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Dear Client,

Tax season always brings out the scammers who are trying to get your personal information. Each year the Internal Revenue Service publishes the list of the "Dirty Dozen" top scams. This list is updated each year, with new scams popping up every year, but there are some common ones that persist year after year.

Summer is a good time to review your tax situation. We are available year-round to help with ongoing tax issues or new situations as they arise. This can include income from the sale of an asset, an inheritance, or income earned from gambling or lottery winnings. It is generally recommended that any "windfall" be tempered with approximately 30% put aside for tax considerations.

Digital assets are still a strong focus of review for the Internal Revenue Service. The reporting requirements are scheduled to change in 2025 with more reporting being sent to the IRS, making it easier to reconcile with the reporting on the tax returns. If you are not yet in the habit of documenting all of your purchase and sale transaction, now is the time to start.

If you are required to pay estimated taxes throughout the year, and find it hard to remember to make timely payments the IRS has a solution. If you sign up for an account through the Electronic Filing Tax Payment System (EFTPS), you can schedule out your estimated tax payments for the year to automatically be deducted from the designated bank account. It does take a week or so to set up the account as the IRS will send you the PIN by mail after you have established the online account.

Are You Aware of the IRS "Dirty Dozen"?

Compiled annually, the Dirty Dozen lists a variety of common scams that taxpayers may encounter anytime but many of these schemes peak during filing season as people prepare their returns or hire someone to help with their taxes.

1. **Employee Retention Credit claims**

Business owners should be aware of aggressive pitches from scammers who promote large refunds related to the Employee Retention Credit (ERC). The warning follows blatant attempts by promoters to con ineligible people to claim the credit. Additionally, some of these advertisements exist solely to collect the taxpayer's personally identifiable information in exchange for false promises. The scammers then use the information to conduct identity theft.

2. **Phishing and smishing**

Taxpayers should be alert to fake communications from those posing as legitimate organizations in the tax and financial community, including the IRS and the states. These messages arrive in the form of an unsolicited text (smishing) or email (phishing) to lure unsuspecting victims to provide valuable personal and financial information that can lead to identity theft. The IRS initiates most contacts through regular mail (sometimes a phone call) and will never initiate contact with taxpayers by email, text or social media regarding a bill or tax refund.

3. **Online account help from third-party scammers**

Swindlers pose as a "helpful" third party and offer to help create a taxpayer's IRS Online Account at IRS.gov. In reality, no help is needed. The online account provides taxpayers with valuable tax information. But third parties making these offers will try to steal a taxpayer's personal information this way. Taxpayers can and should establish their own online account through IRS.gov.

4. **False Fuel Tax Credit claims**

The fuel tax credit is meant for off-highway business and farming use and, as such, is not available to most taxpayers. However, unscrupulous tax return preparers and promoters are enticing taxpayers to inflate their refunds by erroneously claiming the credit.

5. **Fake charities**

Bogus charities are a perennial problem that gets bigger whenever a crisis or natural disaster strikes. Scammers set up these fake organizations to take advantage of the public's generosity. They seek money and personal information, which can be used to further exploit victims through identity theft. Charitable donations only count as a tax deduction if they go to a qualified tax-exempt organization a 501(C)(3) recognized by the IRS.

6. **Unscrupulous tax return preparers**

Most tax preparers provide outstanding and professional service. However, people should be careful of shady tax preparers and watch for common warning signs, including charging a fee based on the size of the refund. A major red flag or bad sign is when the tax preparer is unwilling to sign the dotted line. Avoid these "ghost" preparers, who will prepare a tax return but refuse to sign or include their IRS Preparer Tax Identification Number (PTIN) as required by law. Taxpayers should never sign a blank or incomplete return.

7. **Social media is teeming with fraudulent form filing and bad advice**

Social media can circulate inaccurate or misleading tax information, and the IRS has recently seen several examples. These can involve common tax documents like Form W-2 or more obscure ones like Form 8944. While Form 8944 is real, it is intended for a very limited, specialized group. Both schemes encourage people to submit false, inaccurate information in hopes of getting a refund. Taxpayers should always remember that if something sounds too good to be true, it probably is.

8. **Spearphishing and cybersecurity for tax professionals**

Phishing is a term given to emails or text messages designed to get users to provide personal information. Spearphishing is a tailored phishing attempt to a specific organization or business.

The IRS is warning tax professionals about spearphishing because there is greater potential for harm if the tax preparer has a data breach. A successful spearphishing attack can ultimately steal client data and the tax preparer's identity, allowing the thief to file fraudulent returns.

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ARE YOU AWARE OF THE IRS "DIRTY DOZEN"?

