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### **“DIRTY DOZEN” TAX SCAMS FOR 2003**

Don't be victimized by tax scams. Every year thousands of people pay for illegal tax “advice.” Some people will do just about anything to lower their tax bill or get out of paying taxes all together. The Internal Revenue Service is asking taxpayers to avoid falling victim to tax scams.

#### **1. Offshore Transactions**

Some people use offshore accounts to avoid paying taxes in the United States. Using an offshore account or hiding unreported income or claiming false deductions on a federal tax return is illegal. Now through April 15 the IRS is trying to help people that have these offshore accounts to make things right. Anyone that steps forward will not face civil fraud. If the taxpayers do not come forward then they will be accountable to pay taxes, penalties, interest, and face possible criminal proceedings.

#### **2. Identity Theft**

Identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing credit cards, apply for new loans, credit cards, services or benefits in the victim's name and even file fraudulent tax returns. The IRS is only aware of two recent identity theft scams. In one of the cases, tax preparers allegedly used information such as a social security number to commit identity theft. In the second case the con artist sent fictitious correspondence to bank customers and IRS forms. This was an attempt to get the customers to disclose their personal bank account information. Taxpayers need to be very picky about who they give their personal information. The IRS encourages taxpayers to carefully select a reputable tax professional.

#### **3. Phony Tax Payments**

These fraudsters sell fake checks that are look-a-likes to pay tax liability, mortgage and other debts. The fraudsters may also meet with the clients to tell them to use the phony check to overpay the IRS so that they can get a refund from the IRS for an overpayment. Sight drafts are false checks, which are worthless and have no financial value. It is illegal to use these sight drafts to pay a tax liability or any other debts.

#### **4. African Americans Get a Special Tax Refund.**

Many African Americans have been misled by people offering to file and get tax credits or refunds related to reparations for slavery. Some con artists have had clients pay them to prepare a request for this refund, but this is a waste of money since there is no such tax law. The con artists that have been caught have been convicted and imprisoned. Also, the taxpayers could face a \$500 penalty for filing such claims if they do not withdraw the claim. In the beginning of 2002, this was the number one scam.

## **5. No Taxes Withheld From Wages.**

Illegal schemes are becoming well known that instruct employers not to withhold federal income tax or employment taxes from wages paid to their employees. These schemes are based on faulty interpretation of the tax law and have been refuted in court.

## **6. Improper Home-Based Business**

This scheme purports to offer tax relief, but is an illegal tax avoidance. The promoters of this scheme claim that an individual can deduct most, or all of their personal expenses, by setting up a bogus home-based business.

## **7. Pay the tax, Then Get the Prize**

If you get a call and the person on the other end says that you won a prize and all you have to do to get it is pay the taxes on it, don't believe it! Someone who really wins a prize may need to make an estimated tax payment to cover the taxes that will be due at the end of the year. But the payment goes to the IRS - not the caller. Whether the prize is cash, a car or a trip, a legitimate prize giver generally sends both the winner and the IRS a Form 1099 showing the total prize value that should be reported on the winner's tax return.

## **8. Frivolous Arguments**

Frivolous arguments are false arguments that are unsupported by law. When a scheme promoter says "I don't pay taxes—why should you" or urges you to "untax yourself for \$49.95," beware. These scams are as old as snake oil, but people continue to be taken in. And now they're on the Internet. The ads may say that paying taxes is "voluntary," but that's just plain wrong. The U.S. courts have continuously rejected this and other frivolous arguments. Unfortunately, hundreds of people across the country have paid for the "secret" of not paying taxes or have bought "untax packages." Then they find out that following the advice contained in them can result in civil and/or criminal penalties. Numerous sellers of the bogus schemes have been convicted on criminal tax charges.

## **9. Social Security Tax Scheme**

Taxpayers shouldn't fall victim to a scam offering refunds of the Social Security taxes that they have paid during their lifetimes. The scam works by the victim paying a "paperwork" fee of \$100, plus a percentage of any refund received, to file a refund claim with the IRS. This hoax fleeces the victims for the upfront fee. The law does not allow such a refund of Social Security taxes paid. The IRS processing centers are alert to this hoax and have been stopping the false claims.

## **10. "I Can Get You a *Big* Refund... for a Fee!"**

Refund scheme operators may approach someone wanting to "borrow" their Social Security number or give him or her a phony W-2 so it appears that the person qualifies for a big refund. They may promise to split the refund with that person, but the IRS catches most of these false refund claims before they go out. And when one does go out, the participant usually ends up paying back the refund along with stiff penalties and interest. Two lessons to remember: 1) Anyone who promises someone a bigger refund without knowing their tax situation could be misleading them, and 2) Never sign a tax return without looking it over to make sure it's honest and correct.

**11. Share/Borrow EITC Dependents**

Unscrupulous tax preparers “share” one client’s qualifying children with another client in order to allow both clients to claim the Earned income Tax Credit. For example, one client may have four children but only needs to list two to get the maximum EITC. The preparer will list two children on the first client’s return and the other two on another client’s return. The preparer and the client “selling” the dependents split the fee. The IRS prosecutes the preparer of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

**12. IRS “Agent” Comes to Your House to Collect.**

First, do not let anyone into your home unless they identify themselves to your satisfaction. IRS special agents, field auditors and collection officers carry picture IDs and will normally try to contact you before they visit. If you think the person on your doorstep is an imposter, lock your door and call the local police.

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**I am happy to announce that as of January 23, 2003, the name of my firm has been changed from:**

**T. Dennis Connally Financial Consultants, Inc.  
To  
T. Dennis Connally  
Consultant, P.C.  
Certified Public Accountant**