



Beware of Tax Relief Scams

From the Office of Minnesota Attorney General Lori Swanson

If you have unpaid tax obligations and are looking for help to resolve them, you should be careful to avoid hiring tax relief companies that charge you money to help you but end up making a bad situation worse.

Beware of Bogus Promises to Settle Your Tax Obligations.

Some companies seek to exploit the fact that some Minnesotans are behind on their taxes. Some companies have television advertising campaigns that lure customers with claims that the companies have special expertise or knowledge that enables them to settle customers' tax obligations for pennies on the dollar. The companies may require the consumer to pay upfront fees of \$3,000 or more. Once the consumer pays the money, however, some companies fail to deliver the promised services. Some do nothing at all. Other companies will send a consumer forms to apply to the IRS for an "Offer in Compromise," which the company knows will be rejected because of the IRS's strict guidelines for debt forgiveness under that program (see below). The end result: the consumer is now \$3,000 or more in the hole.

Attempt to Work with the Tax Authorities.

As a part of their sales pitches, tax relief companies may tell you that the tax authorities won't work with you. If you owe money to the tax authorities, don't ignore the problem. Call the IRS or the state and local tax authorities to address any tax issues. These entities may be willing to establish a payment plan. In fact, the IRS enters into payment plans with over two million taxpayers each year. Also, consider hiring a reputable local certified public accountant or tax attorney to help you if you are in over your head.

Offers in Compromise. Some tax relief companies lure customers in by claiming that they can cut customers' debts by filing an Offer in Compromise ("OIC") with the IRS. The IRS, however, has strict guidelines to qualify for the OIC program. The vast majority of debtors do not qualify. The IRS has published a consumer alert cautioning consumers not to be lured by promises that companies can settle tax obligations on the cheap through OIC's. Chances are that if you have \$2,000 - \$5,000 dollars to pay a tax relief company, you likely will not qualify for the IRS's OIC program. Companies will take your money, but after filing an OIC petition that they know, or should know, will be unsuccessful, they may do nothing else for you and won't refund your money. Contact the IRS directly to see if you will qualify for the OIC program, or download the forms, which are easy to fill out on your own, directly from the IRS website, www.irs.gov.

Other Tips for Consumers:

1. Research the companies you are considering.

Before you use any tax relief organization, check with the Better Business Bureau at:

Better Business Bureau
2706 Gannon Road
St. Paul, MN 55116-2600
(651) 699-1111
Toll free: 1-800-646-6222
www.bbb.org

2. Contact the tax authorities at the first sign of trouble. Do not ignore problems—they won't go away. Contact the IRS directly at the first sign of trouble. It may enter into an installment payment plan with you to come current on your obligations. Also, before you hire a tax relief company to try to settle your bills, check with the IRS directly to see if you even qualify for its Offer in Compromise ("OIC") program. Successful offers usually are given only to those in dire straits. Of the approximately 52,000 Offers in Compromise submitted in 2009, the IRS only accepted about 11,000.

3. Sound too good to be true? Some tax relief companies may guarantee to lower your tax obligations. Others might tell you that they have "insider tips" or special expertise to get a favorable result with the tax authorities. Remember: if a promise sounds too good to be true—it is. Don't do business with a firm that does not give you the biography of the attorney, certified public accountant, or tax agent who will actually work on your case.

4. Beware of money-back guarantees. In order to allay consumers' concerns, some tax relief companies promise money-back guarantees. These guarantees, however, often turn out to be unavailable to unsatisfied consumers. Don't let a money-back guarantee give you a false sense of security.

5. Know the fees. Most tax relief companies charge high up-front fees. These companies may give the impression that this is a "flat fee," or one-time-only fee, but many of these companies will later insist on additional fees that were not contemplated by consumers at the time of payment. Ask whether there is the possibility of additional payments and take time to know what your total costs will be.

6. Watch the fine print. Tax relief companies may have you sign written contracts with terms that differ from what they tell you on the phone. For example, the tax relief company may tell you that your one-time fee will cover all services required to reduce your tax obligations, while the contract will say that the initial payment is for limited services, and that additional services will require additional payments. Read the fine print of any contract. If the contract says something different than what you are told in person or over the phone, do not sign it. Make sure all verbal promises are in writing.

7. A plan tailored to your needs. A legitimate advisor should take time to understand your income and expenses, as well as the nature of your issues with the taxing authorities. Beware of any organization that gives you generic or "one size fits all" advice, or that promises it can help you before it's fully reviewed your situation.

8. No quick fixes. Remember: there is no magic solution toward getting out from under tax obligations. Beware of tax relief companies that promise that they can drastically reduce your debt.

For more information, or to file a consumer complaint, contact the Attorney General's Office at:

Office of Minnesota Attorney General

Lori Swanson

1400 Bremer Tower

445 Minnesota Street

St. Paul, MN 55101

(651) 296-3353 or 1 (800) 657-3787

TTY: (651) 297-7206 or 1 (800) 366-4812

www.ag.state.mn.us