



# IRS wraps up 2022 "Dirty Dozen" scams list; agency urges taxpayers to watch out for tax avoidance strategies

## Cryptocurrency, non-filing, abusive syndicated conservation easement, abusive micro-captive deals make list

IR-2022-125, June 10, 2022

WASHINGTON — The Internal Revenue Service today wrapped up its annual "Dirty Dozen" scams list for the 2022 filing season, with a warning to taxpayers to avoid being misled into using bogus tax avoidance strategies.

The IRS warned taxpayers to watch out for promoters peddling these schemes. As part of its mission, the IRS is focused on high-income taxpayers who engage in various types of tax violations, ranging from the most basic, failing to file returns up to sophisticated transactions involving abusive syndicated conservation easement deals and abusive domestic micro-captive insurance arrangements.

"These tax avoidance strategies are promoted to unsuspecting folks with too-good-to-be-true promises of reducing taxes or avoiding taxes altogether," said IRS Commissioner Chuck Rettig. "Taxpayers should not kid themselves into believing they can hide income from the IRS. The agency continues to focus on these deals, and people who engage in them face steep civil penalties or criminal charges."

The IRS publishes the Dirty Dozen as part of a broad ranging effort to inform taxpayers. People should be careful not to get conned into using well-worn abusive arrangements with high fees as well as the other Dirty Dozen schemes.

The IRS has stepped up efforts on abusive schemes in recent years. As part of this wider effort, the IRS Office of Chief Counsel announced earlier this year it would hire up to 200 additional attorneys to help the agency combat abusive syndicated conservation easements and micro-captive transactions as well as other abusive schemes. ([IRS Chief Counsel looking for 200 experienced attorneys to focus on abusive tax deals; job openings posted](#)).

Last week, the IRS kicked off the 2022 Dirty Dozen list [covering four heavily promoted abusive deals](#) that taxpayers need to avoid. The IRS followed this up with a number of common scams that can target average taxpayers. These consumer-focused scams can prey on any individual or organization, steal sensitive financial information or money, and in some cases leave the taxpayer to clean up the legal mess.

For today's conclusion of the Dirty Dozen, the IRS highlights four other schemes that typically target high-net-worth individuals who are looking for ways to avoid paying taxes. Solicitations for investment in these schemes are generally more targeted than solicitations for widespread scams, such as email scams, that can hit anyone.

Hiding assets in what the taxpayer hopes is an anonymous account or simply not filing a return in the hopes of staying off the grid are tax avoidance scams that have been around for decades. The IRS remains committed to stopping these methods of cheating that short-change taxpayers who reliably pay their fair share of taxes every year.

The IRS warns anyone thinking about using one of these schemes – or similar ones – that the agency continues to improve work in these areas thanks to new and evolving data analytic tools and enhanced document matching. These Dirty Dozen schemes cover:

**Concealing Assets in Offshore Accounts and Improper Reporting of Digital Assets:** The IRS remains focused on stopping tax avoidance by those who hide assets in offshore accounts and in accounts holding cryptocurrency or other digital assets.

International tax compliance is a top priority of the IRS. New patterns and trends emerging in complex international tax avoidance schemes and cross-border transactions have heightened concerns regarding the lack of tax compliance by individuals and entities with an international footprint. As international tax and money laundering crimes have increased, the IRS continues to protect the integrity of the U.S. tax system by helping American taxpayers to understand and meet their tax responsibilities and by enforcing the law with integrity and fairness, worldwide.

Over the years, numerous individuals have been identified as evading U.S. taxes by attempting to hide income in offshore banks, brokerage accounts or nominee entities. They then access the funds using debit cards, credit cards, wire transfers or other arrangements. Some individuals have used foreign trusts, employee-leasing schemes, private annuities and structured transactions attempting to conceal the true owner of accounts or insurance plans.

U.S. persons are taxed on worldwide income. The mere fact that money is placed in an offshore account does not put it out of reach of the U.S. tax system. U.S. persons are required, under penalty of perjury, to report income from offshore funds and other foreign holdings. The IRS uses a variety of sources to identify promoters who encourage others to hide their assets overseas.

Digital assets are being adopted by mainstream financial organizations along with many other parts of the economy. The proliferation of digital assets across the world in the last decade or so has created tax administration challenges regarding digital assets, in part because there is an incorrect perception that digital asset accounts are undetectable by tax authorities. Unscrupulous promoters continue to perpetuate this myth and make assertions that taxpayers can easily conceal their digital asset holdings.

