



Pioneer Bank & Trust

Trust & Investments

Local.

704 7th Ave, PO Box 729
Belle Fourche, SD 57717-0729
Phone (605) 892-3494
Fax (605) 892-2115

2001 W Omaha St, PO Box 9189
Rapid City, SD 57709-9189
Phone (605) 341-2265
Fax (605) 341-7425

140 E Jackson Blvd, PO Box 10
Spearfish, SD 57783-0010
Phone (605) 642-2725
Fax (605) 642-1736

“Dirty dozen” tax scams

For several years the IRS has released a compilation of the 12 worst tax scams, urging taxpayers to use caution to protect themselves. The list began as a way to warn taxpayers against adopting dubious tax strategies, such as *frivolous arguments* about the constitutionality of the federal income tax.

More recently, however, there’s been a new focus on frauds perpetrated upon taxpayers, in the context of income tax preparation.

On guard

The problem that has the largest dollar impact on taxpayers is *identity theft*. Thieves have used stolen identities to steal legitimate tax refunds or to claim bogus refunds. For example, there have been a number of reports of taxpayers who cannot file their electronic tax returns because a Social Security Number has already been used for a tax filing this year. The IRS has dedicated a special section on its Web site to this problem, including YouTube videos on how to protect oneself. Taxpayers who believe that their identity has been compromised should call the IRS Identity Protection Specialized Unit at 800-908-4490 to report the problem.

A new problem area concerns *telephone scams* by persons claiming to be IRS agents collecting overdue taxes. Scammers may use fake names and IRS badge numbers, and they may support their phone calls with bogus IRS e-mails. In some cases, they have been sophisticated enough to “spoof” the caller ID system so as to make it appear that the call really comes from the IRS. Also, in some cases the scammer has been able to recite the last four digits of the victim’s Social Security Number, further creating an aura of legitimacy. The caller may threaten the victim with arrest, deportation or suspension of a driver’s license. Victims may be told that they must pay promptly through a pre-loaded debit card or wire transfer.

If you get a call from someone claiming to be from the IRS, you can call 800-829-1040 to discuss the situation if you think that you might owe something. If you haven’t received any earlier IRS communication, report the call to 800-366-4484.

Another situation to worry about is the *impersonation of representatives of charitable organizations* following a major disaster. This may go beyond a fake charity asking for money that will never go to the victims. Some scammers may pretend to be from the IRS, contacting victims to help them file casualty loss claims to get tax refunds. They may attempt to get personal financial information or Social Security numbers so as to steal identities. Don’t release personal information, and the IRS recommends never using cash for charitable donations. Always use a documentable payment, such as a check or credit card.

Other scams

Phishing is stealing an identity through unsolicited e-mail or a fake Web site. Remember, the IRS does not initiate contact with taxpayers through e-mail. Report suspicious solicitations to phishing@irs.gov.

False promises of “free money” from inflated refunds. Scammers posing as tax return preparers may help unwary taxpayers file fraudulent returns, exploiting the earned income tax credit or the education credits, to gain large refunds.

Return preparer fraud. An astonishing 60% of all taxpayers rely on a tax professional to prepare their returns. Most preparers are quite honest. The IRS has prepared Fact Sheet 2014-5 on how to choose a tax preparer.

Hiding income offshore. Congress has cracked down on this problem, and tens of thousands of taxpayers have come clean since 2009, paying billions in back taxes.

False income, expenses or exemptions. Reporting income that was never actually earned may create a refundable credit. There’s also been a problem with excessive claims of the fuel tax credit that is available to farmers.

Falsely claiming zero wages. This may involve a Form 4852 (Substitute Form W-2) or a “corrected” 1099.

Abusive tax structures. Now we’re getting to the less routine types of scams. There have been complex, multilayered transactions involving limited liability companies, international business companies, foreign financial accounts and such to try to “eliminate” tax obligations. In general, these do not work.

Misuse of trusts. Trusts have many very legitimate uses in wealth management. Elimination of personal income taxes is not one of them. Trusts cannot be used to create deductions for personal expenses or to reduce self-employment taxes.

(May 2014)

© 2014 M.A. Co. All rights reserved.