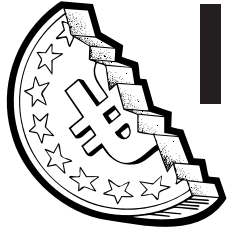


Scott Kauffman's...



# IRS Tax Advocate



A Legal Newsletter

*"Read About Taxpayers with IRS Problems & Learn  
Helpful Tips on How To End Them."*

Volume VI, Issue 19  
Friday, 9:47 AM

Learn How to Avoid

# IRS

problems and solve  
them if you find  
yourself with one!

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## ACTOR WESLEY SNIPES INDICTED FOR TAX EVASION

Actor Wesley Snipes has been indicted for filing false tax-refund claims and failing to file personal income tax returns for six years. The charges stem from an illegal scheme that asserts United States citizens only have to pay taxes on income earned from foreign sources. If convicted upon all counts, Mr. Snipes could be sentenced to 16 years in prison. Also indicted was Eddie Ray Kahn of Sorrento, Florida, who headed a business that promoted and sold the fraudulent tax scheme to more than 200 individuals. Also indicted was Mr. Snipe's accountant, who received 20% of any refunds received by clients. Mr. Snipes allegedly filed fraudulent refund claims for 1996 and 1997 claiming refunds totaling \$12 million.

## IRS CRACKS DOWN ON NEVADA CORPORATIONS

Escalating its assault on cheating, the IRS is turning up the heat on tax cheats who conceal their income by exploiting cracks in state business formation laws that permit hidden ownership or control. It is focusing on individuals or small groups whose tools include use of corporations, trusts, partnerships, and limited liability companies. Some taxpayers will form a company, conceal their ownership and use it to claim phony expenses. Other taxpayers create sham, one-person, tax-exempt religious corporations. The problem is particularly severe in Nevada, and the IRS is expanding the number of audits of people involved in forming Nevada corporations. The IRS is also investigating promoters in order to obtain their client lists.

## FOUR TIPS: DON'T GIVE AWAY YOUR SECRET; PREPARE YOU CASE

Tax season is upon us, and if you're like most, at some point you'll have a taxpayer's worst nightmare: The audit. And, here's the bad news: While audits aren't routine, more of them are being done every year. That's because Uncle Sam has hired hundreds of more agents to track down tax cheats. One million individual returns were audited last year, up 19 percent since 2003. And the IRS is zeroing in on the wealthy, increasing its audits on individuals making \$100,000 or more a year by 40 percent. What should you do if you get a nasty letter from them? Here are four tips.

## IRS STEPS UP CHARITY CRACKDOWN

The IRS is stepping up its crackdown of donor-advised funds, which are popular among the wealthy. These funds allow taxpayers to donate money for an immediate tax deduction, but then dole it out over time to charities. The funds legally control the money, but the donor suggests which causes receive the money and when. The funds require minimum initial gifts of \$10,000 to \$25,000 and charge fees of up to 1% for administering and investing the money. The IRS is claiming that all too often the money given is not used for charitable purposes and is sometimes used to benefit the donors. For example, in 2002, singer Britney Spears became enmeshed in a legal fight with the Boston based Giving Back Fund. In court documents, the fund alleged that Ms. Spears' agent threatened to move the pop star's charity giving to another fund if the fund refused to hire her friend, John McMahon, a former New York City police officer.

