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IRS Releases Its 'Dirty Dozen' Tax Scams for 2022

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

The IRS has again compiled its annual list of common tax scams to raise awareness of potentially abusive arrangements that taxpayers and their advisors should avoid. The 2022 list of schemes fall into three broad categories targeting both the average taxpayer and high-net-worth individuals:

- Heavily promoted abusive deals, which are complex arrangements that may involve such items as Charitable Remainder Annuity Trusts and monetized installment sales.
- Common scams for taxpayers, such as COVID-related schemes, email phishing, and phone scams.
- Tax avoidance strategies targeting high-net-worth individuals, who are advised to conceal or underreport assets through such items as offshore accounts and syndicated conservation easements.

Check out the items that made this year's "Dirty Dozen:"

Heavily promoted abusive deals

1. **Use of Charitable Remainder Annuity Trusts (CRAT)** by taxpayers to claim the transfer of appreciated property to the CRAT for a step-up in basis to market value. The CRAT sells the property but does not recognize gain due to the step-up. Then it uses the proceeds to purchase a single premium immediate annuity. The beneficiary reports only a small portion of the annuity proceeds as income; the rest is treated as a tax-free return on investment.

2. **Misusing tax treaty via foreign pension arrangements,** which involves US citizens making contributions to foreign retirement accounts in Malta (or other foreign countries). The individual typically lacks a local connection, and local law can allow contributions in forms other than cash or may not limit contributions from earned income. By asserting this arrangement is a pension fund under a tax treaty, the taxpayer improperly claims an exemption from income tax on earnings and distributions.
3. **Using foreign captive insurance,** when US owners of closely held entities participate in a purported insurance arrangement with a Puerto Rican or other foreign corporation with cell arrangements or segregated asset plans in which the owner has a financial interest. The US-based individual or entity claims deductions for the cost of "insurance coverage" provided by a fronting carrier, which reinsures the "coverage" with the foreign corporation.

4. **Monetized installment sales** are transactions that involve the inappropriate use of the installment sale rules under IRC Section 453 by a seller who, in the year of a sale of property, effectively receives the sales proceeds through purported loans. In a typical transaction, the seller enters into a contract to sell appreciated property to a buyer for cash and then purports to sell the same property to an intermediary in return for an installment note. The intermediary then purports to sell the property to the buyer and receives the cash purchase price. Through a series of related steps, the seller receives an amount equivalent to the sales price, less various transactional fees, in the form of a purported loan that is nonrecourse and unsecured.

If you have engaged in or are contemplating any of these potentially abusive transactions, you should carefully review the underlying legal requirements and consult competent advisors before claiming any tax benefits. If you have already claimed the tax benefits for one of these four transactions, you should consider taking corrective steps, such as filing an amended return.

Common scams for taxpayers

5. **COVID-related schemes are again prevalent,** including Economic Impact Payments scams, fraudulent unemployment benefits, fake employment offers, and fake charities.

   Economic Impact Payment (EIP) scams: Identity thieves try to steal stimulus payments by advising recipients to click on a bogus link to verify personal and financial data, including bank account information and Social Security numbers. The IRS will not initiate contact by phone, email, text or social media.

   Fraudulent unemployment compensation claims: Scammers file fraudulent claims for unemployment compensation using stolen personal data of individuals who have not filed claims. The benefits are paid to the thieves but the IRS sends the victims a Form 1099-G for compensation never received. Scammers also send fake job postings requiring personal data to people seeking work.

   Fake charities: Be on the lookout for scammers who set up fake charities to take advantage of the public’s generosity, especially in times of tragedies and disasters, such as the COVID-19 pandemic. Always research a charity before donating and don’t feel pressured to donate immediately. Make all donations by credit card or check. Never wire money or pay by giving numbers from a gift card.

> Remember: The IRS website, IRS.gov, is the agency’s official website for information on payments, refunds, and other tax information.

6. **Offers in compromise “mills,”** often heavily advertised in the media, are misleading promises to settle tax debts for pennies on the dollar while charging excessive fees. You are better off working directly with the IRS or a reputable tax professional. IRS.gov is a good place to start scoping out what to do.