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9. **Offer in Compromise mills**

Offers in Compromise are an important program to help people who cannot pay to settle their federal tax debts. But "mills" can aggressively promote Offers in Compromise in misleading ways to people who clearly do not meet the qualifications, frequently costing taxpayers thousands of dollars. A taxpayer can check their eligibility for free using the IRS Offer in Compromise Pre-Qualifier tool.

10. **Schemes aimed at high-income filers**
    - Charitable Remainder Annuity Trust (CRAT): Charitable Remainder Trusts are irrevocable trusts that let individuals donate assets to charity and draw annual income for life or a specific period. Unfortunately, these trusts are sometimes misused by promoters, advisors and taxpayers to try to eliminate ordinary income and/or capital gain on the sale of the property.
    - Monetized Installment Sales: In these potentially abusive transactions, promoters find taxpayers seeking to defer the recognition of gain upon the sale of appreciated property. They facilitate a purported monetized installment sale for the taxpayer in exchange for a fee.
11. **Bogus tax avoidance strategies**
    - Micro-captive insurance arrangements: A micro-captive is an insurance company whose owners elect to be taxed on the captive's investment income only. Abusive micro-captives involve schemes that lack many of the attributes of legitimate insurance. These structures often include implausible risks, failure to match genuine business needs and, in many cases, unnecessary duplication of the taxpayer's commercial coverages.
    - Syndicated conservation easements: A conservation easement is a restriction on the use of real property. Generally, taxpayers may claim a charitable contribution deduction for the fair market value of a conservation easement transferred to a charity if the transfer meets the requirements. In abusive arrangements, which generate high fees for promoters, participants attempt to game the tax system with grossly inflated tax deductions.
12. **Schemes with international elements**
    - Offshore accounts and digital assets: The IRS continues to identify individuals who attempt to conceal income in offshore banks, brokerage accounts, digital asset accounts and nominee entities. Asset protection professionals and unscrupulous promoters continue to lure U.S. persons into placing their assets in offshore accounts and structures saying they are out of reach of the IRS. These assertions are not true. The IRS can identify and track anonymous transactions of foreign financial accounts as well as digital assets.
    - Maltese individual retirement arrangements misusing treaty: These arrangements involve U.S. citizens or residents who attempt to avoid U.S. tax by contributing to foreign individual retirement arrangements in Malta (or potentially other host countries).
    - Puerto Rican and foreign captive insurance: U.S. business owners of closely held entities participate in a purported insurance arrangement with a Puerto Rican or other foreign corporation in which the U.S. business owner has a financial interest. The U.S. business owner (or a related entity) claims a deduction for amounts paid as premiums for "insurance coverage" provided by a fronting carrier, which reinsures the "coverage" with the Puerto Rican or other foreign corporation. Despite being labeled as insurance, these arrangements lack many of the attributes of legitimate insurance.

Where appropriate, the IRS will challenge the purported tax benefits from these types of transactions and impose penalties. The IRS Criminal Investigation Division is always on the lookout for promoters and participants of these types of schemes. Taxpayers should think twice before including questionable arrangements like this on their tax returns. After all, taxpayers are legally responsible for what's on their return, not a promoter making promises and charging high fees. Taxpayers can help stop these arrangements by relying on reputable tax professionals they know and trust.

Unfortunately, tax scams are pervasive and taxpayers are unwitting victims. Contact our office if you feel you may have been subject to one of these scams.

What Happens if You Have Unresolved Tax Debt?

You may be surprised, if after you file your tax return requesting a refund, to receive a smaller amount or no refund at all. Many are not familiar with the law that provides the IRS the ability to reduce their refund and apply it to prior federal and state liabilities. Each year, many taxpayers rely on their tax refund to pay necessary living expenses or other critical expenses. For a taxpayer who is relying on their refund to pay basic utilities or stay in their home, an immediate economic hardship can arise if the IRS applies their refund to satisfy another state or federal debt.

Recommendations have been sent to Congress to pass legislation prohibiting the IRS from offsetting certain portions of a taxpayer's refund, such as the Earned Income Tax Credit, intended as an anti-poverty program to help low- to moderate-income workers and families.

However, the IRS must offset refunds when the taxpayer owes any other non-tax federal debt or state liability including past due child support obligations. The IRS can forego reducing the refund by any outstanding federal tax liability once the taxpayer establishes that they are experiencing an economic hardship, which is why the IRS refers to the refund as an offset bypass refund (OBR). But this must be done before the IRS offsets the refund.

For example, an economic hardship might exist if an individual needs to pay rent to avoid eviction, or if the individual needs to pay a utility bill to avoid disconnection. The individual must provide documentation to prove the economic hardship. Timing is critical in OBR cases.