1. Don't give away your secrets. You may well find out you're being audited by telephone, not letter. And, you probably won't be told you're being audited, more likely the agent will say either you're being "examined" or you need to "verify items reported in your return." Don't take this as an opportunity to talk about your filing off the top of your head. After all, the agent may have your actual return in front of him. Direct the IRS rep to your tax attorney or tell them you will get back to them with the information they need.
2. Get professional help. There's no better reason to hire a tax professional than getting audited. Believe me, this can be an expensive situation: in fiscal 2004 alone, the IRS brought in a record \$43.1 billion in enforcement revenue -- they aren't messing around. So hire someone to help you deal. Tax attorneys are an excellent resource for help.
3. Prepare your case. Gather together your documents to present your case. That means getting all of your original receipts, credit card statements and cancelled checks (or copies) that prove your case. You may be able to handle the issue by mail, if it's fairly straightforward. If not, you'll probably appear in front of an auditor at an IRS office. Worst-case scenario, the agent comes to your business where they will have the option of sorting through your files for information.
4. Fight or just settle? If the error or oversight is yours, you're best off settling quickly. Agents are judged by their superiors by how many audits they process, not just how much money they recover in an audit. The settlement process works like this: your auditor proposes an adjustment to your return and you have to pay it. If you want to fight, check out Publication 556, which will guide you through the appeals process. Most appeals are settled without going to court.

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## REWARDS RAISED FOR TIPS UNCOVERING LARGE TAX FRAUDS

Rating on thy neighbor is now even more rewarding. Recent legislation authorizes the IRS to pay larger rewards to informants in large dollar cases, in some instances as much as 30% of what the IRS collects. Congress is hoping more people will be encouraged to step forward with valuable tips to collect additional revenue and narrow the country's "tax gap." Even with the changes, you should think twice before turning someone in. IRS officials have a long history of rejecting most reward claims, saying the tips produced little or no helpful information. Many tips come from people seeking revenge against a former spouse or employer. Since the late 1960s, the IRS has received a total of \$258,000 reward claims and has issued rewards on only about 20,000, or slightly less than 8%.

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# CHECK

Look back at newsletter issues,  
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advice at my website"

[www.besttaxadvocate.com](http://www.besttaxadvocate.com)

# IT OUT

## IRS' TOUGHER STANCE FACES RESISTANCE

After being portrayed as intimidating thugs in the 1990's, the IRS donned a friendlier face and emphasized taxpayer services. But now it's taking a tougher stance, focusing upon tax cheats. Last year the IRS audited nearly 200,000 taxpayers earning \$100,000 or more – double the number audited four years earlier. Since 2004, the IRS has collected nearly \$4 billion under a settlement initiative that required the full payment of taxes plus penalties. Collections from increased enforcement measures rose 15% last year to a record \$43.1 billion from the year before. Now though, the IRS's strategy is under fire from those who say service cutbacks hurt taxpayers trying to navigate the complex tax process. Recently, the IRS suspended plans to close 68 of its 400 walk-in assistance centers. The IRS's tougher position reflects its concern about the widening tax gap – the difference between taxes owed and those collected. The gap was \$353 billion in 2001, more than twice the amount in 1981 and three times the amount in 1973 (using 2001 dollars). To crack down on illegal schemes, the IRS has added 790 auditors, bringing the total to around 10,000 (which is still 40% below the peak in the early 1990's). It has also obtained a \$500 million increase in enforcement funding.



## SURFING CHAMP HEADED TO PRISON

Surfing champion Sunny Garcia has been sentenced to three months in federal prison for failing to pay taxes on more than \$417,000 in prize money won riding waves from Fiji to Brazil. Garcia, whose given name is Vincent Sennen Garcia, looked gloomy as the sentence was handed down, but outside the courtroom he quickly regained the cheerful demeanor that earned him his nickname. "I feel good, considering," he said. "It's a weight off my shoulders." The six-time winner of surfing's Triple Crown pulled in more than \$1 million in prize money during his five years on the professional tour. U.S. District Court Judge Thomas J. Whelan ordered Garcia, who lives in Newport Beach, to spend seven months in home confinement after his release and perform 80 hours of community service. The judge gave him six months to pay fees and penalties to the IRS. Garcia apologized to the court, and said outside the courtroom that he had been overwhelmed by the amount of money he made surfing. "I didn't surf because I thought I was going to make money at it," he said. "But coming from a poor family, you want to buy everything you never had. I spent my money foolishly."

