The IRS' dirty dozen tax scams (2013)

12. Improper use of trusts

(Nicosea, Cyprus; Photo: Bloomberg)

Uncle Sam is seeing a rise in the misuse of private annuity trusts and foreign trusts to deduct personal expenses and shift income. Private annuity trusts purport to defer cap gain taxes on property, while foreign trusts schemes involve setting up a trust overseas in locales such as Cyprus (pictured) and having money flow to the client free of taxes. These trusts are in fact a way to dodge income tax liability and hide cash from the IRS. The kicker? They often don't work.

11. Disguised corporate ownership

Under this scheme, a tax evader uses a third party to obtain employer identification numbers and create a phony corporation to hide the actual ownership of the "business." This shell company can then be used for a litany of tax abuses, including underreporting income, abetting money laundering, avoiding filing tax returns and claiming phony deductions.

10. Falsely claiming zero wages

Some tax dodgers will file a Form 4852, which is a substitute form W-2, or a corrected Form 1099 to falsely reduce their taxable income to zero. Claiming you made no money in a given year will cost you if you get caught: The IRS slaps these fraudsters with a $5,000 penalty.

9. Frivolous arguments

(Must-reading for a tax cheat)

Every year, taxpayers come up with ridiculous claims on why they don't have to file a federal tax return — and every year, the IRS shoots them down. Popular arguments on why people shouldn't file include: Taxpayers can refuse to file returns and plead the Fifth Amendment, and the payment of federal income tax is voluntary. My personal favorite: "The Internal Revenue Service is not an agency of the United States."

8. Phony Form 1099 refund claims

Scammers have filed fake Form 1099 Original Issue Discount forms to obtain refunds they're otherwise not entitled to get. Bond holders can legitimately file 1099-OIDs to report income from interest. However, just last year, the IRS and Department of Justice dropped the hammer on a group of filers in Missouri who submitted fake 1099-OIDs in an attempt to misappropriate some $100 million in fraudulent refunds. Those involved used the forms in a "nonsensical manner," according to the DOJ, using loan and credit card statements – as opposed to any information on bond income – to file.

7. Inflated income and expenses

Rip-off artists pump up their income in order to qualify for refundable credits, such as the earned income tax credit. Other tax fabulists are claiming the fuel tax credit when they're not eligible. Farmers and others who use fuel for off-highway business purposes may legitimately claim this tax credit. Expect a $5,000 penalty from the IRS if you abuse the fuel tax credit, but steeper penalties await those who bloat their income for larger refundable credits, including repayment of the ill-gotten refunds and prosecution.

6. Fake charities

Following Hurricane Sandy, the IRS has sent a heads up to taxpayers who want to make donations: Give your money to recognized charities, look up legit charities on IRS.gov, and don't give your personal information to solicitors. Aside from creating fake charities, scammers can also reach out to disaster victims and claim to be working for the IRS in order to help file casualty loss claims and obtain tax refunds.

5. 'Free money' from the IRS

Who doesn't want free money? These scams prey on low income folks, the elderly and church parishioners, claiming that these people can qualify for a tax refund or a non-existent stimulus payment. These fly-by-night con artists are long gone by the time victims realizes that their claims to the IRS have been rejected. Fraudsters have also broadened their expertise to Social Security ripoffs, baiting victims with a faux Social Security refund or rebate if they use inflated information to file the return. Again, the IRS doles out $5,000 fines for these kinds of missteps.

4. Hiding income in offshore accounts

(Singapore is a popular destination)

Uncle Sam is cracking down on people who've been hiding income in offshore banks, brokerage accounts and foreign trusts. The IRS has teamed up with the Department of Justice to chase down clients and bankers for squirreling money away in offshore locations as far flung as Switzerland to

Singapore. UBS reached an agreement with the agency back in 2009 to provide information on wealthy U.S. tax dodgers. The IRS's efforts have been fruitful: Over three years, the feds have collected $5.5 billion from people who participated in offshore voluntary disclosure programs.

3. Return preparer fraud

You may pay a tax professional to prepare your returns, but remember that you – the tax payer – are responsible for what's on your return, regardless of who's helping you file. Shady preparers can fudge returns and obtain fraudulent refunds, or they can use clients' information for identity theft. The IRS recommends that clients use preparers who sign the returns they work on and enter their IRS preparer tax identification numbers.

2. Phishing

That e-mail from the IRS probably isn't really from the IRS. In one of the oldest web tricks in the book, scammers send out unsolicited emails or publish fake websites to get victims to provide them with Social Security numbers and other personal data. If the IRS wants to get in touch with you, they won't be doing it through a text message or Twitter.

1. Identity theft

The king scam of them all. Information is power, and fraudsters with your Social Security number, your name and other information can use your identity to file phony returns and get a refund. Last year, the IRS blocked the receipt of $20 billion in fraudulent refunds, compared to $14 billion in 2011. Just two months ago, Uncle Sam conducted an enforcement sweep across the country, leading to 734 enforcement actions in January – 298 of which were indictments, complaints and arrests.