

**BADGES OF FRAUD: AFFIRMATIVE ACTS OF FRAUD**  
*(Focus is on Income, Expenses, Deductions, Books & Records,  
allocations of Income and Conduct of Taxpayer)*

**Fraud Indicators: Income**

1. Omissions of Income from all sources.
2. Substantial excess of personal expenditures over available resources.
3. Bank Deposits from unexplained sources substantially exceeding reported income.
4. Concealment of bank accounts, brokerage accounts, offshore or property owned.
5. Inadequate explanation for dealing in large sums of currency/cash-Deposits/withdrawals of \$10,000.00 exactly. This area falls into money laundering schemes with IRS.
6. Dealing with cash transactions, operating your business only with cash.
7. Failure to maintain deposit receipts.
8. Failure to file a return, when income is reported to IRS – who is in receipt of 1099's, W2, K-1 or other income distributions, gambling winnings, lotteries, prizes and awards.
9. Cashing checks representing income at check cashing services and banks.
10. Covering up sources of receipts by false description of sources of disclosed income and or non taxable receipts.
11. Misrepresentation of income on deposit slips in banking/deposit process.

**Fraud Indicators: Expenses**

1. Substantial overstatement of deductions.
2. Substantial amounts of personal expenditures deducted as business expenses.
3. Claiming fictitious deductions.
4. Dependency exemptions claimed for nonexistent or deceased individual.
5. Loans of trust funds disguised as purchases or deductions.
6. Failure to make full disclosure of relevant facts to your tax advisor/preparer.
7. Inconsistency of reportable transactions or suspicious transactions.
8. Testimony of employees concerning irregular business practices by taxpayer.
9. Destruction of books and records especially if just after examination was started or prior to an audit procedure or upon notification of prosecution.
10. Transfer of assets for purposes of concealment or diversion of funds by trustees/officers.
11. Patterns of consistent failure over several years to report income fully incl. unexplained answers to questions to your accountant regarding spending practices of the firm or officers.
12. Willful and intentional failure to execute pension plan amendments or illegal use of employee's pension funds disguised as business expenditures used for personal use.
13. Backdating related documents, promissory notes, or transactions.
14. Use of false social security numbers, stolen identity of a deceased person or others.
15. Submission of false W2, W4, 1099's or affidavit.
16. Attempts to bribe an examiner/or officer of IRS, or threats to your accountant.
17. Transfers of assets during or while an investigation of deficiency or prosecution pending.
18. Use of secret bank accounts, offshore accounts, accounts listed under your dependents.
19. Failure to report foreign accounts or assets, interest or dividends or sale of business assets.