

**NONFILEER MUST NOT
CHALLENGE IRS
AUTHORITY**

William F. Wadsworth, of Mansfield, Ohio must place an advertisement in the Mansfield, Ohio daily newspaper as a part of his plea to income tax evasion. In the newspaper advertisement, Wadsworth must state that he recognizes that he is the subject to the obligation to file federal income tax returns and pay federal income taxes on his taxable income, including income from his business. Wadsworth must also disavow prior statements he has made challenging the authority of the IRS to enforce the federal tax laws as they apply to him, and apologizes to anyone who may have been misled by his statements. According to court documents filed, Wadsworth failed to file federal income tax for the years 1995 through 1997, years that yielded approximately \$199,958. The indictment further charges that he willfully attempted to evade his federal income taxes for 1996 and 1997 by engaging in additional affirmative conduct of: (1) cashing business receipt checks and not depositing receipts into bank accounts; (2) paying for business expenses by currency, or by money orders and cashier's checks purchased with currency, or by having customers send payments to business creditors; and (3) paying for personal expenses and assets with currency and with money orders and cashier's checks purchased with currency. William F. Wadsworth was sentenced to three years probation, with the first six months in home confinement with electronic monitoring.

say the fact that they never win shows that the government is a criminal organization that illegally extracts taxes and unjustly imprisons those who challenge it. When the government shut down tax frauds like Renaissance/ The Tax People, which had its headquarters in Topeka, Kan., and the National Audit Defense Network in Las Vegas, the frauds did not end. "Out of the ashes of this, at least 15 other scams have arisen," said Biff Leonard, the Las Vegas lawyer appointed by a court to oversee the assets of the audit defense network. Its boiler room occupied nearly an acre of office space, collecting \$35 million annually in fees, half of which the owners took as profit. Customers of those scams, meanwhile, are now receiving notices that their returns are being audited. The audit network sold a single Web site 17,000 times, to more than 10,000 people, each of whom claimed a \$5,000 credit and other tax benefits that the I.R.S. is now denying. Other operators, like David Struckman, a fugitive in a federal tax case, simply move their operations to Panama, Costa Rica or elsewhere. Kevin Brown, the I.R.S. commissioner for small business, says that technology has helped spread tax fraud. "What was peddled in Holiday Inn conference rooms on a Saturday" to small groups, he said, "is now a 24/7 business on the Internet, which makes it easier to spot, but also makes it easier to disseminate." The latest official estimate is that \$225 billion of federal income tax is evaded each year, although the National Taxpayer Advocate at the I.R.S., and most tax specialists, think the figure is higher, perhaps more than twice the official estimate. The I.R.S. has an efficient system to identify tax cheating by wage earners, whose salary, bank interest, dividends and mortgage interest are all independently reported to the government. As a result, most tax evasion schemes these days focus on investors and business owners. The agency has acknowledged that its antiquated computer software cannot catch many types of cheating by investment partnerships, business owners and landlords. Often, tax cheating can be seen by human eyes reading forms filed with the I.R.S., but with a third fewer audits than it had 15 years ago and far more returns to examine, the I.R.S. relies mostly on computers, which are often blind to frauds operating in plain sight.

Scott Kauffman, A Professional Law Corp.
18881 Von Karman Ave., Suite 1225
Irvine, California 92612

PRESORTED STD
U.S. POSTAGE
PAID
Santa Ana, CA
Permit No. 3

Return Service Requested



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!

Inside This Issue...

- Tax Schemer Looking For Better Deal.....page 1
- Attention shoppers:
Pay Your Sales Tax.....page 2
- IRS To Begin Outsourcing
Debt Collection.....page 2
- Six Convicted in
Tax-Shelter Case.....page 2
- California Firm Looking
To IRS Bonanza.....page 2-3
- IRS Zeros In On
California Doctors.....page 4
- IRS Gets New Weapons In Battle
Against Abusive Tax Shelters.....page 4
- Western North Carolina Business Men
Convicted On Tax Charges.....page 4

