

IRS**News Release****Media Relations Office****Washington, D.C.****Tel. 202.622.4000****For Release: 01/24/02****Release No: IR-2002-08****SLAVERY REPARATION SCAMS SURGE,
IRS URGES TAXPAYERS NOT TO FILE FALSE CLAIMS**

WASHINGTON – The Internal Revenue Service issued a nationwide warning for taxpayers not to be misled into filing slavery reparation claims. The IRS has recently seen a significant surge in these false filings, and the agency urged taxpayers not to fall victim to this tax refund scam.

There is no provision in the tax law that allows African-Americans to get tax credits or refunds related to slavery reparations. Unscrupulous promoters are deceiving people into paying money for advice on how to file these false claims, in which they generally seek \$40,000 to \$80,000.

Recently, the IRS has seen an increase in the number of people filing false claims for reparations. In 2001, the agency received nearly 80,000 returns claiming more than \$2.7 billion in false reparation refunds.

“Promoters are shamelessly preying upon people,” IRS Commissioner Charles O. Rossotti said. “These snake-oil salesmen build false hopes and charge people good money for bad advice on reparation refunds. In the end, the victims discover their refund claims are rejected, and their money and the promoters are long gone.”

The IRS is taking action on several fronts to combat this recent upsurge of claims. The slavery reparation scam has been most concentrated in Southern states, particularly in the Southeast, but the IRS is seeing claims in almost every section of the country. About 45 percent of the claims have been from states served by the Atlanta Service Center (including Florida, Georgia, South Carolina and West Virginia), with about 25 percent from states served by the Memphis Service Center (including Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Nebraska, North Carolina and Tennessee).

The agency urged churches in the African-American community to be on the look-out for the scam. The IRS has seen signs that some promoters are targeting church congregations for the reparation scams. The agency plans to contact church organizations to help disseminate the message.

“Good people are getting caught up in this scam,” Rossotti said.

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The agency has been actively working for years to dispel myths about tax scams involving reparations. But the agency is making a new and expanded effort to get the word out about slavery reparation scams following the new influx of claims.

The IRS has periodically seen slavery reparations claims in previous years, including 1994 and 1996. The latest occurrence began in late 2000, and the false filings accelerated in 2001.

In addition, the IRS is seeing some early signs that promoters are trying to expand the reparation scam into new groups. For example, about 200 claims have been submitted for Native American reparations.

The agency is particularly concerned about this recent activity targeting African-Americans and others for several reasons, including rapidly changing tactics being used by promoters in recent months. Promoters have been submitting different types of scams in hopes of slipping false tax returns through the IRS system. In response, the IRS is taking action on several fronts:

- The agency has developed special teams trained to watch for these suspicious returns being submitted. These teams in the agency's 10 Service Centers have been alerted to watch for questionable tax claims on slavery reparations and other scams.
- The IRS will be contacting and distributing information to African-American leaders, church groups, organizations representing older Americans and other groups representing people targeted for these scams.
- The IRS continues to investigate new promoters for prosecution, and more legal action is expected in the weeks ahead. The IRS reminds taxpayers that promoters of reparations tax schemes have been convicted and imprisoned.

In addition, the IRS is seeing signs that promoters have told those seeking reparation claims not to back away from their claims and to submit additional tax returns. Some promoters charge additional money for filing these additional claims. With these additional claims increasing, the agency will begin taking a new approach on this issue that, ultimately, will help taxpayers, hurt promoters and free up IRS resources.

Under a new policy effective April 15, the IRS will send a letter warning taxpayers about filing false reparation claims. If the taxpayer refuses to back away from the improper claim, they face a potential \$500 penalty for filing a frivolous tax return.

The IRS will notify the filer that the claim has no basis in law, and the agency will offer an opportunity to submit a corrected return or rescind the frivolous claim with no penalty imposed. But if the taxpayer does not agree, the penalty can be assessed.

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This change means the category of slavery reparations claims will be treated the same as all other categories of frivolous tax claims, which are subject to the penalty if the taxpayers don't withdraw the claim after the first tax filing. Under the old standard, a taxpayer had to submit two slavery reparation claims before the penalty could be imposed.

The IRS chose the April 15 implementation date to provide enough time to alert taxpayers and organizations about the new policy.

The change still gives taxpayers an opportunity to back away from their claim without penalty. But the approach also gives the agency a new tool to help discourage repeat filing – and help counter promoters making a buck off these efforts.

The IRS is seeing promoters use several related schemes:

- A person claims a credit for “black investment taxes,” “reparations for African-Americans,” “black inheritance tax refund” or racial discrimination.
- A person attaches a tax form listing thousands of dollars in tax withholding that, in fact, never occurred.

Promoters can charge fees that can be either a percentage of the refund claimed or a flat fee of \$50, \$100 or higher.

Promoters of these scams frequently warn their clients against contacting the IRS on the pretext that the IRS does not want the general public to know about the “credit.” This type of advice should be a red flag to taxpayers that there is a problem.

“If the tax benefits sound too good to be true, taxpayers should check them out with a trusted tax professional or the IRS before sharing personal and financial data with strangers,” Rossotti said.

Taxpayers with questions about reparations scams can call the IRS's toll-free customer service line is 1-800-829-1040. To report suspected tax fraud activity, taxpayers should call 1-800-829-0433.

Additional information on tax fraud is available on the IRS's Criminal Investigation web site at www.treas.gov/irs/ci/index.htm.

For more information about legal action taken against reparation refund scams, see IRS Fact Sheet 2002-08, “Reparation Scams Carry A Price.” Additional information is available in IRS News Release 2000-69 and News Release 2001-19. All are available by visiting the News Release section on the news section of www.irs.gov.

Currently, there is no law that allows the U.S. government or the IRS to pay slavery reparations or refunds. At one time, after the Civil War, Congress passed a bill to allow slavery reparations in the form of 40 acres and a mule, but that bill was vetoed by President Andrew Johnson and thus was never enacted into law.