

Top Ten Tax Scams

The following tax scams have been updated for the 2017 filing season. The No.1 scam was phishing, which has affected tax preparers, company payroll and human resources departments, and individual taxpayers. No. 2 is phone scams, which involve fraudsters impersonating the IRS, calling and threatening people to get them to pay amounts they may not even owe, and often asking for untraceable forms of payment.

- **Phishing schemes** - Phishing schemes, which involve fake email or websites that trick taxpayers or practitioners into giving personal information (such as Social Security numbers, credit card numbers, or bank account numbers) and login or password information, leads the list of tax scams for 2017. These schemes have targeted tax practitioners, payroll and human resources departments, government agencies, and individual taxpayers. Be wary about clicking on any attachments or links in emails.
- **Phone scams** - At this time of year, the IRS generally sees a surge in scam phone calls that threaten police arrest, deportation, license revocation, and other things. Taxpayers should guard against all sorts of con games that arise at any time and pick up during tax season. **The IRS usually initiates contact with taxpayers by mail, not by phone, and says it would never threaten any of those things when attempting to collect taxes.**
- **Identity theft** - Tax-related identity theft, together with what the IRS calls the related scams of stealing personal and financial data from taxpayers or data held by tax practitioners, remains a top concern, although the IRS says it is making progress. The Security Summit Partners, consisting of the IRS, state tax agencies, and the tax preparation industry, have applied more safeguards against this crime this year and say they will continue to step up their efforts.
- **Tax preparer fraud** - Be careful to avoid unscrupulous tax return preparers. Although the vast majority of tax preparers provide honest, high-quality service, some dishonest preparers set up shop each filing season to perpetrate refund fraud, identity theft, and other scams that hurt taxpayers. **Be wary of preparers who promise overly large refunds.**
- **Fake charities** - Scam artists set up fake charities to steal money and personal information from unsuspecting taxpayers. Many of these scammers use names that are similar to well-known charities or set up websites that look like legitimate charities.
- **Falsely inflating refund claims** - This scam takes many forms, from unscrupulous tax preparers contacting elderly or low-income taxpayers who normally don't file and filing returns claiming inflated refunds for them (or stealing their identities and keeping any refund). It also involves people who normally file and receive refunds falling victim to scam artists who file returns for them claiming earned income tax credits (EITCs) or education credits or otherwise inflating deductions to get taxpayers larger refunds than they are entitled to.
- **Excessive claims for business credits** - **Fuel tax credit** scams and research tax credit scams are the two most prevalent scams among excessive claims. Fuel tax credits are credits for excise taxes paid on fuel, which may be exempt from tax in some cases and therefore eligible for the credit to reimburse taxpayers for nontaxable uses. One example is the use of fuel in farming or other off-road purposes. Most individual taxpayers do not qualify for such credits. The **research tax credit** is a credit for research activities that involve a process of experimentation. Many taxpayers claim the credit for activities

that do not qualify or for which they lack proper substantiation of the research expenses, which can subject them to penalties.

- **Falsely padded deductions** - This scam involves taxpayers falsely padding deductions, expenses, or claiming credits they are not entitled to. Such paddings include overstating charitable contributions or business expenses, or falsely claiming credits, such as the EITC.
- **Falsifying income to claim tax credits** - This scam involves reporting fraudulent amounts of earned income in order to qualify for certain tax credits, such as the EITC, which requires taxpayers to have income earned from a job or business to qualify for the credit. Sometimes this scam involves false Forms 1099-MISC, Miscellaneous Income. Scammers may also use Form 56, Notice Concerning Fiduciary Relationship, to assign fiduciary responsibilities to the lenders.
- **Frivolous tax arguments** - The IRS warned taxpayers not to be taken in by promoters of outlandish legal arguments to avoid paying their taxes that have consistently been thrown out of court. Some of the more common arguments that taxpayers have made are that taxpayers can avoid paying taxes on religious or moral grounds by invoking the First Amendment to the Constitution or that only federal employees are subject to federal income tax.