IRS and Alabama Securities Commission Warn of Common Scams

MONTGOMERY, ALABAMA (Dec. 15, 2011) Internal Revenue Service (IRS) spokesman Dan Boone and Alabama Securities Commission (ASC) Director Joseph P. Borg today warned Alabamians not to be taken in by scammers during the holidays and pretax season.

Borg said, "Citizens should use the vast array 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!"

Scammers often use official-looking e-mails, Boone said. "But we've also had reports this year of tax scammers using the mail, going door-to-door, and even using the good names of local churches, attempting to trick people into filing false tax refund claims or giving out their personal information."

Boone also cautioned people to choose tax preparers carefully in the 2012 filing season, reminding filers they are signing their tax return under penalties of perjury no matter who prepares the return.

Borg and Boone both advised remembering the old saying, "If it sounds too good to be true, it probably is."

Also they noted, "With identity theft on the rise, people must be vigilant in protecting their personal information on paper, cell phones and computers."

State and IRS officials warned Alabamians to be on the lookout for the following scams or unsuitable investment products and check things out before trusting anyone with your life savings:

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 millions of dollars to affinity fraud during the past ten years. One congregation lost their building to foreclosure due to a scam implemented by church members.

3. Are variable and equity-indexed annuities suitable for you? The returns on these products are tied to the performance of investments in the stock market. 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 may not be suitable for older investors with 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 may be unsuitable for some retirees; it technically is classified as an insurance product and is not subject to the same rigorous oversight and regulation as most investment products. 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. Be aware that agents may be motivated to promote and sell these products due to high sales commissions.

4. Self-Directed Pension Plans. Many types of securities fraud require the victim to remove funds from legitimate

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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 scams. Protect your personal information and your money! Scammers sometimes pose as IRS representatives. But the IRS will not contact you about your taxes by e-mail. All unsolicited e-mail claiming to be from the IRS should be reported to phishing@irs.gov. If the IRS needs to contact you, most often you will get an official notice in the mail. If someone claiming to be an IRS employee calls or comes to your home or business, be careful. IRS callers should provide their name and employee ID number. IRS visitors should have an official government badge or ID. If you have any doubt whether any type of contact from the IRS is authentic, don't hesitate to decline giving out any information, then call the IRS at 1-800-829-1040 to confirm that it's really from the IRS.

7. Return Preparer Fraud: Most tax preparers are honest, but dishonest preparers usually try to attract clients by promising big refunds. Walk away if they suggest that you borrow dependents, claim false tax deductions or credits, or put anything you know is incorrect on your tax return. Remember, you are responsible for the accuracy of your tax return and are signing it under penalties of perjury!

8. "Free Money" Claims: Flyers and advertisements for free money from the IRS, suggesting that the taxpayer can claim government money with little or no documentation, have been appearing in communities around the country, including some in Alabama. Promoters are sometimes targeting church congregations, exploiting their good intentions and credibility. These schemes also often spread by word of mouth among unsuspecting and well-intentioned people telling their friends and relatives. Frequently these scams target taxpayers who normally do not have a filing requirement, such as retirees, and involve claims for nonexistent Social Security rebates.

9. Hiding Income Offshore: The IRS aggressively pursues taxpayers involved in abusive offshore transactions and the promoters who facilitate or enable these schemes. Taxpayers have tried to avoid or evade U.S. income tax by hiding income in offshore banks and brokerage accounts, or by using offshore debit cards, credit cards, wire transfers, foreign trusts, employee-leasing schemes, private annuities or life insurance plans. Don't be tricked by those who try to convince you it's legal to hide income from the IRS.

10. Frivolous Arguments: Promoters of these schemes make outlandish claims about people being able to legally quit filing and paying taxes. Read "The Truth About Frivolous Arguments" at www.IRS.gov to get the truth. People who have fallen for these schemes often end up financially devastated when they are penalized or even prosecuted for failing to file and pay taxes that were legally due. Report suspected tax fraud to the IRS using Form 3949-A, Information Referral, available at www.IRS.gov or by calling 1-800-829-3676. For more about common tax scams, check out the "Dirty Dozen Tax Scams for 2011" at www.IRS.gov.

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