IRS Releases "Dirty Dozen" Tax Scams for 2022

The IRS recently released its annual list of the "worst of the worst" tax scams currently affecting U.S. taxpayers, which it calls the "Dirty Dozen." The agency monitors tax scams throughout the year. It notes that taxpayers may encounter the scams on the Dirty Dozen list at any time throughout the year, but it urges people to be especially cautious during tax filing season, when scammers may promote various scams to them. The following is an overview of the 2022 Dirty Dozen list.

1.Use of Charitable Remainder Annuity Trust (CRAT) to Eliminate Taxable Gain

This scam involves multiple steps:

- A taxpayer transfers appreciated property to a CRAT.
- They claim a stepped-up basis for the property as if they had sold it to the CRAT.
- The CRAT sells the property. Because of the alleged step-up in basis, the CRAT does not recognize a gain.
- The CRAT uses the sale proceeds to buy a single premium immediate annuity (SPIA).
- The beneficiary of the SPIA claims that most of the annuity payments are excluded from taxation because they are a return on investment.

2. Maltese (or Other Foreign) Pension Arrangements Misusing Treaty

People residing in the U.S. may claim investments in certain foreign retirement funds as a "pension fund" under U.S. tax law and tax treaties. This scam commonly involves retirement accounts in Malta, but it could occur in other countries. The U.S. citizens or residents typically have no connection to the foreign country.

3. Puerto Rican and Other Foreign Captive Insurance

Captive insurance refers to a type of self-insurance in which an insurance company is owned and managed by the people or businesses that it insures. It offers legitimate tax benefits for small businesses, but scammers can use it for unscrupulous purposes.
In this scam, U.S. owners of closely-held businesses enter into supposed insurance contracts with entities in Puerto Rico, which has become a center for international insurance. The insurance policy functions as a tax shelter. The IRS identifies several signs of a fraudulent scheme:

- Coverage of unrealistic risks;
- Pricing that is not at arm's length; and
- Insurance arrangements with no legitimate business purpose.

4. Monetized Installment Sales

This scam misuses the installment sale rules found in federal tax law. A seller offers to sell appreciated property to a buyer for cash but then offers the same property to an intermediary for an installment note. The seller receives the full sales price, but only reports some gain using the installment method.

5. COVID-19 Pandemic Scams

The IRS has identified multiple tax scams that use the COVID-19 pandemic to steal taxpayers' personal identifiable information (PII), or even to steal money from them.

Economic Impact Payment and tax refund scams

- Scammers often use unsolicited text, phone or email communications to trick people into giving up PII, such as birth dates, credit card numbers or Social Security numbers.

Unemployment fraud leading to inaccurate taxpayer 1099-Gs

- Some scammers have used stolen PII to file fraudulent unemployment claims. Because of the flood of claims during the pandemic, these may have gone unnoticed. Taxpayers may receive a Form 1099-G that shows unemployment benefits they never received.

Fake employment offers posted on social media

- People who are eager to look for a job may respond to fraudulent job offers that are merely a way to get people to give up PII.

Fake charities that steal your money

- Taxpayers should carefully research any charity that attempts to solicit money from them.

6. Offer in Compromise Mills

Offer in compromise (OIC) mills often advertise tax preparation services with "outlandish claims" about their ability to save taxpayers money. In reality, OIC mills tend to do either shoddy or fraudulent work.

Ghost preparers

- Any person or business that receives a fee for preparing a tax return must sign the return and provide a Preparer Tax Identification Number (PTIN). The IRS advises caution with regard to preparers who refuse to sign their work.

Inflated refunds

- Many OIC mills falsely promise that they can obtain large refunds for clients.   Warning signs may include:
- Requiring payment in cash with no receipt;
- Reporting nonexistent income and/or deductions; and
- Requesting that the IRS deposit refunds into their bank account, not the client's account.

7. Suspicious Communications in all forms

The IRS does not call or text taxpayers to request information, with rare exceptions. Scammers often use these methods, along with email and social media messages, to trick taxpayers. They are often phishing scams, which use unsolicited communications made to look official in order to obtain PII. The IRS urges taxpayers to report suspicious communications.

Text message scams

- Scammers may use text messages to solicit information. Since the pandemic began, they often refer to stimulus payments.

Email phishing scams

- The IRS still uses the U.S. Postal Service to contact taxpayers in most situations. Unsolicited email purporting to be from the IRS is likely to be fraudulent.

Phone scams

- Phone scams, according to the IRS, often use "pre-recorded, urgent or threatening messages." They may claim that if the taxpayer does not call back, law enforcement could get involved. These are tactics to get taxpayers to provide PII.

8. Spear Phishing

Scammers have begun to target tax preparation professionals. If a scammer can steal a tax preparer's credentials and client information, they can file fraudulent tax returns in order to claim refunds. Spear phishing is a targeted phishing scam in which the scammer poses as someone known to the target.

9. Concealing Assets in Offshore Accounts and Improper Reporting of Digital Assets

U.S. taxpayers pay tax on income they receive anywhere in the world. Moving assets out of the country does not mean they are no longer subject to U.S. tax law. Hiding assets offshore has been a tax avoidance scheme for quite some time, although the details change as the IRS tries to keep up.
Digital assets, such as cryptocurrency, are also subject to taxation, despite common perceptions to the contrary. Scammers may try to mislead taxpayers about their obligation to report digital assets on their tax returns.

10. High-income individuals who don’t file tax returns

The IRS states that it is currently focusing its enforcement efforts on taxpayers who do not file returns at all, particularly if their annual income is over $100,000. It also notes that the penalty for failing to file a tax return is greater, at least at first, than the penalty for failing to pay taxes.

11. Abusive Syndicated Conservation Easements

Federal tax law gives landowners a charitable deduction if they donate the right to develop their land to a nonprofit trust known as a conservation easement. The purpose of the law is to encourage the preservation of undeveloped land. Scammers have taken advantage of this to avoid taxes and turn a profit.
A syndicated conservation easement involves remote or otherwise unusable land. An appraiser falsely attributes high value to the property. The syndicator then sells shares to individuals who claim charitable deductions that are much higher than the actual value of the land. The IRS has made syndicated conservation easements a high priority for enforcement.

12. Abusive Micro-Captive Insurance Arrangements

Accountants, wealth managers and others may convince small business owners to join fraudulent schemes that resemble captive insurance. The IRS described the potential for tax fraud in a notice issued in 2016. An “abusive” arrangement is one intended to avoid taxes rather than provide insurance coverage.

If you have any questions or would like additional information about any of the tax scams mentioned above, please contact **Frankel Zacharia** (402) 496-9100 or www.fzacpa.com