Patrica Flowers - IRS "dirty dozen" tax scams for 2011

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Investors often ask "Is it really legal to defer paying depreciation recapture and capital gains tax by participating in an Exchange?" The answer is "Yes!" The IRS created this tax saving measure and continues to regulate it under Section 1031 of the tax code.

However, the IRS is certainly plagued with many trying to cheat the system and releases an annual list of the worst tax scams. The IRS works with the Justice Department to pursue and prosecute perpetrators of these and other illegal scams. Here are a few of this year's Dirty Dozen:

* Hiding Income Offshore - the IRS aggressively tracks taxpayers involved in abusive offshore transactions and those who facilitate or enable these schemes;

* Identity Theft and Phishing - criminals often phish for information using other's personal information to file a fraudulent tax return to collect a refund. The scammer may also pose as an institution such as the IRS;

* Return Preparer Fraud - dishonest tax preparers prepare fraudulent returns or make basic errors enabling them to skim a portion of the refund;

*Filing False or Misleading Forms;

* Abuse of Charitable Organizations and Deductions;

* Disguised Corporate Ownership - used to underreport income, take fictitious deductions, launder money, finance terrorist activity, etc.; and

* Misuse of Trusts - by unscrupulous promoters to avoid income tax liability & hide assets from creditors.

Tax deferral through legitimate tax planning such as a section 1031 Exchange is legal and is a useful method for preserving wealth and managing capital resources. Nobody likes to pay taxes, but it is important to remember that tax evasion is illegal and may result in substantial fines and/or imprisonment.

View more on the IRS website: http://www.irs.gov/newsroom/article/0,,id=238262,00.html

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