

Fraud Alert

Educating South Carolina's Consumers

A Publication of the South Carolina Task Force on Fraud



www.scconsumer.gov

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Don't fall for these tax scams that get you nothing but trouble for a return

Remember: you are responsible for your tax return, not the preparer.



Tax time is just around the corner and the South Carolina Department of Consumer Affairs and the IRS are urging you to please avoid these 12 popular tax scams. The IRS warns that no matter who prepares the return, the taxpayer is ultimately responsible for its accuracy.

Zero Wages

In this relatively new scam a taxpayer attaches to his or her return either a Form 4852 (Substitute Form W-2) or a "corrected" Form

1099 that shows zero or little wages or other income. The taxpayer may include a statement indicating the taxpayer is rebutting information submitted to the IRS by the payer. The Form 4852 or 1099 is usually attached to a "Zero Return."

Zero Return

Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholdings and then write "nunc pro tunc" - Latin for "now for then" - on the return.

They also do this with amended returns in the hope the IRS will disregard the original return in which they reported wages and other income.

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Think Twice!

Avoid using refund anticipation loans for tax returns

How would you like to pay a super-high price to borrow money that already belongs to you?

Sounds ridiculous, right?

But that's pretty much what happens to many folks at tax time in the crazy world of refund anticipation loans (RALs).

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds."

These ads will offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans, that are based on your own tax

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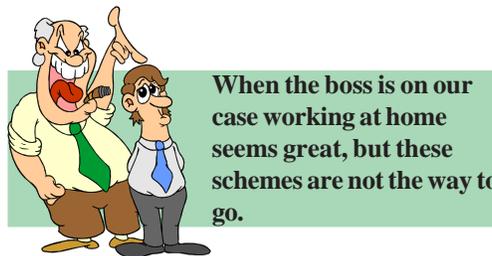
Credit Companies may owe you \$25, but be careful

It's not a scam, but it may become one.

More than 30 million Americans have or will receive a mailed notification indicating they are eligible for \$25, possibly even more, as part of a class-action lawsuit settled with several large credit card companies.

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Work-at-home may leave you broke-at-home



When the boss is on our case working at home seems great, but these schemes are not the way to go.

It's not hard to find work-at-home schemes.

In newspapers and magazines, in your inbox, and plastered on telephone poles, work-at-home

schemes are everywhere, and they seem like fantastic opportunities. After all, as the advertisements promise, who doesn't want to make thousands of dollars working from home?

While you may find these ads appealing, especially if you can't work outside your home or are thinking of making some extra income, proceed with extreme caution.

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Fraud in South Carolina



The following are recent consumer reports of attempted scams or fraudulent activity in South Carolina. Consumers are advised to be on the lookout.

Jenkinsville – A man says he received a phone call informing him he was being awarded a federal grant, which he had not applied for and had no previous knowledge of. The caller began to ask for very personal information, including his social security and bank account numbers.

Greenville – A business reported receiving an official looking letter in the mail claiming they needed to pay to be registered with the National Business Registration, so as to be in compliance with Federal law. This is not true. Businesses are required to register at the state level, not the national level.

Columbia – A man received in the mail a notification that he had won a foreign lottery and needed only to contact the company to set up a payment plan. Foreign lotteries are illegal in the United States and typically a front for scammers to dupe consumers into giving over money or personal information.

Kingstree – A man says he received a phone call from a man claiming to represent a popular mortgage company. The caller informed the man he owed the company \$1,000 and needed to setup a payment plan immediately. The man told the company he had never heard of them and had not received any money. The caller began to pressure him for personal information, social security and bank account numbers. The man refused and became suspicious when the only information the caller could provide about him was his phone number and address, both of which are a matter of public record.

Columbia – A man says he received a phone call instructing him that he was randomly selected to receive a \$25 Wal-Mart gift card. The caller said he only needed the man's credit card or debit card number, so as to pay \$2.00 for shipping and handling to send the gift card to his address. This is a scam, Wal-Mart is not giving away \$25 gift cards through random calling and you should never give your credit or bank account information out over the phone.

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refund money.

When you get a RAL, you're borrowing against your own tax refund money and it's not cheap. Loan fees typically range from \$30 to \$90, which translates an Annual Percentage Rates of about 60% to over 700%. If you paid those rates on all your borrowing, you'd probably go broke!

RAL fees, combined with tax preparation, electronic filing, and other fees, can end up eating away a big chunk of your refund.

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in partnership with a tax preparer, it must be repaid even if the IRS denies or delays your refund or if your refund is smaller than expected.

If you don't pay back the RAL, the lender can take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

All this to get your tax refund just a few days earlier than you can for free from the IRS. Essentially you're lining someone else's pockets with YOUR hard-earned money.

Worse, RALs are often marketed to people who need money the most – low- and moderate-income workers who receive the Earned Income Tax Credit.

