

**SEC v. Profit Connect Wealth Services, Inc., et al.**  
**Potential Tax Ramifications to Investors**  
**in Profit Connect Wealth Services, Inc.**

**PURPOSE:** To inform investors of the POTENTIAL TAX RAMIFICATIONS of their investments in the securities offerings of Profit Connect Wealth Services, Inc. (“Company”).

**NOTE:** *This information is not intended to be tax advice. It may or may not be applicable to an individual investor’s situation, and because the Receiver continues his investigation, the statements contained herein are preliminary and subject to change as additional information becomes available to the Receiver. Each individual should consult with a qualified tax advisor such as a Certified Public Accountant or tax attorney to determine the appropriate tax treatment based on his or her specific circumstances.*

As you are likely aware, the United States Securities and Exchange Commission (“SEC”) filed lawsuits against the Company and certain individuals alleging that various securities offerings of the Company including principally the “Wealth Builder Accounts” among others, represented a Ponzi-like scheme, where proceeds from investors were used to pay promoters, other investors and for the personal benefit of named defendants. The SEC has charged each of the defendants with multiple counts of fraud in the offer or sale of and in connection with the purchase or sale of securities violations.

Pursuant to a motion filed by the SEC, the federal district court of Nevada (“Court”) approved the appointment of Geoff Winkler as receiver (“Receiver”) for the Profit Connect Wealth Services and its subsidiaries and affiliates (“Defendants”). As Receiver, Mr. Winkler has taken control of all known assets and continues to investigate and search for additional assets that can be recovered and is in the process of summarizing all transactions related to the Company’s business. The Defendants did not maintain adequate, if any, books and records, so the Receiver is tasked with reconstructing the books and records from the inception of the business (2018) through his appointment.

The Receiver has filed two interim reports, providing summaries to the Court of the Receiver’s initial findings as well as ongoing investigative efforts and activities. As more fully explained in the reports, it appears that in excess of \$24 million was raised from approximately 450 investors. As of March 4, 2022, the Receiver holds cash funds for the benefit of the receivership estate totaling \$8,847,682. The Receiver continues to investigate potential asset recoveries for the injured investors and liquidate remaining assets currently held by the receivership estate, including real property in Las Vegas and Searchlight, Nevada, and miscellaneous personal property. However, as noted above and outlined in the Receiver’s interim reports, the Receiver will continue his investigation to discover and recover additional assets.

**IRS Circular 230 Notice:** *Please be advised that, based on current IRS rules and standards, the information and advice above was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. If this message is provided in any manner to another taxpayer, he or she cannot use the advice and should seek advice based on his or her own particular circumstances from an independent tax advisor.*

*Our research, observations and conclusions are based upon the applicable facts as presented to us. As with any area of tax law, absolute assurances can never be given. The Internal Revenue Code, regulations, case law and applicable state laws relied upon herein may change after the date of this memo in a manner that could affect our observations and advice.*

*Please also be advised that the information presented in this memo was not provided in connection with the development and/or issuance of a tax opinion, nor should such information be construed an opinion upon which any person may rely.*

**SEC v. Profit Connect Wealth Services, Inc., et al.**  
**Potential Tax Ramifications to Investors**  
**in Profit Connect Wealth Services, Inc.**

It appears that the Company issued Forms 1099 to agents and/or investors in prior years. The Receiver will issue limited Forms 1099 to agents and/or investors for 2021. Consequently, you and your tax adviser should determine whether any payments received by you represent taxable income. In this regard, you should consider the allegations of the SEC's complaint and the Receiver's interim reports, which are available on the Receiver's website – [www.profitconnect-receivership.com](http://www.profitconnect-receivership.com). You should also understand that the Receiver may seek to recover "commissions" and "phantom" profits that may have been paid.

While there may be other applicable regulations and code provisions, you and your tax adviser may find the following useful:

**THEFT LOSS:**

The Internal Revenue Code ("IRC") §165(a) provides that "there shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise." IRC § 165(c) provides that "in the case of an individual, losses shall be limited to (1) losses incurred in a trade or business, (2) losses incurred in a transaction entered in to for profit, though not connected with a trade or business; and (3) losses of property from fire, storm, shipwreck, or other casualty, or from theft." Under IRC Reg. § 1.165-8(d), the term "theft" shall be deemed to include, but shall not be limited to larceny, embezzlement, or robbery.