   Also, be wary of ghost preparers who won’t sign a tax return they prepare. Ghost preparers may aggressively promise a bigger refund. The Choosing a Tax Professional page on IRS.gov has information about tax preparer credentials and qualifications.

7. **Communications used to steal identity** and personal information include text message scams, email phishing scams and phone scams. Text messages are sent to smartphones and often contain bogus links claiming to be IRS websites or other online tools. Other than IRS Secure Access, the IRS does not use text messages to discuss personal tax issues.

   The IRS initiates most contact through regular mail. If a taxpayer receives an unsolicited email claiming to be from the IRS, report it by sending it as an attachment to phishing@irs.gov.

In many variations of the phone scam, victims are told they must call back or face arrest, deportation or license revocation. Remember, the IRS (and its authorized private collection agencies) will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand that taxes be paid without allowing the taxpayer to question or appeal the amount owed.
- Ask for credit or debit card numbers over the phone.

Generally, the IRS first will mail a bill to any taxpayer who owes taxes. All tax payments should only be made payable to the US Treasury. For anyone who doesn’t owe taxes and has no reason to think they do, do not give out any information. Hang up immediately.

8. **Spear phishing for tax professionals** is an email scam that attempts to steal a tax professional’s software preparation credentials. These thieves try to steal client data and tax preparers’ identities in an attempt to file fraudulent tax returns for refunds. Emails claiming “Your account has been put on hold” are scams. The scam email will send users to a website that shows the logos of several popular tax software preparation providers. Clicking on one of these logos will prompt a request for tax preparer account credentials. The IRS warns tax pros not to respond or take any of the steps outlined in the email. Similar emails include malicious links or attachments that are set up to steal information.

Tax avoidance strategies targeting high-net-worth individuals

9. **Concealing assets in offshore accounts** and improper reporting of digital assets are tactics that some wealthy taxpayers have used to attempt to hide income. They then access the funds using debit cards, credit cards, wire transfers or other arrangements. Some have used foreign trusts, employee-leasing schemes, private annuities and structured transactions attempting to conceal the true owner of accounts or insurance plans. The IRS also urges taxpayers not to be misled into believing that digital assets can be concealed or unreported. This can result in civil fraud penalties and criminal charges.

10. **High-Net-Worth individuals who don’t file tax returns** even when they have a legal filing requirement — especially those earning more than $100,000 per year — represent a compliance problem that continues to be a top priority of the IRS.

11. **Abusive syndicated conservation easements** are used to game the system by generating inflated and unwarranted tax deductions, using inflated appraisals of undeveloped land and forming partnerships devoid of a legitimate business purpose. You risk severe penalties for engaging in questionable deals such as abusive syndicated conservation easements.

12. **Abusive micro-captive arrangements** are used to persuade owners of closely held entities to participate in schemes that lack the true attributes of insurance. Coverages may “insure” implausible risks, fail to match genuine business needs or duplicate the taxpayer’s commercial coverages. “Premiums” paid under these arrangements are often excessive.

Taxpayers are encouraged to review the “Dirty Dozen” list and be alert to these scams during tax filing season and throughout the year.

For more information about preventing tax fraud, contact your advisor or visit our security page at key.com/kpb/our-insights/security-and-privacy.jsp.

About the Author

As the Director of Financial Planning for Key Private Bank, Tina is responsible for managing the Central Planning Team, as well as overseeing the National Advisory Committee, Monthly National Advisory Call, and any financial planning literature developed internally and externally. She works with our Regional Directors of Planning to help facilitate our best thinking and advice delivery to clients.

Tina earned a B.S. in Business Administration from the University of Richmond and an M.Tax from Virginia Commonwealth Univ. She is a CFP® certificant, CPA/PFS, and is an AEP.® She is Treasurer of the Put-in-Bay Community Swim & Sail Program. Tina received the 2016 Exceptional Service Award from the Cleveland Estate Planning Council and the Circle of Excellence Award by Key Private Bank in 2016 and 2018.

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