

## **IRS cracks down on credit counseling scams**

*Associated Press*

*Monday, May 15, 2006 1:19 PM*

WASHINGTON (AP) -- The Internal Revenue Service has canceled the tax-exempt status for some of the nation's largest educational credit counseling services after audits revealed they exist mainly to prey on debt-ridden customers, Commissioner Mark Everson said today.

"These organizations have not been operating for the public good and don't deserve tax-exempt status," Everson said. "They have poisoned an entire sector of the charitable community."

A two-year investigation of 41 credit counseling agencies resulted in the revocation, proposed revocation or other termination of their tax-exempt status, he announced.

Everson said that many of those groups, representing more than 40 percent of the revenue in a \$1 billion industry, offered little, if any, counseling or education as required of groups with tax-exempt status.

Other such agencies will be required to report on their activities. The IRS is sending compliance inquiries to each of the other 740 known tax-exempt credit counseling agencies not already under audit.

"Depending on the responses received, additional audits may be undertaken," the agency said.

Everson said groups looking to make a profit would secure tax-exempt status and make cold phone calls to people in desperate financial straights. They would use scare tactics to sell the people "cookie-cutter" debt management plans that often were not geared toward reducing the consumers' debt and often were too costly to pay. Administrative fees, he said were sometimes collected by third parties handling the paperwork for a profit.

Everson recommended that consumers pick one of the 150 consumer counseling organizations approved by groups like the Better Business Bureau. But bad actors may exist even among those, because guidelines for approval differs between agencies, he said.

Everson added that the agency is following up the revocations with some criminal investigations, but would not detail them.

The IRS also is issuing new guidance on how to comply with federal law to legitimate organizations which educate people on how to maintain good credit.

The agency in recent years has tightened up its review of new applications by credit counseling firms for tax-exempt status. Since 2003, the IRS has reviewed 100 such applications and approved only three.

The actions come consumers and the counseling industry are having to learn to live under a new and more restrictive federal bankruptcy law.

Congress last year gave the financial counseling sector a new role in the nation's bankruptcy system by making it harder for people to wipe out debt and requiring consumers to consult with an approved credit counselor before they seek the protection of a bankruptcy court.

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