

Don't Fall Prey to the 2011 Dirty Dozen Tax Scams

Hiding income in offshore accounts, identity theft, return preparer fraud, and filing false or misleading tax forms top the annual list of "dirty dozen" tax scams in 2011, the Internal Revenue Service announced last week.

"The Dirty Dozen represents the worst of the worst tax scams," IRS Commissioner Doug Shulman said. "Don't fall prey to these tax scams. They may look tempting, but these fraudulent deals end up hurting people who participate in them."

The IRS works with the Justice Department to pursue and shut down perpetrators of these and other illegal scams. Promoters



frequently end up facing heavy fines and imprisonment. Meanwhile, taxpayers who wittingly or unwittingly get involved with these schemes must repay all taxes due plus interest and penalties.

Following is the Dirty Dozen for 2011:

Hiding Income Offshore

The IRS aggressively pursues taxpayers involved in abusive offshore transactions as well as the promoters, professionals and others who facilitate or enable these schemes. Taxpayers have tried to avoid or evade U.S. income tax by hiding income in offshore banks, brokerage accounts or through the use of nominee entities. Taxpayers also evade taxes by using offshore debit cards, credit cards, wire transfers, foreign trusts, employee-leasing schemes, private annuities or insurance plans.

In early February, the IRS announced a special voluntary disclosure initiative designed to bring offshore money back into the U.S. tax system and help people with undisclosed income from hidden offshore accounts get current with their taxes. The new voluntary disclosure initiative will be available through Aug. 31, 2011. The IRS decision to open a second special disclosure initiative follows continuing interest from taxpayers with foreign accounts. In response to numerous requests, information about this initiative is available on IRS.gov in eight different languages, including: Chinese, Farsi, German, Hindi, Korean, Russian, Spanish, and Vietnamese.

Identity Theft and Phishing

Identity theft occurs when someone uses an unsuspecting individual's name, Social Security number, credit card number or other personal information without permission to commit fraud or other crimes. For



example, a criminal can use someone else's information to run up bills on that person's credit card, empty that person's bank account or take out a loan in that person's name. And when it comes to taxes, a criminal with someone else's personal information can file a fraudulent tax return and collect a refund.

Phishing is one tactic used by scam artists to trick unsuspecting victims into revealing personal or financial information online. Phishing involves the use of phony e-mail or websites — even social media. A scammer may pose as an institution such as the IRS. IRS impersonation schemes flourish during tax season. Spyware, which can be loaded onto an unsuspecting taxpayer's computer by opening an e-mail attachment or clicking on a link, is another tool identity thieves use to steal personal information.

Identity theft is a major problem that affects many people each year. That's why it's important that taxpayers protect their personal information. Anyone who believes his or her personal information has been stolen and used for tax purposes should immediately contact the IRS Identity Protection Specialized Unit at 1-800-908-4490. More information on identity theft and taxes is available on the IRS website.

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.

Return Preparer Fraud

While most return preparers are professionals who provide honest and excellent

service to their clients, some make basic errors or engage in fraud and other illegal activities.

Dishonest return preparers can cause big trouble for taxpayers who fall victim to their ploys. These fraudsters derive benefit by skimming a portion of their clients' refunds, charging inflated fees for return preparation services and attracting new clients by making false promises. Taxpayers should choose carefully when hiring a tax preparer. Federal courts have issued hundreds of injunctions ordering individuals to cease preparing returns, and the Department of Justice has pending complaints against dozens of others.

To increase confidence in the tax system and improve compliance with the tax law, the IRS is implementing a number of requirements for paid tax preparers, including registration with the IRS and a preparer tax identification number (PTIN), as well as competency tests and ongoing continuing professional education.

The new regulations require paid tax preparers (including attorneys, CPAs, and enrolled agents) to apply for a Preparer Tax Identification Number (PTIN) before preparing any federal tax returns in 2011.

Higher standards for the tax preparer community will result in greater compliance with tax laws, increase confidence in the tax system and ultimately lead to a better experience for taxpayers.

Filing False or Misleading Forms

IRS personnel are seeing various instances in which scam artists file false or misleading returns to claim refunds to which they are not entitled. In one variation of this scheme, a taxpayer seeks a refund by fabricating an information return and falsely claiming the corresponding amount as withholding. Phony information returns, such as a Form 1099 Original Issue Discount (OID), which claims false withholding credits, are usually used to legitimize erroneous refund claims. One version of the scheme is based on the bogus theory that the federal government maintains secret accounts for its citizens and that taxpayers can gain access to funds in those accounts by issuing 1099-OID forms to their creditors, including the IRS.

The IRS continues to see instances in which people file false or fraudulent tax returns to try to obtain improper tax refunds. The IRS takes refund fraud seriously, has programs to aggressively combat it and stops the vast majority of incorrect refunds.

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