The IRS urges taxpayers to not be misled into believing this storyline about digital assets and possibly exposing themselves to civil fraud penalties and criminal charges that could result from failure to report transactions involving digital assets.

"The IRS is able to identify and track otherwise anonymous transactions of international accounts as well as digital assets during the enforcement of our nation's tax laws," Rettig said. "We urge everyone to come into compliance with their filing and reporting responsibilities and avoid compromising themselves in schemes that will ultimately go badly for them."

**High-income individuals who don't file tax returns:** The IRS continues to focus on people who choose to ignore the law and not file a tax return, especially those individuals earning more than \$100,000 a year.

Taxpayers who exercise their best efforts to file their tax returns and pay their taxes, or enter into agreements to pay their taxes, deserve to know that the IRS is pursuing others who have failed to satisfy their filing and payment obligations. The good news is most people file on time and pay their fair share of tax.

Those who choose not to file a return even when they have a legal filing requirement, and especially those earning more than \$100,000 per year who don't file, represent a compliance problem that continues to be a top priority of the IRS.

Here's a key reminder for taxpayers who may be wrongly persuaded that not filing their return is a smart move. The Failure to File Penalty is initially much higher than the Failure to Pay Penalty. It is more advantageous to file an accurate return on time and set up a payment plan if needed than to not file. The Failure to File Penalty is generally 5% of the unpaid taxes for each month or part of a month that a tax return is late. The penalty generally will not exceed 25% of unpaid taxes. The Failure to Pay Penalty is generally 0.5% of the unpaid taxes for each month or part of a month the tax remains unpaid. The penalty will not exceed 25% of unpaid taxes.

If a person's failure to file is deemed fraudulent, the penalty generally increases from 5 percent per month to 15 percent for each month or part of a month the return is late, with the maximum penalty generally increasing from 25 percent to 75 percent.

**Abusive Syndicated Conservation Easements:** In syndicated conservation easements, promoters take a provision of the tax law allowing for conservation easements and twist it by using inflated appraisals of undeveloped land (or, for a few specialized ones, the facades of historic buildings), and by using partnership arrangements devoid of a legitimate business purpose. These abusive arrangements do nothing more than game the tax system with grossly inflated tax deductions and generate high fees for promoters.

The IRS urges taxpayers to avoid becoming ensnared in these deals sold by unscrupulous promoters. If something sounds too good to be true, then it probably is. People can risk severe monetary penalties for engaging in questionable deals such as abusive syndicated conservation easements.

In the last five years, the IRS has examined many hundreds of syndicated conservation easement deals where tens of billions of dollars of deductions were improperly claimed. It is an agency-wide effort using a significant number of resources and thousands of staff hours. The IRS examines 100 percent of these deals and plans to continue doing so for the foreseeable future. Hundreds of these deals have gone to court and hundreds more will likely end up in court in the future.

"We are devoting a lot of resources to combating abusive conservation easements because it is important for fairness in tax administration," Commissioner Rettig stated. "It is not fair that wage-earners pay their fair share year after year but high-net-worth individuals can, under the guise of a real estate investment, avoid millions of dollars in tax through overvalued conservation easement contributions."

**Abusive Micro-Captive Insurance Arrangements:** In abusive "micro-captive" structures, promoters, accountants, or wealth planners persuade owners of closely held entities to participate in schemes that lack many of the attributes of insurance.

For example, coverages may "insure" implausible risks, fail to match genuine business needs or duplicate the taxpayer's commercial coverages. The "premiums" paid under these arrangements are often excessive and are used to skirt the tax law.

Recently, the IRS has stepped up enforcement against a variation using potentially abusive offshore captive insurance companies. Abusive micro-captive transactions continue to be a high-priority area of focus.

The IRS has conducted thousands of participant examination and promoter investigations, assessed hundreds of millions of dollars in additional taxes and penalties owed, and launched a successful settlement initiative. Additional information regarding the settlement initiative can be found in [IRS takes next step on abusive micro-captive transactions; nearly 80 percent accept settlement, 12 new audit teams established](#). The IRS's activities have been sustained by the Independent Office of Appeals, and the IRS has won all micro-captive Tax Court and appellate court cases, decided on their merits, since 2017.

*Page Last Reviewed or Updated: 13-Jun-2022*