The 36-year-old surfer rose from a hardscrabble childhood in Oahu, Hawaii, to the top of the sport, dropping out of high school to compete full-time in 1986. He retired in 2005, saying that he wanted to spend more time with his family after 20 years chasing waves around the world. On Wednesday he said he intends to compete in next year's Triple Crown competition and is considering a return to the pro circuit. "I want to go out having fun instead of with this on me," he said.

## SURVIVOR STAR FOUND GUILTY

Richard Hatch, who won \$1 million in the first season of "Survivor," has been found guilty of failing to pay taxes on his winnings. Hatch was handcuffed and taken into custody after U.S. District Judge Ernest Torres said he was a potential flight risk. He also was convicted of evading taxes on \$327,000 he earned as co-host of a Boston radio show and \$28,000 in rent on property he owned. He was acquitted of seven bank, mail and wire fraud charges. Hatch, 44, faces up to 13 years in prison and a fine of \$600,000. Jurors deliberated for less than a day after more than a week of testimony. Besides the tax charges, prosecutors accused Hatch of using money donated to his charitable foundation, Horizon Bound, an outdoors program he planned to open for troubled youth. He allegedly spent the money on expenses including tips to a limousine driver, dry cleaning and tens of thousands of dollars on improvements to a house he owned.

Near the end of the trial, an explanation for Hatch's failure to pay taxes was raised by his lawyer -- but never mentioned in the jury's presence. Hatch's lawyer, Michael Minns, said Hatch caught fellow contestants cheating and struck a deal with the show's producers to pay his taxes if he won. But

## BOGUS TAX REFUND CLAIMS

A prison inmate told a House Ways and Means subcommittee that bogus tax-refund claims are popular in prison. The 37-year old inmate, identified only as John Doe, testified that he has filed as many as 700 returns claiming \$3.5 million in phony refunds. John Doe said that with the cash, "I bought new shoes, a color T.V., a jam box, and lots of drugs. The Treasury Inspector General for taxes estimates prison inmates received \$14.7 million in false tax refunds in 2004.

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Hatch was never asked about the allegation when he testified. Instead, Minns told jurors that Hatch, who lives in Newport, was the "world's worst bookkeeper" and said his client never meant to do anything wrong. Hatch testified that he thought producers were supposed to pay his "Survivor" taxes, and said the donations he took from his charity were far less than the money he had already poured into it.

More than five years after winning, Hatch remains reality TV's most famous villain, the man viewers loved to hate. He first captured their attention for shedding his clothes on "Survivor," prompting David Letterman to call him "the fat naked guy." But he made the biggest impression -- and won the show -- by scheming his way to the top. He reveled as squabbles among his fellow contestants thinned their ranks, connived with teammates to stick together then pitted his allies against each other. Early on, he used his success on the show to get more work, including a "Got Milk?" ad and an appearance on "Survivor All-Stars" -- where he was voted off by fellow contestants. He also appeared on TV game shows, including "The Weakest Link." That appearance, made on behalf of Horizon Bound, netted a \$10,000 donation to his charity camp -- money prosecutors said was among the funds misused. But Hatch's shrewdness did not serve him well in the legal world. A year ago, prosecutors offered him a deal: plead guilty to two counts of tax evasion and they would recommend less than the maximum 10-year sentence. After initially agreeing, Hatch walked away, retaining Minns as his new lawyer and appearing on NBC's "Today" show to claim that CBS was supposed to pay the taxes. Prosecutors responded with a grand jury, which indicted Hatch on 10 counts carrying a maximum of 73 years in prison and millions of dollars in fines. During the trial, prosecutors called witnesses, including Mark Burnett, executive producer of "Survivor." Burnett testified that Hatch's "Survivor" contract stated he would have to pay taxes on his prize. Minns never asked him about the cheating allegation, and Burnett and CBS declined to comment about it.

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