Tax Fraud Activity?

Misuse of Trusts

Trusts also commonly show up in abusive tax structures. They are highlighted here because unscrupulous promoters continue to urge taxpayers to transfer large amounts of assets into trusts. These assets include not only cash and investments, but also successful on-going businesses. There are legitimate uses of trusts in tax and estate planning, but the IRS commonly sees highly questionable transactions. These transactions promise reduced taxable income, inflated deductions for personal expenses, the reduction or elimination of self-employment taxes and reduced estate or gift transfer taxes. These transactions commonly arise when taxpayers are transferring wealth from one generation to another. Questionable trusts rarely deliver the tax benefits promised and are used primarily as a means of avoiding income tax liability and hiding assets from creditors, including the IRS.

IRS personnel continue to see an increase in the improper use of private annuity trusts and foreign trusts to shift income and deduct personal expenses, as well as to avoid estate transfer taxes. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering a trust arrangement.

The IRS reminds taxpayers that tax scams can take many forms beyond the “Dirty Dozen,” and people should be on the lookout for many other schemes. More information on tax scams is available at IRS.gov.

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