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IRS and Alabama Securities Commission Warn of Top 10 Scams

MONTGOMERY, ALABAMA (March 31, 2008) – The Internal Revenue Service (IRS) and Alabama Securities Commission (ASC) Director Joseph P. Borg today warned Alabamians not to be “April fools” when it comes to being taken in by scammers.

Borg said, “Citizens need to take advantage of IRS and ASC resources to protect themselves and learn how to make informed financial decisions. With tax rebates and refunds on the way, large numbers of baby boomers retiring, and people desperate to make higher returns on life savings—it’s time to proceed with caution!”

According to IRS spokesman Dan Boone, tax scammers are active year round but usually increase their efforts during the tax filing season. The IRS updates the [“Dirty Dozen”](#) tax scams on IRS.gov each year detailing the latest schemes.

“Crooks have learned that using the name of the IRS commands attention,” Boone said. “Once they have your attention, their goal is to steal your personal information and your money.”

Borg and Boone both advised remembering the old saying, “If it sounds too good to be true, it probably is.” Also they noted, “There is no such thing as an ‘IRA-approved investment.’”

State and IRS officials warned Alabamians to be on the lookout for the following scams or unsuitable investment products:

1. Check to see if your investment professional and the investment product offered is properly licensed/registered. Before you invest call the Alabama Securities Commission (1-800-222-1253) and give them information about your investment professional and products being offered. ASC will then run a free background check for you and provide information concerning prior convictions, negative business activities, and verify legal licensing and registration.

2. Affinity Fraud. Con artists frequently target members of closely knit religious, political, or ethnic groups. Their pitch is essentially, “since I am like you and believe like you, you can believe in me and in what I say.” When an investment is presented in this context, the potential investor should be extremely wary. This pitch seeks to substitute an emotional appeal for careful analysis and critical thought. [Alabamians lost over

\$5,023,818 million to affinity fraud from 2003-2006. One congregation also lost their building to foreclosure due to a scam implemented by church members.]

3. Are variable and equity-indexed annuities suitable for you? Variable annuities have steadily gained popularity based upon their tax-deferred potential investment growth over the long term, typically ten years or longer. While they can be appropriate investment vehicles for some, variable annuities are not usually suitable for older investors who may have short-term financial goals or who may require quick access to their money due to financial emergencies. A more complex investment option is the equity-indexed annuity, whose relative success is tied directly to the overall performance of a particular group of stocks. This instrument is usually unsuitable for retirees because it technically is classified as an insurance product and is not subject to the same rigorous oversight and regulation as other investment products. It also is often sold by agents with little investment-related training. Potential investors need to understand the risk of investment products, possible high surrender penalties for early withdrawals, possible tax consequences, and potential of exposure to excessive market fluctuations. Also, that the motivation to sell a product may be a high sales commission agents often earn when they steer investors toward these products.

4. Self-Directed Pension Plans. Many types of securities fraud require the victim to remove funds from legitimate investments such as stock brokerage accounts, mutual funds, insurance policies, deferred compensation plans and mutual funds so that they can be invested in a worthless scam. This scam may begin with advice to convert an employer-sponsored pension into a self-directed pension plan. While these plans may serve legitimate investment purposes, all too often they only serve to benefit the scam artist.

5. Pump and Dump Schemes. Unethical broker-dealers frequently “pump” up the value of low-priced securities traded on the NASDAQ “pink sheets” and then “dump” the stock after naïve investors have purchased the stock at inflated prices. The balloon breaks when the promoters no longer maintain the myth that there is value in the shares and investors are left holding worthless shares. These schemes frequently appear through unsolicited e-mail messages. [Hundreds of millions of dollars have been lost by U.S. citizens in penny stock, micro cap and related pump and dump scams and Alabamians have lost millions of dollars.]

6. Phishing e-mails and phone calls. E-mails that appear to be from the IRS are fake and dangerous. The IRS never uses e-mail to contact you about your taxes and rarely will ask for private information over the phone. If in doubt, call 1-800-829-1040 to confirm an IRS contact.

7. Return Preparer Fraud: Dishonest tax preparers attract clients by promising large refunds. Walk away if they suggest that you borrow dependents, claim false tax deductions, or put anything you know is incorrect on your tax return. You are responsible for the accuracy of your tax return!

8. Trust Misuse: Unscrupulous promoters urge taxpayers to transfer assets into trusts with false promises of reduced taxes and deductions for personal expenses. Seek the advice of a trusted professional before entering into a trust.

9. Frivolous Arguments: Promoters make outlandish claims about people being able to legally quit filing and paying taxes. Not true! Read “The Truth About Frivolous Arguments” at www.irs.gov.

10. False Refund Claims: You may even hear about this scam from a friend or relative who is convinced that it’s real. Promoters may tell you to claim a refund based on telephone excise taxes or Social Security benefits. The phone tax refund may be legitimate but not if you already claimed it last year and usually not for a large amount. And Social Security benefits generally are not reported as taxable income and do not generate a tax refund.

Report suspected tax fraud to the IRS using Form 3949-A, Information Referral, available at IRS.gov or by calling 1-800-829-3676. See the rest of the Dirty Dozen tax scams at www.irs.gov.

Contact the Alabama Securities Commission at 1-800-222-1253 or visit their website at www.asc.alabama.gov.

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