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Avoid IRS Hit List Of Tax Scams

Most people don't think of the IRS as a consumer protection agency. But the IRS warns the public off tax ideas that can only get them into trouble. This is a good time of year for the IRS to release its annual "[Dirty Dozen](#)" of the worst tax scams. The IRS has even gone Hollywood with a [video](#).

The promoters of blacklisted tax ideas can face heavy fines or even prison. Taxpayers who buy in can end up with huge bills for taxes, penalties and interest. Here's what to avoid.

1. *Hiding Income Offshore.* U.S. taxpayers must report worldwide income, even income taxed in foreign countries. Plus, you must disclose any foreign accounts you have. See [IRS Will Find Your Offshore Account](#) and [Ten Things To Know About Offshore Bank Accounts](#).

2. *Identity Theft and Phishing.* Beware [identity theft](#), since someone with your personal information can file a fraudulent tax return and collect a refund. If you believe your personal information has been stolen and used for tax purposes, contact the IRS Identity Protection Specialized Unit at 1-800-908-4490. A suspicious e-mail or an "IRS" Web address that does not begin with <http://www.irs.gov> should be forwarded to the IRS at phishing@irs.gov.

3. *Return Preparer Fraud.* Most are honest. Dishonest return preparers may skim a portion of client refunds, charge inflated fees or make false promises. The IRS regulates paid tax preparers, including

registration, competency tests, continuing professional education, and (soon) preparer tax identification numbers.

4. *Filing False or Misleading Forms.* Seeking refunds with phony information returns, like [Form 1099 Original Issue Discount](#) to claim false withholding credits can carry penalties or even criminal prosecution.

5. *Frivolous Arguments.* The IRS has a list of [frivolous legal positions](#) to avoid that have consistently been thrown out of court. See [Ten Tax Protestor Claims To Avoid](#).

6. *Nontaxable Social Security Benefits With Exaggerated Withholding Credit.* Returns reporting nontaxable Social Security Benefits with excessive withholding may result in a \$5,000 penalty.

7. *Abuse of Charitable Organizations and Deductions.* Abuses of tax-exempt organizations include attempts to shield income or assets from tax, controlling donated assets or income, and highly overvalued non-cash contributions. High penalties apply.

8. *Abusive Retirement Plans.* Abuses in retirement plans include attempts at avoiding IRA limits and not reporting early distributions. Also be wary of shifting appreciated assets into IRAs at less than fair market value or companies owned by IRAs.

9. *Disguised Corporate Ownership.* Some corporations and other entities disguise ownership, facilitating underreporting of income, fictitious deductions, non-filing of tax returns, money laundering, financial crimes, etc. Don't do it.

10. *Zero Wages.* Filing a false information return to lower taxes is illegal. Typically, a [Form 4852](#) (substitute [Form W-2](#)) or a "corrected" Form 1099 improperly reduces taxable income to zero. The taxpayer may also submit a statement rebutting wages and taxes reported to the IRS. Such filings carry a \$5,000 penalty.

11. *Misuse of Trusts.* Some promoters urge taxpayers to transfer assets into trust to reduce income subject to tax. Such trusts rarely deliver.

12. Fuel Tax Credit Scams. The IRS receives excessive claims for the fuel tax credit. Fraud involving the fuel tax credit is considered a frivolous tax claim carrying a \$5,000 penalty.

Reporting Suspected Tax Fraud. You can report to the IRS on [Form 3949-A](#), Information Referral, or by letter to the IRS, Fresno, California, 93888. Include specifics about who, what, how, when, amounts and any other helpful information. Your identity can be kept confidential.

Whistleblowers can also report fraud to the IRS on [Form 211](#) Application for Award for Original Information, and may be eligible for a reward. Follow the procedures in [Notice 2008-4](#), Claims Submitted to the IRS Whistleblower Office under [Section 7623](#).

See also:

[To Avoid Fate Of Wesley Snipes, Skip Tax Protester Arguments](#)

[Ten Tax Protestor Claims To Avoid](#)

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