12 Tax-Time Traps Physicians Should Avoid

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With fewer than 60 days until tax time the annual 11th-hour tax planning rush by doctors is in full swing. Here's how to avoid scams.
Source: Physicians Practice

With fewer than 60 days until tax time the annual 11th-hour tax planning rush by doctors is in full swing. The Dirty Dozen listing, compiled by the IRS each year, lists a variety of common scams taxpayers can encounter. "Taxpayers should be careful and avoid falling into a trap with the Dirty Dozen," IRS Commissioner Doug Shulman said recently. "Scam artists will tempt people in-person, online, and by e-mail with misleading promises about lost refunds and free money." In other words, be wary of these scams:

Identity Theft
The IRS is increasingly seeing identity thieves looking for ways to use a legitimate taxpayer's identity and personal information to file a tax return and claim a fraudulent refund. An IRS notice informing a taxpayer that more than one return was filed in the taxpayer's name or that the taxpayer received wages from an unknown employer may be the first tip off the individual receives that he or she has been victimized.

Phishing
Phishing is a scam typically carried out with the help of unsolicited email or a fake website. The IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.

Return Preparer Fraud
Most return preparers provide honest service to their clients. Questionable return preparers have been known to skim off their clients' refunds, charge inflated fees for return preparation services and attract new clients by promising guaranteed or inflated refunds.

Hiding Income Offshore
Over the years, numerous individuals have been identified as evading U.S. taxes by hiding income in offshore banks, brokerage accounts, or nominee entities, using debit cards, credit cards, or wire transfers to access the funds. Others have employed foreign trusts, employee-leasing schemes, private annuities, or insurance plans for the same purpose. While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requrements that need to be fulfilled.

"Free Money" from the IRS & Tax Scams Involving Social Security
Flyers and advertisements for free money from the IRS, suggesting that the taxpayer can file a tax return with little or no documentation, have been appearing in community churches around the country.

False/Inflated Income and Expenses
Including income that was never earned, either as wages or as self-employment income in order to maximize refundable credits, is another popular scam. Claiming income you did not earn or expenses you did not pay in order to secure credits such as the Earned Income Tax Credit is a crime.

False Form 1099 Refund Claims
In this scam, the perpetrator files a fake information return, such as a Form 1099 Original Issue Discount (OID), to justify a false refund claim on a corresponding tax return.

Frivolous Arguments
Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. The IRS has a list of frivolous tax arguments that taxpayers should avoid. These arguments are false and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law.

Falsely Claiming Zero Wages
Filing a phony information return is an illegal way to lower the amount of taxes an individual owes. Typically, a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 is used as a way to

improperly reduce taxable income to zero. The taxpayer may also submit a statement rebutting wages and taxes reported by a payer to the IRS.

Abuse of Charitable Organizations and Deductions

IRS examiners continue to uncover the intentional abuse of 501(c)(3) organizations, including arrangements that improperly shield income or assets from taxation and attempts by donors to maintain control over donated assets or the income from donated property.

Disguised Corporate Ownership

Third parties are improperly used to request employer identification numbers and form corporations that obscure the true ownership of the business. These entities can be used to underreport income, claim fictitious deductions, avoid filing tax returns, participate in listed transactions, and facilitate money laundering and financial crimes.

Misuse of Trusts

While there are legitimate uses of trusts in tax and estate planning, some highly questionable transactions promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. IRS personnel have seen an increase in the improper use of private annuity trusts and foreign trusts to shift income and deduct personal expenses. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering a trust arrangement.

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