Ways to avoid RALs and save at tax time:

- E-File with Direct Deposit – File your tax return electronically (E-File) to speed up your refund. Tell the IRS to deposit the refund directly into your bank account.

You provide your account number right on your tax return. You can get a refund in about 10 days this way – without paying one cent extra.

- Volunteer Income Tax Assistance (VITA) – VITA sites provide free tax preparation to low- and moderate-income taxpayers.

These sites are sponsored by the IRS and can be found in libraries, community centers, and other locations during tax time. If you have Internet access, you may be able to get free tax preparation and electronic filing at www.icanefile.org.

- Wait just a bit longer – Do you really have to get cash from your tax refund today? Can you wait a few weeks to save almost \$100?

If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS. Don't

CONTINUED from Page 1: Work-at-home schemes...



Work-at-home schemes could have you headed for big trouble. Remember, if it sounds too good to be true, it probably is.

Not all work-at-home opportunities deliver on their promises and many will leave you paying out money rather than making money.

Many ads omit the fact that you may have to work many hours without pay. Or they don't disclose all the costs you will have to pay. Countless work-at-home schemes require you to spend your own money to place newspaper ads, make photocopies, or buy materials, supplies or equipment you need to do the job.

The companies sponsoring the ads may also demand that you pay for instructions or "tutorial" software. Consumers deceived by these ads have lost thousands of dollars, in addition to their time and energy.

There are several types of classic work-at-home schemes.

Medical billing

Ads for pre-packaged businesses - known as billing centers - are in newspapers, on television and on the Internet.

If you respond, you'll get a sales pitch that may sound something like this: There's "a crisis" in the health care system, due partly to the

overwhelming task of processing paper claims.

The solution is electronic claim processing. Because only a small percentage of claims are transmitted electronically, the market for billing centers is wide open.

The promoter also may tell you that many doctors who process claims electronically want to "outsource" or contract out their billing services to save money. Promoters will promise that you can earn a substantial income working full or part time, providing services like billing, accounts receivable, electronic insurance claim processing and practice management to doctors and dentists.

They also may assure you that no experience is required, that they will provide clients eager to buy your services or that their qualified salespeople will find clients for you.

The reality is you will have to sell. These promoters rarely provide experienced sales staff or contacts within the medical community.

The promoter will follow up by sending you materials that typically include a brochure, application, sample diskettes, a contract (licensing agreement), disclosure document, and in some cases, testimonial letters, videocassettes and reference lists.

For your investment of \$2,000 to \$8,000, a promoter will promise software, training and technical support.

And the company will encourage you to call its references.

Make sure you get many names from which to choose. If only one or two names are given, they may be "shills" - people hired to give favorable testimonials.

It's best to interview people in person, preferably where the business operates, to reduce your risk of being misled by shills and also

to get a better sense of how the business works.

Few consumers who purchase a medical billing business opportunity are able to find clients, start a business and generate revenues - let alone recover their investment and earn a substantial income.

Competition in the medical billing market is fierce and revolves around a number of large and well-established firms.

Envelope stuffing

Promoters usually advertise that, for a "small" fee, they will tell you how to earn money stuffing envelopes at home.

Later - when it's too late - you find out that the promoter never had any employment to offer. Instead, for your fee, you're likely to get a letter telling you to place the same "envelope-stuffing" ad in newspapers or magazines, or to send the ad to friends and relatives. The only way you'll earn money is if people respond to your work-at-home ad.

Assembly or craft work

These programs often require you to invest hundreds of dollars in equipment or supplies.

Or they require you to spend many hours producing goods for a company that has promised to buy them.

For example, you might have to buy a sewing or sign-making machine from the company, or materials to make items like aprons, baby shoes or plastic signs.

However, after you've purchased the supplies or equipment and performed the work, fraudulent operators don't pay you.

In fact, many consumers have had companies refuse to pay for their work because it didn't meet "quality standards."

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Form 843 Tax Abatement

This scam is fairly new and rests on a faulty interpretation of the Internal Revenue Code. It involves the filer requesting abatement of previously assessed tax using Form 843.

Many using this scam have not previously filed tax returns, and the tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program.

Phishing

This is a technique used by identity thieves to acquire personal financial data in order to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for new loans in their names.

These Internet-based criminals pose as representatives of a financial institution and send out fictitious e-mails in an attempt to trick consumers into disclosing private information.

These scammers even pose as the IRS. Taxpayers should take note: **The IRS does not use e-mail to initiate contact with taxpayers about issues related to their accounts.**

If a taxpayer has any doubt whether a contact from the IRS is authentic, the taxpayer should call 1-800-829-1040 to confirm it.

Trust Misuse

For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts.

They promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes.

However, some trusts do not deliver the promised tax benefits, and the IRS is actively examining

these arrangements.

Frivolous Arguments

Promoters have been known to make the following outlandish claims: the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy.