Taxpayers who need their refund quickly should consider filing electronically, however taxpayers who need time to gather documentation proving their economic hardship may want to file their return on paper, resulting in longer processing time than electronic filing. An OBR generally is possible only before the IRS applies the refund to an outstanding federal tax liability and is limited to the amount required to relieve the economic hardship. If you are experiencing an economic hardship and are aware of a past due federal tax obligation there is something you can do

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before the IRS applies your refund, but you must act quickly. Once the refund is applied to an outstanding federal tax debt, relief via an OBR is not available.

Once the amount of the hardship is established the IRS will only issue a refund up to the amount necessary to alleviate the hardship amount. For example, if a taxpayer has a refund of $4,000 and the outstanding federal tax liabilities exceed that amount, under normal procedures the IRS will apply the total refund toward the outstanding federal tax liabilities, leaving no overpayment available to be refunded. The OBR procedures are an exception to that refund offset and provide immediate relief to those taxpayers experiencing a financial hardship. If the taxpayer establishes a hardship of $1,000, the IRS would issue a $1,000 refund and apply the balance, $3,000, to the outstanding tax liabilities.

If you have a federal tax debt and are experiencing an economic hardship, you should contact the IRS to request an OBR. IRS employees should work an OBR request immediately upon receipt, but if the IRS does not act timely, you can contact the Taxpayer Advocate Service (TAS) for assistance.

We are here to help you resolve or manage your tax debt with setting up an installment payment plan or submitting an offer in compromise. Contact us for information on different solutions for outstanding tax debt.

What Taxpayers Need to Know About Digital Asset Reporting and Tax Requirements

Taxpayers filing 2023 tax returns must check a box indicating whether they received digital assets as a reward, award or payment for property or services or disposed of any digital asset that was held as a capital asset through a sale, exchange or transfer.

A digital asset is a digital representation of value that is recorded on a cryptographically secured, distributed ledger or any similar technology. Common digital assets include virtual currency and cryptocurrency, stablecoins and non-fungible tokens.

Examples of digital assets transactions include:

- Sale of digital assets.
- Receipt of digital assets as payment for goods or services.
- Receipt of new digital assets because of mining and staking activities.
- Receipt of new digital assets because of a hard fork.
- Exchange of digital assets for property, goods or services.
- Exchange or trade of digital assets for another digital asset(s).
- Any other disposition of a financial interest in digital assets.

Reporting digital assets transactions

Taxpayers must report all income related to their digital asset transactions.

- Use Form 8949, Sales and other Dispositions of Capital Assets, to calculate a capital gain or loss and report it on Schedule D (Form 1040), Capital Gains and Losses.
- If the transaction was a gift in excess of the annual limitation ($18,000 for 2024), file Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return.
- If individuals received any digital assets as compensation for services or disposed of any digital assets they held for sale to customers in a trade or business, they must report the income as they would report other income of the same type. For example, they would report W-2 wages on Form 1040 or 1040-SR, line 1a, or inventory or services on Schedule C.
- If an employee was paid with digital assets, they must report the value of assets received as wages. Similarly, if they worked as an independent contractor and were paid with digital assets, they must report that income on Schedule C (Form 1040), Profit or Loss from Business (Sole Proprietorship). Schedule C is also used by anyone who sold, exchanged or transferred digital assets to customers in connection with a trade or business.

It is important that your tax papers include any digital transactions — whether or not the they are reported on a "tax document." Contact our office if you have any questions regarding your investments.

Do You Qualify As A Tax Law–Defined Professional Gambler?

When it comes to taxes, the tax code treats professional gamblers better than recreational gamblers. Unlike recreational gamblers, professionals get to deduct all their gambling expenses (including travel, lodging, and meal expenses) up to their annual winnings, without itemizing. This is a big advantage.

If you gamble a lot, you could benefit by qualifying as a professional and filing IRS form Schedule C to report your winnings, losses, and other expenses. But it's not easy to qualify as a professional gambler. You must

1. **Gamble regularly and continuously, and**
2. **Gamble with the primary purpose of earning a profit.**

While luck plays a role in gambling, professional gamblers often rely on skill, strategy, and statistical analysis to gain an edge and generate consistent profits over time. They may spend significant time studying game strategies, analyzing statistics, and honing their skills to improve their chances of winning.

Most professional gamblers gamble full-time. But qualifying as a professional and having another job is possible if you gamble regularly and continuously throughout the year.

Example: Linda spent 25 to 35 hours per week running her trucking business and about 40 hours playing slot machines. She qualified as a professional gambler. But gambling sporadically will not cut it, even if you spend a lot of time gambling.

The IRS uses a nine-factor test to determine whether you gamble primarily for profit or for other reasons, such as having fun. The profit factors include whether you carry out the activity in a businesslike way, your history of winnings or losses, your financial status, your expertise at gambling, and the time and effort you spend gambling.

Court cases show that the single most important factor is keeping good gambling records. Do not rely on casino win/loss statements.

