
IDENTIFYING ILLEGAL TAX EVASION SCHEMES



Beware of Tax Avoidance Schemes: What You Need to Know

Common Types of Tax Avoidance Schemes

Enticing promises often appear in investment or tax seminars, local media, or on the internet. If something sounds too good to be true, it probably is, and it may be an illegal tax avoidance scheme.

False Tax Advice

Promoters may suggest employers not withhold federal income or employment taxes from wages, which is based on a misinterpretation of tax law. Courts have consistently rejected this advice. Some promoters claim they don't file or pay taxes and charge a fee to share their "secret." In reality, many do comply with tax laws but won't admit it publicly.

Improper Deductions

Claims that personal living expenses can be deducted as business expenses by transferring assets or income to a trust or partnership are incorrect and should be viewed with suspicion. Legitimate tax deductions are well-known and encouraged by the IRS, which aims to help taxpayers understand and meet their tax obligations fairly.

New Tax Law Misrepresentation

This tactic discourages seeking professional advice. Any new law affecting taxes should be verifiable by a second opinion from a trusted tax professional.

Refund Fraud

Promoters may ask for your Social Security number or provide fake documents to secure a refund. The IRS often catches these false claims, and participants face repayments, penalties, and interest.

Fraudulent EITC Claims

Unscrupulous tax professionals may “share” qualifying children between taxpayers to maximize Earned Income Tax Credit (EITC) claims, leading to fraudulent returns. The IRS actively prosecutes these cases, and participating taxpayers face penalties.

Important Reminders

You are liable for your tax return’s accuracy. Promises of a bigger refund without knowing your situation are likely misleading. Always review your tax return for honesty and accuracy before signing.

Key Questions to Consider

Is the tax promotion encouraging you to:

- Underreport or omit income?
 - Overstate deductions?
 - Maintain dual sets of records?
-

-
- Falsify entries?
 - Claim personal expenses as business expenses?
 - Claim false deductions?
 - Hide or transfer assets?

Answering yes to any of these indicates involvement in an illegal tax avoidance scheme.

Tax Avoidance Risks and Consequences

The IRS prosecutes fraudulent tax preparers, and taxpayers involved can face severe civil and/or criminal penalties. Complex schemes designed to obscure asset and income ownership, or the use of abusive trust structures, should raise red flags. Legitimate trusts separate asset ownership from personal control and benefit, while abusive trusts promise tax avoidance through foreign or domestic trustees or bank accounts.

Final Thoughts

Stay informed and cautious about any tax scheme that promises unrealistic benefits. Always seek advice from trusted tax professionals and verify claims through multiple sources to ensure compliance with tax laws.

Additionally the IRS memorandum AM-2023-006 provides guidelines and clarifications on specific tax regulations, offering important updates and interpretations that impact compliance and reporting requirements. It is important to note that this memorandum is not law but serves as a guidance document. For more details, you can access the full document at <https://www.irs.gov/pub/lanoa/am-2023-006-508v.pdf>.