Don't believe these or other similar claims. These arguments are false and have been thrown out of court.

Return Preparer Fraud

Dishonest tax return preparers can cause many headaches for taxpayers who fall victim to their schemes.

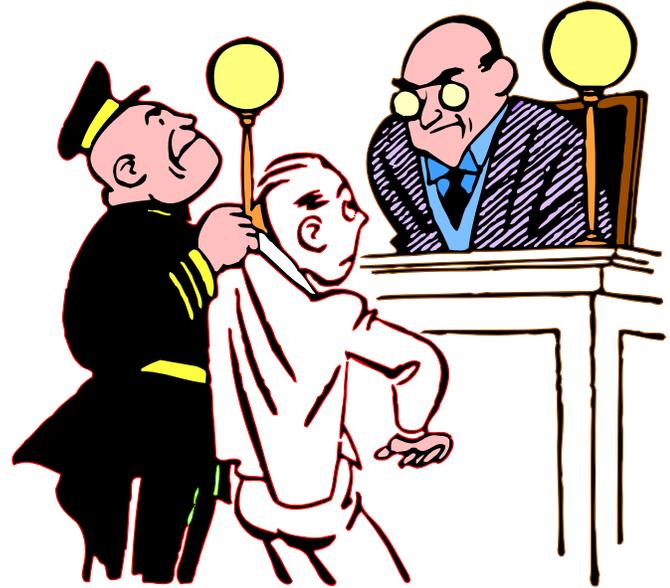
Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services.

They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer.

Credit Counseling Agencies

Taxpayers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payment plans, or impose high set-up fees or monthly service charges that may add to existing debt.

If a taxpayer plans to hire a credit



"I'm sorry your Honor. I thought the 16th Amendment was never ratified, wages weren't income, and that paying taxes was voluntary anyway."

counseling agency, they should contact SCDCA to make sure the business is licensed.

Abuse of Charitable Organizations and Deductions

The IRS has observed increased use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity.

Offshore Transactions

Despite a crackdown by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance to do so.

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The lawsuit contended that card companies have overcharged card holders when converting foreign transactions into dollars and failed to disclose all applicable fees.

People who held cards branded by Visa, MasterCard or Diners Club and issued by major American banks, including JPMorgan.

The package will ask for some personal information that consumers may not feel comfortable providing in such an unsecured medium.

Consumers can call the credit card companies directly, and ask to be

directed to the appropriate person to handle their claim.

While many consumers have a legit claim to their piece of the settlement, con artists are opportunist and it is inevitable fraudulent claims will surface.

Scammers will use fake claims to phish for personal information, so that they can steal your identity or access your bank accounts.

To protect yourself, keep the following in mind:

- Ignore e-mails regarding the settlement. These will almost

certainly be scams.

- Check the return mailing address on your paper packet, which should be Settlement Administrator, P.O. Box 290, Philadelphia, PA 19105-0290.

- Ensure that if you file a claim online, your browser address window reads "https."

This indicates the data will be encrypted and thus protected. Be sure this is the case before you submit any form with your name, Social Security number or credit card information.

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Unfortunately, no work is ever "up to standard," leaving workers with relatively expensive equipment and supplies - and no income. To sell their goods, these workers must find their own customers.

Still interested? Make sure to ask these questions first.

Legitimate work-at-home program sponsors should tell you - in writing - what's involved in the program they are selling.

Here are some questions you might ask a promoter:

- What tasks will I have to perform?

(Ask the program sponsor to list every step of the job.)

- Will I be paid a salary or will my pay be based on commission?

- Who will pay me? When will I get my first paycheck?

- What is the total cost of the work-at-home program, including supplies, equipment and membership fees? What will I get for my money?

The answers to these questions may help you determine whether a work-at-home program is appropriate for your circumstances, and whether it is legitimate.

It would also be wise to contact the South Carolina Department of Consumer Affairs at 1.800.922.1594 or 803.734.4200 before pursuing the matter any further.

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Employment Tax Evasion

The IRS has seen a number of illegal schemes that instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the tax law and has been refuted in court. Employer participants can also be held responsible for back payments of employment taxes, plus penalties and interest.

"No Gain" Deduction

Filers attempt to eliminate their entire adjusted gross income (AGI) by deducting it on Schedule A. The filer lists his or her AGI under the Schedule A section labeled

"Other Miscellaneous Deductions" and attaches a statement to the return that refers to court documents and includes the words "No Gain Realized."

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take on a new expensive debt to pay an old bill.

- Avoid check cashers - Check cashers charge an extra fee to cash RAL and tax refund checks. Some check cashers charge up to 7% to

cash a RAL check - the average is about 3%. If you receive a \$2,000 refund it would cost you an average of \$60 to cash the RAL check on top of the RAL and tax preparation fees. A smarter move is to use a bank account.

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