



MICHIGAN ATTORNEY GENERAL **CONSUMER ALERT**

Gifting Circles Good, Gifting Schemes Bad: How to Spot an Illegal Pyramid Scheme

What you need to know:

When people get together in a circle to give each other gifts without exchanging any money, that is called a gifting circle. When people gather in person or online because they are recruited and the recruiter receives money or gifts for each person recruited, that is a gifting scheme – which is also an illegal pyramid scheme.

The road to participating in a gifting scheme is often paved with sound-good intentions and clever branding like “Women Empowering Women,” “Circle of Friends,” or “Secret Sister” – but just because it is called a gifting “circle” does not make it one.

Remember this: No matter how these are presented, promoting or knowingly participating in a cash-gifting scheme is illegal in Michigan.

Gifting Circles vs Gifting Schemes

True gifting circles are good. They help people save money and waste fewer resources. They exist in many cultures and communities and help build relationships within those circles. They may be private or public, members may or may not know each other, and they operate in a similar way: members assist each other in fulfilling wants and needs with their many resources. For example, instead of throwing out a large crop of sweet corn when it ripens all at once, you can offer it to your gift circle friends who need fresh produce. **Cash exchanges between members are not permitted.**

Gifting schemes, on the other hand, are all about the payoff. Despite their enticing new-age rhetoric of a gifting economy, they are simply a modern twist on an old-fashioned pyramid scheme. Cash-gifting schemes skip the sale of products and just give people cash, but the premise is the same – like other pyramids, cash-gifting schemes are based on the amount of people recruited. New members are lured with the promise of a large cash payout (commonly \$40,000) after they invest a hefty entry fee (commonly \$5,000) and recruit new members.

The entry fee guarantees the participants a place on a membership chart. Participants move up the chart every time they recruit more people into the “circle.” Once the participant moves up high enough on the chart, they are “guaranteed” a large payout.

Meetings may be secret and even fun. They often allude to helping others when really you are just giving your money to the person at the top of the pyramid as you recruit others to keep the pyramid base stable. Once the bottom is filled with new recruits, a new person at the top gets a large payout, leaves, and the cycle continues until it falls apart.

Non-cash gifting schemes, like “Secret Sister,” involve a gift exchange among online friends you haven’t met. The scheme starts with an alluring invitation – often on social media – promising participants will receive dozens of gifts in exchange for sending one gift, valued at \$10. To join, you simply add your name and address – and the personal information for a few of your friends – to an existing list of “gifting sisters” whom you’ve never met. You will then invite others to send a modest gift to a stranger and share their contacts.

You’re stuck buying and shipping gifts for unknown “sisters,” hoping the gifting is reciprocated by receiving the promised number of gifts in return. But with pyramid schemes, the cycle only continues if new sisters are recruited. When that stops, the gift supply stops, too, and can leave hundreds of un-gifted sisters in its wake.

Not only is such a pyramid scheme illegal in Michigan, participating in one can put you at risk of identity theft. When you join, you give some of your personal information, and with that, your secret sister a/k/a cyber thief can commit identity theft.

These schemes become popular quickly because the early participants who receive their payouts relay their success to prospective participants, and the cycle continues. The problem is that eventually the pool of new participants runs out and the pyramid collapses, with very few participants – 12-14 percent according to the Better Business Bureau – receiving anything in return.

PYRAMID SCHEMES ARE ILLEGAL IN MICHIGAN

Pyramid schemes involve participants receiving compensation for recruiting other participants, and they are **illegal in Michigan**. Promoting such a scheme is a **felony**, punishable by a fine of up to \$10,000 or **seven years in prison**. Participating in such a plan is a **misdemeanor**, punishable by a fine of up to \$1,000 and/or **90 days in jail**.

The 2018 Michigan Pyramid Promotional Scheme Act (MCL 445.2581 et seq.) defines a “pyramid promotional scheme” and makes it illegal to promote or knowingly participate in one.

MULTI-LEVEL MARKETING PLANS VS. PYRAMID SCHEMES – WHAT IS THE DIFFERENCE?

Multi-level marketing plans typically involve a parent company that sells products to consumers through independent salespeople. Generally, independent salespeople do not receive a salary; rather, they are compensated based on how much product they sell. Multi-level marketing plans are generally legal in Michigan.

The key difference between a legal multi-level marketing plan and an illegal pyramid scheme is that a multi-level marketing plan bases compensation almost entirely on the amount of product sold, whereas an illegal pyramid scheme is based on the number of people recruited. In a cash-gifting scheme, “being gifted” is also based solely on the number of new members recruited and no product or service is being sold.



SPOT an illegal gifting scheme

- Someone promises you a bounty of cash or gifts by mail, email, or social media.
- Recruiting new people is the primary focus of the program.
- No goods or services are being sold.
- There are no written agreements or contracts.
- The program brags about the high earnings of a few top performers.
- The program includes plenty of “testimony” and “success stories.”



STOP an illegal cash-gifting scheme from getting you

- Investigate. Ask around. Search online. Be skeptical.
- Never give your personal information to strangers.
- Independently verify the legitimacy of any investment before you invest.
- Be wary of “low-risk” and “high-return” promises.
- Don’t let greed overcome good judgment.
- If you have any concerns, contact the [Michigan Department of Attorney General](https://www.michigan.gov/agcomplaints) at 877-765-8388 or online ([mi.gov/agcomplaints](https://www.michigan.gov/agcomplaints)).

Any Michigan resident who has been asked to join a cash-gifting scheme, or who is aware of an illegal pyramid or gifting scheme operating in their area, should contact the Michigan Attorney General.

If you are currently involved in a cash-gifting scheme, you should consider contacting a private attorney. For help finding a private attorney or a lawyer referral service in your area, please visit the [Michigan State Bar's website](http://michbar.org) (michbar.org).

Finally, if you are currently involved in a cash-gifting scheme or have participated in a cash-gifting scheme in the past, keep in mind that you are also required to report any earnings you received to the Internal Revenue Service. Despite any promises made to you by those operating cash-gifting schemes, earnings received from a gifting pyramid **are taxable**. Thus, in addition to consulting a private attorney, you should also consider speaking to a professional tax advisor about your situation.

Where to report a cash-gifting scheme:

To report a scam, file a complaint, or get additional information, contact the Michigan Attorney General:

1. [Online](http://mi.gov/agcomplaints): mi.gov/agcomplaints
2. Phone: 517-335-7599
3. Fax: 517-241-3771
4. Mail:
Consumer Protection
P.O. Box 30213
Lansing, MI 48909

The Attorney General provides Consumer Alerts to inform the public of unfair, misleading, or deceptive business practices, and to provide information and guidance on other issues of concern. Consumer Alerts are not legal advice, legal authority, or a binding legal opinion from the Department of Attorney General.



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