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# Credit counselors no longer exempt

## IRS is revoking tax-exempt status from 30-plus firms

By CAROLINE E. MAYER  
The Washington Post

**WASHINGTON** — The Internal Revenue Service has concluded that more than 30 credit-counseling firms — accounting for more than half of the industry's revenue — are not entitled to tax-exempt status.

Five firms, mostly small ones, have already had their tax-exempt status revoked, while the rest have been notified of the agency's intention, according to the agency.

The proposed and final revocations are the results so far of 60 audits the IRS has been conducting for more than two years into credit-counseling organizations. The audits were prompted by hundreds of consumer complaints of deceptive business practices, including high fees, high-pressure tactics and inadequate educational services. The IRS has been trying to determine if credit-counseling agencies were misusing their tax-exempt status to take advantage of financially strapped consumers.

Steven Miller, commissioner of the IRS's tax-exempt and government entities division, said the agency is seeking revocations for a combination of

reasons. In some cases, he said, "we do not believe they are providing sufficient education to the debtor."

"Or regardless of what they are providing, too much money is being siphoned out of these organizations and going into the pocketbooks of the CEOs and for-profit affiliates."

To date, none of the credit-counseling agencies under review has been given a clean bill of health. However, Miller said, "I think some of them, as we continue, will pass muster."

The firms can appeal the proposed revocations, but, if they do take effect, "that doesn't mean we're closing their doors," Miller said. It means "they are a taxable entity and are responsible for income tax like any other corporation."

However, in eight states, credit-counseling groups are required to be tax-exempt to be able to offer their services.

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Steven Miller,  
IRS commissioner

Industry officials say the revocations could affect the economic viability of many entities because much of their funding is dependent on their tax-exempt status. About half of the industry's funding comes from banks and credit card issuers that pay the counseling firms a percentage of money recovered through repay-

ment plans drawn up by counselors. Up to now, most banks have insisted that the counselors be tax-exempt to receive the funds, called "fair share" in the industry.