

Do these sound too good to be true?

“I Can Get You the EITC”

“Put Your Money in a Trust and Never Pay Taxes Again”

“Use a Charitable Trust to Eliminate Income”

“I Don’t Pay Taxes – Why Should You?”

“Do Not Pay Taxes on Capital Gains”

“Deduct Personal Expenses”

“The IRS Does Not Want You to Know About This”

“So New, Your Tax Professional Doesn’t Know About It”

“I Can Get You a Big Refund”

Promoters often advertise at investment or tax seminars, through the local media or on the Internet. If the promotion sounds too good to be true, it may be an illegal tax avoidance scheme. There are a large number of illegal tax avoidance schemes. These schemes are typically promoted with the promise of reducing or eliminating income and other types of taxes.

Questions To Ask Yourself...

Am I being asked to:

- Underreport my income?
- Intentionally omit income?
- Overstate the amount of my deductions?
- Create new entities?
- Make false entries in my books and records?
- Claim personal expenses as business expenses?
- Claim false deductions?
- Put false information on my tax return?
- Hide or transfer assets or income?

If you answered **Yes** to any of these questions, then you are probably being asked to participate in an **illegal tax avoidance scheme**.

The IRS prosecutes promoters of tax avoidance schemes, preparers of fraudulent tax returns, and taxpayers who knowingly participate.

Need Additional Information?

The IRS web site has educational materials to help taxpayers avoid abusive tax schemes. Select Tax Fraud at www.irs.gov.

Report an illegal tax avoidance scheme or an abusive tax return preparer by sending a completed Form 14242, Report Suspected Abusive Tax Promotions or Preparers, and any supporting materials by mail to:

**Internal Revenue Service
Lead Development Center
MS7900
1973 N. Rulon White Blvd
Ogden, UT 84404**

Or by Fax: 877-477-9135

Form 14242 is available on IRS.gov by searching for the form number.

Publication 3995 (Rev. 9-2024) Catalog Number 33989Q
Department of the Treasury **Internal Revenue Service**
www.irs.gov



Recognizing Illegal Tax Avoidance Schemes



IRS



EITC Fraud

Unscrupulous tax professionals will place false information on the tax return to maximize the amount of the Earned Income Tax Credit (EITC). The return preparer may report a false business on the tax return, or may “share” one taxpayer’s qualifying children with another taxpayer to allow both to claim the maximum EITC. For example, if one client has four children, the return preparer only needs to list the first two children to get the maximum credit. The return preparer will offer to pay the first client a fee to list the other two children on another client’s return. Both the return preparer and the taxpayers participating in this scheme could be subject to civil and/or criminal penalties.

“Put Your Money in a Trust and Never Pay Taxes Again.”

Promoters of abusive trust schemes may charge a fee for “trust” packages. The fee enables taxpayers to have trust documents prepared, to use foreign and/or domestic trustees as offered by promoters or to use foreign bank accounts and corporations. If a trust is legitimate, ownership of the trust assets is completely separate from your control and benefit.

“Use a Charitable Trust to Eliminate Income”

Promoters advise taxpayers to establish complex charitable trusts to avoid reporting income and to claim inflated charitable deductions. While charitable trusts are a legal way to donate to charities, the trusts must meet specific legal requirements. Promoters create trusts that do not meet these legal requirements and they have no legal tax benefits for the taxpayers who create them.

“Never Pay Any Taxes Again!”

Promoters may suggest that you, as an employer, NOT withhold federal income tax or employment taxes from wages paid to your employees. This scheme is based on an incorrect interpretation of the tax law; the courts have rejected all variations of this scheme.

“I Don’t Pay Taxes – Why Should You?”

Promoters may talk about how they don’t file or pay taxes and then charge people a fee to share their “secret.” The secret they don’t reveal is that many of them actually do file and pay taxes — they just won’t publicly admit it.

“Do Not Pay Taxes on Capital Gains”

Promoters promise to eliminate taxes on capital gains on property you sell if you first transfer the property to a trust, or if you sell the property to a third-party working with the promoter, or if you use some other scheme created by these promoters. Seek a second opinion from a qualified tax professional before using any of the highly questionable schemes.

“Deduct Personal Expenses, such as the Cost of Your Residence or Your Child’s Education Expenses”

Participants incorrectly claim that non-deductible personal living expenses can be claimed as deductible business expenses by transferring ownership of assets or income to a trust, partnership, or other entity. Any investment scheme that claims you can deduct these types of expenses should be considered highly questionable.

“The IRS Doesn’t Want You to Know About This.”

If there are legal deductions that can reduce your taxes, the IRS wants you to know about them and use them. The mission of the IRS is to provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. If you have any questions about your taxes, please contact the Internal Revenue Service at 1-800-829-1040.

“So New, Your Tax Professional Doesn’t Even Know About It.”

Promoters use this phrase to discourage you from seeking professional advice about new tax laws. However, if there is a new law that could reduce your taxes, a legitimate tax professional should encourage you to seek a second opinion. You should even ask for a reference just in case your tax professional really does not know about it yet. If the investment cannot stand the scrutiny or the review of an unbiased third party, it is probably one you should avoid.

“I Can Get You a Big Refund...for a Fee!”

Refund scheme promoters may give you a phony Form W-2 or Form 1099 that shows a large withholding credit or advise you to claim a credit for federal fuel taxes so it appears you qualify for a big refund. They may promise to split the refund with you. The IRS catches most of these false refund claims before they go out, and if a refund is issued it is usually discovered. The participant will have to repay the entire refund, including the portion split with the promoter, along with stiff penalties and interest.

3 things to remember:

1. You are responsible and liable for the content of your tax return.
2. Anyone who promises you a bigger refund without knowing your tax situation could be misleading you.
3. You should never sign a tax return without looking it over to make sure it is honest and correct.