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Tax Debt Companies Disallowed from Collecting Fees in Advance

Starting Oct 27, one of the main practices of the tax resolution industry will be banned – the payment of fees in advance. This rule will be enforced by the Federal Trade Commission (FTC) with the introduction of the Telemarketing Sales Rule (TSR). This law also aims to eradicate unscrupulous practices in the industry such as making false claims about tax debt reduction and not delivering on what is promised. It also seeks to ensure greater disclosure among tax resolution firms.

Unfortunately, the collection of advanced fees is what keeps many of these tax relief firms afloat in their business. As such, many of these companies are trying to find some loophole in the new law to exploit. But the FTC has sternly warned against this attempt. Observers agree that although the FTC does not have the authority to create the new rules, it would be foolish to try to exploit them.

Nonetheless, it is understood that several firms may try to find ways to change their business models to escape the jurisdiction of the law. The TSR essentially does not apply to legitimate non-profit organizations therefore some debt resolution firms may take steps to convert from for-profit organizations to non-profit ones in order to be exempted from complying

with the TSR. But simply changing status without any change in operations is not sufficient, in fact, it would attract even more attention from the FTC.

Another possible 'loophole' is the fact that the TSR affects only inter-state telemarketing. Thus some debt relief companies may limit their calls to within their own state, only meet clients face-to-face or online or work alongside lawyers who meet clients in person. Experts believe that any dispute over such practices will likely end up in court where a decision on them will be decided by verdict of the court.

Some debt relief firms may try to find some alternative ways of interpreting the TSR in the way it is phrased.

It is highly likely that the FTC will watch over such efforts in detail and will likely focus its early regulatory enforcement efforts on such practices. Despite all this, there are legitimate concerns over the TSR. These mostly have to do with certain aspects that are unclear such as who actually is (or is not) covered by this law, is collecting upfront fees allowed etc.