

A red rotary telephone is lying on its side on a light-colored wooden surface. A white, rectangular tag with a scalloped edge is placed over the center of the phone. The tag has the words "Tax Scam" written in a large, bold, black sans-serif font.

# Tax Scam

**The IRS Dirty Dozen:**  
Top Tax Scams to Avoid

Each year, the Internal Revenue Service publishes its annual Dirty Dozen list of tax scams highlighting various schemes that put taxpayers and their financial well-being at risk. In this video, we'll provide an overview of five of the top scams on the list.

## SCAM #1: Charitable Remainder Annuity Trusts and Monetized Installment Sales

Charitable Remainder Annuity Trusts and monetized installment sales are legitimate financial tools that unethical promoters can misuse.

A Charitable Remainder Annuity Trust is an irrevocable trust that enables taxpayers to donate assets to charity while drawing an income. The scheme works by transferring property with a fair market value higher than its basis to a Charitable Remainder Annuity Trust, falsely claiming that the transfer results in an increased basis. The trust then sells the property without recognizing the gain due to the claimed step-up in basis. Subsequently, the trust purchases a single premium immediate annuity with the proceeds from the property sale. The taxpayer or beneficiary then treats the remaining payments as an excluded portion, not subject to tax.

In another scheme, promoters will pitch a monetized installment sale to defer taxes on the sale of an appreciated asset. An intermediary purchases the appreciated asset from the seller using an installment note. The note is interest only, with the principal being paid at the end of the term. In this arrangement, the seller does not recognize the gain on the asset's sale until the note is fully paid, often several years later.

The false step-up in basis with the Charitable Remainder Annuity Trust and the tax deferral with the monetized installment sale are abusive arrangements you should avoid.



## Scam #2: Offer in Compromise Mills

Offer in Compromise mills are operations that mislead taxpayers into believing they can settle their tax debt for a fraction of what they owe. These mills aggressively promote Offers in Compromise to individuals who do not meet the requirements for the program, often charging excessive fees for information that anyone can obtain online.

If you are considering an Offer In Compromise, you can use the IRS's Offer in Compromise Pre-Qualifier tool free of charge to verify your eligibility.

## Scam #3: Spearphishing Attacks

Spearphishing attacks are targeted attempts to steal sensitive data through emails and websites that impersonate a trusted source. For example, you receive an email that looks to be from the IRS but isn't. You click on a link in the email that takes you to a site that looks just like the IRS login page. You enter your login credentials into the fake site, at which point the thief steals and uses your credentials.

Spearphishing attacks also target payroll and human resource departments by requesting sensitive Form W-2 information. The department unwittingly provides the information which is then used for fraud.

Exercise caution when opening emails, clicking links, or sharing sensitive client data to protect you and your business from spearphishing attacks.



## Scam #4: Taking Tax Advice on Social Media

Social media platforms can be a source of misleading or inaccurate tax advice, leading taxpayers to file erroneous or fraudulent returns.

For instance, some schemes circulating online involve the misuse of legitimate tax forms like Form 8944 Preparer e-file Hardship Waiver Request, which is intended for tax professionals only. Posts claim that Form 8944 can be used by taxpayers to receive a refund from the IRS, even if the taxpayer has a balance due. This is false information.

Other posts encourage taxpayers to falsely report income and withholding on Form W-2 to receive a tax refund. This is tax fraud.

Taxpayers who intentionally file forms with false or fraudulent information can face serious consequences, including potential civil and criminal penalties.

## Scam #5: Employee Retention Credit Fraud

The Employee Retention Credit (ERC) has provided financial relief to numerous businesses during the COVID-19 pandemic. However, some promoters aggressively advertise false claims involving the ERC, leading ineligible individuals and businesses to file improper claims. Be cautious of promotions that seem too good to be true, and always consult with our firm about any questions regarding your eligibility for the credit. We can determine if you meet the specific guidelines for claiming the ERC. Improper claims may result in penalties and interest.



# Final Thoughts

These are just a few of the top tax scams highlighted in the IRS Dirty Dozen list. By staying informed and exercising caution, you can protect yourself and your finances from these schemes. If you have questions about a tax strategy you learned about through social media, on TV or a promoter, please contact our office to discuss.





## About Heard, McElroy & Vestal

In 1946, S. Berton Heard, Charles McElroy and Charles Vestal founded Heard, McElroy & Vestal, LLC in Shreveport, Louisiana. Together, this trio of professionals established the firm as a pillar of trust, integrity and competence, with the mission to create solutions and provide opportunities for our clients, our people, and our communities. HMV is one of the largest public accounting and consulting firms in Northwest Louisiana, servicing our clients throughout the states of Louisiana, Arkansas, Texas, Mississippi, Oklahoma and Tennessee from offices in Shreveport and Monroe. Our firm is comprised of over one hundred (100) employees: Partners, Of Counsel Partners, Senior Managers, Managers, additional Professional Staff and Administrative Staff. Our Professional Staff includes more than fifty (50) certified public accountants who obtain additional certifications which are Accredited in Business Valuation (ABV), Certified Fraud Examiners (CFE), Not-for-Profit Certificate holders, Certified Valuation Analysts (CVA), Personal Financial Specialists (PFS), and Certified Mineral Managers (CMM). Our team of professionals brings together many years and diversification of experience, providing a network of knowledge and resources and allowing for industry and niche specialization. Not one CPA can offer the range and quality of services a firm of our size is able to provide, while remaining small enough to deliver personalized service and attention to our clients with consistency on engagements. HMV's strategic associations include Align Mineral Management, LLC, Business Valuation Consultants, LLC and HMV Wealth Advisors, LLC.



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