

News from Attorney General Robert Abrams

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ABRAMS OBTAINS ORDER HALTING SALE OF TAX SHELTERS;
ALLEGES MULTI-MILLION-DOLLAR FRAUD

Attorney General Robert Abrams announced today (Friday) that he had obtained an order temporarily enjoining a group of New York City and Long Island companies from selling fraudulent tax shelters. The order also requires the promoters to appear in Manhattan Supreme Court May 9.

In court papers, the Attorney General alleged the scheme involved the leasing of an energy-saving device to commercial and industrial customers. Promoters promised victims that investments in the operation would entitle them to tax credits of \$10,000 each, though the write-offs are in fact unlikely to be allowed by federal and state tax authorities.

Mr. Abrams said tens of thousands of purchasers in New York and other states have already paid as much as \$6,500 each for investments offered by First Energy Leasing Corp., of 222 Middle Country Road, Smithtown, the related firm Encon Enterprises, Inc., and 55 additional companies and individuals named in his suit. The president of First Energy Leasing is James Marci of 15 Welbourn Lane, Coram, New York.

In an affidavit filed in Supreme Court, the Attorney General said one of the alleged promoters of the scheme sold the fraudulent tax shelters to approximately 3,000 investors for a total of more than \$15 million during the last half of 1983. The total number of sales to date is not yet known, Mr. Abrams said.

Selling the investments with the representation that they will entitle purchasers to the promised tax credits is fraudulent, the Attorney General charged. At least one investor has already been advised by the Internal Revenue Service that the claim of a \$10,000 tax credit for investments in the First Energy shelters is likely to be challenged, and other investors are likely to find that neither the federal government nor New York State is willing to grant the credits the sellers have advertised.

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He said operators of the scheme sell investments in a device called the "Encon 1000," which the promoters claim is of value in conserving electricity in commercial and industrial applications. By inflating the value of the device to \$100,000 -- when it in fact contains about \$200 worth of parts and has a fair market value of no more than \$3,000 -- the promoters of the scheme are able to convince their victims that their investments will entitle them to a 10-percent investment tax credit of \$10,000.

Mr. Abrams charged that the \$100,000 figure is a gross exaggeration, arrived at through "collusive sales" among the related companies and "misleading engineering proposals." He also charged that First Energy Leasing misused a Touche Ross accounting report in an attempt to give credibility to its inflated valuations of the conservation device.

The temporary restraining order signed by Justice Thomas J. Hughes of Manhattan Supreme Court requires the respondents to turn all their records over to the Attorney General for inspection and to give testimony about their operations when they appear for the May 9 hearing.

Handling the matter for the Attorney General are Assistant Attorneys General Mark A. Tepper, and Rebecca Mullane under the supervision of Orestes J. Mihaly, Chief of the Bureau of Investor Protection and Securities.