The precedent case applicable, *Edwards v. Bromberg*, 48 AFTR 1719, (DC- GA), 04/28/1955, states that for tax purposes, theft is a word of general and broad connotation, typically covering any criminal appropriation of another's property to the use of the taker, including theft by swindling, false pretenses, and any other form of guile. Obtaining money under false pretenses may constitute fraud and thereby constituting theft under state law. Investors in pyramid, or Ponzi, schemes may be entitled to a theft loss as victims of a fraudulent scheme.

IRC §165 further clarifies that theft losses must be deducted in the year the theft is discovered. The year of discovery is deemed to be the year a "reasonable person" would have discovered the loss. Since 2021 was the year the above-referenced actions were filed by the SEC, it might be considered that 2021 is the year a "reasonable person" would have discovered any theft loss in connection with these transactions.

***You should discuss this issue with your tax advisor. We cannot provide specific tax advice to you.***

**IRS Circular 230 Notice:** *Please be advised that, based on current IRS rules and standards, the information and advice above was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. If this message is provided in any manner to another taxpayer, he or she cannot use the advice and should seek advice based on his or her own particular circumstances from an independent tax advisor.*

*Our research, observations and conclusions are based upon the applicable facts as presented to us. As with any area of tax law, absolute assurances can never be given. The Internal Revenue Code, regulations, case law and applicable state laws relied upon herein may change after the date of this memo in a manner that could affect our observations and advice.*

*Please also be advised that the information presented in this memo was not provided in connection with the development and/or issuance of a tax opinion, nor should such information be construed an opinion upon which any person may rely.*

**SEC v. Profit Connect Wealth Services, Inc., et al.**  
**Potential Tax Ramifications to Investors**  
**in Profit Connect Wealth Services, Inc.**

Another relevant case, *Kaplan v. U.S.*, 100 AFTR 2d 2007-5674, Code Sec(s) 165; 7422, (DC FL), 08/15/2007 could have an impact on the ability of investors to seek refunds of taxes previously paid and the timing of any theft loss deduction and should be considered by you and your tax advisor.

The amount of the theft loss is the taxpayer's adjusted basis in the property. Like any loss, a theft loss is not deductible while there is a reasonable prospect of recovery or reimbursement. Such a prospect postpones the deduction until the prospect no longer exists, but only to the extent of any potential recovery. If a theft loss is claimed and a taxpayer subsequently receives a reimbursement, the taxpayer must recognize income in the year of recovery, subject to the limits of the tax benefit rules of Section 111 of the Internal Revenue Code.

**Revenue Procedure (Rev. Proc.) 2009-20** provides an optional safe harbor treatment for taxpayers that experience losses in certain investment arrangements discovered to be criminally fraudulent often in the form of "Ponzi" schemes. Additionally, **Revenue Ruling (Rev. Rul.) 2009-09** describes the proper income tax treatment for losses resulting from these Ponzi schemes. Both Rev. Proc. 2009-20 and Rev. Rule 2009-09 can be found on the Receiver's website.

An important point of clarification is that to qualify as a theft loss, the theft must be imposed directly on the taxpayer. Thus, for example, if a person's IRA or 401(k) plan purchased the investments, the IRA or the 401(k) plan is considered the "taxpayer" and not the individual who is the beneficiary of the IRA or 401(k) plan.

The Receiver hopes the above information is helpful to you and your tax adviser. ***As indicated above, this information is not intended to be tax advice. It may or may not be applicable to an individual investor's situation, and because the Receiver continues his investigation, the statements contained herein are preliminary and subject to change. Each individual should consult with a qualified tax advisor such as a Certified Public Accountant or tax attorney to determine the appropriate tax treatment based on his or her specific circumstances.***

**IRS Circular 230 Notice:** *Please be advised that, based on current IRS rules and standards, the information and advice above was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. If this message is provided in any manner to another taxpayer, he or she cannot use the advice and should seek advice based on his or her own particular circumstances from an independent tax advisor.*

*Our research, observations and conclusions are based upon the applicable facts as presented to us. As with any area of tax law, absolute assurances can never be given. The Internal Revenue Code, regulations, case law and applicable state laws relied upon herein may change after the date of this memo in a manner that could affect our observations and advice.*

*Please also be advised that the information presented in this memo was not provided in connection with the development and/or issuance of a tax opinion, nor should such information be construed an opinion upon which any person may rely.*