

GOLDENBULLETS

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THOUGHT YOU'D LIKE TO SEE THIS:

Avoiding the Toxic Sting of Tax Fraud

A well-known estate planning attorney recently received a call from his family doctor who was also a client. The attorney was surprised when his doctor-client asked—rather indignantly—why he hadn't told him about the trust that would eliminate income taxes and/or enable him to deduct his personal living expenses. The attorney knew that there is no such trust. It was a con!

Unfortunately, there are many cruel hoaxes and greedy con artists who really get folks from every social and economic level to buy (literally) into these abusive trusts or other tax shams.

Here's our latest “**BEWARE**” of some of the most notorious and widely circulating tax scams:

1. **Phishing.** Phishing is a technique used by identity thieves to acquire your personal financial data in order to run up charges on your credit cards or apply for new loans in your name. These Internet-based criminals pose as representatives of a financial institution and send out fictitious e-mail correspondence in an attempt to trick you into disclosing private information. Sometimes scammers pose as the IRS itself! Their e-mails appear to come from the IRS and have official looking seals and logos. A typical scam IRS e-mail states that you are due a refund and urges you to click on a hyperlink and visit what looks like an official IRS Web site but is in fact phony. The Web site then solicits your social security and credit card number.
2. **Frivolous Arguments.** Promoters make one or more of the following outlandish claims: the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. These arguments are false and have been thrown out of court. While you certainly have the right to contest any tax liability in court, no one has the right to disobey the law.
3. **Return Preparer Fraud.** Dishonest return preparers can cause many headaches for taxpayers who fall victim to their schemes. Such preparers derive financial gain by skimming a portion of their client's refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Choose

carefully when hiring a tax preparer. No matter who prepares your return, **YOU**, the taxpayer, will be held ultimately responsible for its accuracy!

4. **Abuse of Charitable Organizations and Deductions.** People are improperly using tax-exempt organizations to shield income or assets from taxation by moving assets or income to a tax-exempt supporting organization or donor-advised fund but maintaining control over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity.
5. **Offshore Transactions.** Despite a crackdown by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore banks and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities, or life insurance to do so. The IRS and the state tax agencies are aggressively pursuing taxpayers and promoters involved in such abusive transactions. During fiscal 2005, 68 individuals were convicted on charges of promotion and use of abusive tax schemes designed to evade taxes.
6. **Employment Tax Evasion.** There are many illegal schemes that instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. This false and misleading advice is based on an incorrect interpretation of Code Section 861 and has been constantly refuted in court. During fiscal 2005, more than 50 individuals were sentenced to an average of 30 months in prison for employment tax evasion. Employer participants can also be held responsible for back payments of employment taxes, plus penalties and interest.

WHAT'S THE BOTTOM LINE?

The tip-off of an abusive arrangement is that the promoter will usually discourage you from consulting a lawyer, accountant, financial planner (CLU, ChFC, or CFP), banker, investment advisor, or calling the IRS. Legitimate tax planners have nothing to fear from a second opinion.

The reality is that most things that sound too good to be true aren't (true). If you receive promotional materials that claim tax benefits that seem impossibly great, check with a knowledgeable tax advisor (or with the IRS) before spending your money and risking not only additional taxes, interest, fines, and penalties, but perhaps your financial and personal freedom!

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER ISSUES OF IMPORTANCE TO YOU!

IF YOU PREFER TO RECEIVE "GOLDEN BULLETS" BY EMAIL, PLEASE SEND A NOTE TO ME AT: rwilson@fraserlawfirm.com. Thanks.

"Golden Bullets" is provided as a source of general information about current developments in the practice of estate planning and related topics. If you have questions regarding this issue or estate planning in general, please contact me prior to taking action.

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