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DO YOU QUALIFY AS A TAX LAW-DEFINED PROFESSIONAL GAMBLER?

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A Las Vegas couple won over $19,000 at video poker but learned the hard way, when they tried to file as professional gamblers, that good records are essential. The fact that they never kept their own gambling records weighed heavily in the Tax Court's refusal to classify them as professional gamblers.

To prove you are a professional, create your own contemporaneous gambling log or diary showing your wins and losses by gambling session. Use a separate bank account for your gambling activity.

Other things you can do to help establish your professional gambler bona fides include creating a business plan, educating yourself about gambling, and changing games if you consistently lose. Remember, as a professional, you are gambling to make money, not to have fun.

Estimated Tax Penalties

The United States has a "pay as you go" tax system in which payments for income tax (and Social Security and Medicare taxes) must be made to the IRS throughout the year as income is earned, whether through withholding, by making estimated tax payments, or both. You suffer an estimated tax penalty if you do not pay enough to the IRS during the year.

The IRS levies this non-deductible interest penalty on the amount you underpaid each quarter. The penalty rate equals the short-term interest rate plus three percentage points. While the IRS looks for "quarterly payments," estimated taxes are actually due April 15, June 15, September 15, and January 15 of the following year.

Due to the rise in interest rates, the current penalty rate is 8 percent — the highest in 17 years. And since it's not deductible, the net cost likely far exceeds 8 percent.

If you are an employee and have all the tax you owe withheld by your employer, you generally do not have to worry about this penalty unless you have significant taxable income from other sources.

But you must worry about it if you are self-employed, because no one withholds taxes from your business income. Likewise, you must worry if you receive income from which no, or not enough, tax is withheld — for example, retirement distributions, dividends, interest, capital gains, rents, and royalties.

Fortunately, it's easy to avoid this penalty!

- All individual taxpayers have to do is pay (1) 90 percent of the total tax due for the current year or (2) 100 percent of the total tax paid the previous year (110 percent for higher-income taxpayers with adjusted gross income of more than $150,000 ($75,000 for married couples filing separately).

Most individuals make equal quarterly estimated tax payments to the IRS. The IRS applies the penalty separately for each payment period. Thus, you cannot reduce the penalty for one period by increasing your estimated tax payments for a later period. This is true even if you are due a refund when you file your tax return.

If you sell an asset, such as an investment property or stock, which generates significant income then estimated taxes should be paid when the asset is sold.

Many clients come to us for a review of their tax situation mid-year to avoid any surprises when the tax returns are prepared. Schedule an appointment with our office to do a tax "check-up" this summer.

Who Is Responsible For Filing Your Taxes?

What is your worst tax nightmare? Identity theft? Not having enough money to pay all the taxes you owe? How about this: your certified public accountant (CPA), enrolled agent, or other tax preparer has not filed your taxes for three years.

Dr. Lee, a Florida surgeon who earned over $1 million annually, had this sad experience. His CPA completed his tax returns and had Dr. Lee review and approve them for electronic filing, but the CPA never e-filed them with the IRS.

By the time Dr. Lee found out about it and filed his returns late, he had lost a $288,409 estimated tax payment to the statute of limitations and ended up owing the IRS over $70,000 in failure-to-file and failure-to-pay penalties.

Dr. Lee sued the IRS in court, arguing that he should not have to pay the penalties because he had "reasonable cause" for failing to file: he had authorized and relied on his CPA to electronically file them.

The court rejected Dr. Lee's argument, stating that all taxpayers are legally obligated to see that their own tax returns are filed on time. A taxpayer's duty to file a return is not excused because he or she relied on a tax preparer to file the return.

This rule has no exceptions — not even for e-filed returns, which taxpayers cannot file themselves when using a paid preparer.

The lesson of this case is clear: Do not take your CPA's or other tax professional's word that your return was e-filed. Check with the IRS to make sure that your return was e-filed.

You do this by establishing an online account at irs.gov and requesting a tax account transcript. It takes two to three weeks after your return was supposed to be filed for a transcript to become available. If no transcript is on record, check with your tax preparer.

Alternatively, you can always file your tax return yourself by mail or private delivery service. Taxpayers can now electronically file their returns themselves in 12 states through the IRS Direct File program.

To file your return by mail or private delivery service, you must give your tax preparer a hand-signed and dated statement that you choose to file in paper format and that you, not the preparer, will submit the paper income tax return to the IRS. Then, your tax preparer must attach IRS Form 8948 to the tax return you will paper file.

Filing a paper return will significantly slow the IRS processing of your return, which may prove a hardship if the IRS owes you a refund.

If you are receiving a refund, the IRS tool "Where's My Refund" can be used within several days of filing the tax return for the status of the return. Our office can also provide a confirmation of electronic filing if needed for bank or other purposes.

Roxie T.