

TAX DEBT RESOLUTION SCAMS

Consumer Alert

Tax-relief companies advertise help for taxpayers in distress.

You've heard the pitch:

- "Our experienced lawyers can settle your tax debt for pennies on the dollar" or
- "We can eliminate interest or penalties for you;" or
- "Call our tax experts today for a free consultation."

Many companies do provide legitimate assistance, but the truth is that most taxpayers will not qualify for the relief that dishonest companies hawk—and those companies won't settle the tax debt and may not even send the necessary paperwork to the IRS.

In the worst cases, excessive upfront fees won't be refunded and the desperate taxpayer will be left in further debt.

This Alert gives you information on how to spot and stop tax-relief scams.

Dishonest Companies - The Scam

Scam artists working for dishonest companies will scour tax lien notices to find taxpayers to target. They will also use the mail, radio, television, and the internet to launch large-scale advertising campaigns to recruit as many clients as possible.

The tax debt-relief scam follows one of the oldest and most common types of confidence scams: the advance fee scam. It occurs when the victim pays money to someone expecting to receive something in return.

Clients pay a large, upfront fee to the company for its promise to negotiate a significant reduction in the client's tax debt with the IRS.

The problem is that many of these companies simply cannot do what they promise.

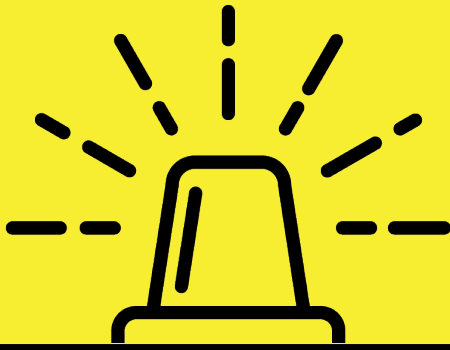
They hire a large number of salespeople who work on commission, which means they are motivated to say anything to recruit a new customer. For example, they will promise they can persuade the IRS to accept a much smaller amount than what is owed.

In reality, the IRS seldom accepts a reduction in the amount of taxes owed unless the taxpayer is near death or unemployable and without any assets to cover the tax liability.

The best most taxpayers can hope for is more time to pay. And in most cases, taxpayers can request a [payment agreement online](#).

Furthermore, some of these companies may also be operating illegally. Although some companies only charge a fee for their services, other companies may offer to take money from a client to pass on to the IRS to pay off the client's debt.





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If a company distributes money to the IRS on a client's behalf to pay off debts, the company is operating as a debt management company. In that case, the company generally must have a license.

Also, the company may only charge an initial upfront fee of \$50 or less, instead of the large upfront fees that many tax resolution firms require. There are additional limits on the fees that a debt management company may charge once a debt management plan is created.

Dishonest companies may also claim to have an army of attorneys, accountants, and CPAs, but they will typically employ many more salespeople than licensed professionals. As a result, these companies simply have too many clients and not enough professionals to do the work that they promise.

Often, these companies will go out of business within a fairly short time, but not before they collect payment from consumers for work that is never done.

Be savvy. Know what to look for and what to do to avoid being taken.

SPOT IT: Signs of a tax-relief scam



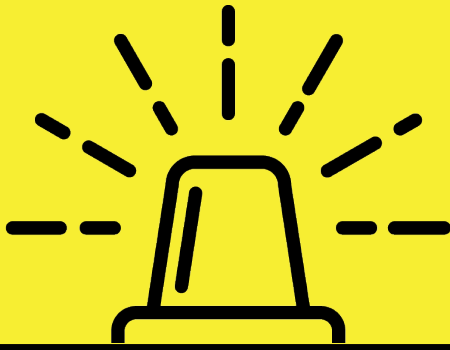
"We'll settle your IRS debt for pennies on the dollar."

- Promises to drastically reduce your tax debt.
- Promises to eliminate interest and/or penalties for you.
- Fails to initially assess your financial background.
- Fails to ask you why you owe taxes.
- Preys on your fears of the IRS.

- Unsolicited letters or emails claiming that you qualify for a government plan to help settle your tax debt. It is a creative scammer who wants you to think you are working with a government entity related to the IRS.
- Large upfront payment—often equal to the amount of cash you list on an asset inventory.
- Delay tactics like being asked for the same documents repeatedly then eventually informed that you no longer qualify for relief or that the IRS has rejected your offer.

STOP IT: How to avoid being scammed

- Ask about and review the company's refund policy before you sign any agreement.
- Check with the [Attorney General's Consumer Protection Division](#) and the [Better Business Bureau](#) for complaints against the company.
- If you owe less than \$10,000, submit an [Installment Agreement Request \(Form 9465\)](#) with the IRS.
- Hire only established, local companies with [Better Business Bureau](#) approval.
- Ask how many attorneys, accountants, and CPAs that the company has on staff, and how many salespeople it employs.
- Ask how the salespeople are paid, and whether they work on commission; many reputable companies will not employ their salespersons on a commission basis.
- Ask the company for success stories, reviews, and client testimonials.



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- [Follow the IRS guidance on choosing a tax professional](#) and use the [IRS Directory of Federal Tax Preparers with Credentials and Select Qualifications](#) to find an enrolled agent who has authority to represent you in negotiating with the IRS.

Report Fraud

If you have been the victim of a tax-relief scam, or if you would like to file a complaint, please contact DIFS, the IRS, and the Michigan Department of Attorney General:

Department of Insurance and Financial Services - Office of Consumer Services

If you have been the victim of a debt management company's scam, please contact DIFS at:

DIFS - Office of Consumer Services
P.O. Box 30220
Lansing, MI 48909-7720
Fax: 517-284-7720
[Email](mailto:difscomplaints@mi.gov) (difscomplaints@mi.gov)
[Online complaint form](#)

Check on a debt management company's license on [DIFS website](#).

Internal Revenue Service

[Use Form 14242 to report a suspected abusive tax avoidance scheme](#) and/or tax return preparers who promote such schemes.

Send a completed form and any promotional materials to the Lead Development Center:

Internal Revenue Service Lead Development Center
Stop MS5040
24000 Avila Road
Laguna Niguel, CA 92677-3405
Fax: 877-477-9135

Michigan Department of Attorney General

Consumer Protection Division
P.O. Box 30213
Lansing, MI 48909
517-373-1140
Fax: 517-241-3771
Toll free: 877-765-8388
[Online complaint form](#)



Bill Schuette
Attorney General

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