**ORANGE COUNTY ANTI-TAX
CRUSADER ARRESTED**

A nationally known anti-tax crusader who ran for governor of California in 2002 was arrested in Huntington Beach by federal authorities and later charged with conspiring to avoid currency reporting requirements and filing a false claim for payroll taxes. George Henry "Nick" Jesson, 54, pleaded not guilty at his arraignment in U.S. District Court in Los Angeles. He and his wife, Trina Thi Vu, face a July 25 trial in state court on six felony charges alleging that they failed to pay state taxes on \$3 million in income from 1997 to 1999. Jesson was arrested at his company, No Time Delay Electronics, without incident, said Gary Tang, spokesman for the Internal Revenue Service criminal division in Los Angeles. The indictment alleges that Jesson, of Fountain Valley, structured financial transactions to evade IRS currency reporting requirements. Federal law requires reports on all transactions that involve more than \$10,000 in cash. Jesson allegedly failed to file reports on more than \$920,000 from April 2000 to August 2004. Jesson also is accused of filing a false federal employment tax form in May 2000, contending his business paid no wages in 1997. If convicted on the federal charges, Jesson could face up to 10 years in prison and a fine of \$500,000. Court documents in the state case alleged that the couple reported their taxable personal income as zero for 1997 through 1999. If convicted on the state charges, Jesson could face up to nine years in prison. His wife could face seven years. Each is free on \$250,000 bail in that case. Jesson has been involved with We the People Foundation for Constitutional Education, a tax-protesting group that bought a full-page ad in USA Today in 2001 to declare that the government did not have the authority to collect taxes from paychecks

**TAX AMNESTY MAY SET RECORD
CALIFORNIA AGENCIES GAIN AT LEAST \$550 MILLION SO FAR**

A late flood of applications and checks has California's tax amnesty on pace to surpass its revenue target. The state estimates that it netted at least \$550 million in unpaid taxes from the amnesty program so far. The Franchise Tax Board and the Board of Equalization initially projected they would haul in \$572 million this fiscal year, and \$175 million more next fiscal year. But the



AFTER IRS REVAMP, FOCUS IS ON TAX CHEATS

It's all about enforcement. Just months into his five-year term as commissioner of the IRS, Mark W. Everson says his administration has three themes: Reinforce and build on the restructuring efforts that have significantly improved the agency's historically dismal customer service records (I'm sorry but I missed this); Fix technological problems that have dogged the IRS despite billions of dollars spent to modernize its systems; aggressively pursue tax cheats. Both run-of-the-mill underpayment and outright fraud have soared since the 1998 Restructuring Act. By shifting the IRS's focus, the restructuring dramatically reduced the number of IRS examiners and led to a steady decline in audit rates. In 2001, only 0.48% of all returns were audited, down from 1.4% in 1995. All employees on the enforcement side fell by 30%. This happened at the same time as the decline in auditing standards at the large accounting firms and a real problem with corporate governance. A recent survey showed that the percentage of Americans who believe it's ok to cheat on their taxes increased to 17% from 11%. The IRS says, however, that the chances of getting caught are increasing for a number of reasons: The restructuring has allowed the IRS to become smarter (this is a relative term, of course) about which taxpayers to go after. The IRS is now organized along business lines and has developed a specialist system in which agents all over the nation are trained to work with particular types of taxpayers. Agents are also encouraged to communicate with their counterparts in other regions discussing regional and national trends. The IRS recently hired 800 auditors and intends to hire another 800 in June. Thanks to the slow economy, the IRS is getting better college graduates, those who in better times would have been recruited by accounting firms. The IRS also has redirected its own criminal investigative staff to better concentrate on tax fraud. The IRS also has launched a massive effort to ferret out offshore accounts used by U.S. citizens to illegally avoid tax. This has given the IRS a massive amount of information about promoters and their scams.

CHECK

Look back at newsletter issues, articles I've written, and general advice at my website

www.besttaxadvocate.com

IT OUT

number that has Sacramento salivating is the more than \$3 billion in cash that was pulled in by the amnesty program but technically isn't counted in the same ledger. Most of the \$3 billion came from corporations that passed up the amnesty but cut checks to avoid post-amnesty penalties. Many will soon apply for refunds, a process denied to corporations or individuals who sought amnesty from the FTB. What lawmakers want to know is how much of that windfall the state will keep, because it could go a long way toward closing an \$8.6 billion gap in the state's \$112 billion budget.

STATE'S TAX INFORMANTS MAY GET A PIECE OF THE ACTION

Got a neighbor bragging about using the Nevada address of his weekend ski condo to avoid paying California taxes? State tax authorities want you to rat him out. And soon they may be able to make it worth your while. The Franchise Tax Board, California's version of the IRS, is proposing to offer snitches cash rewards for stepping forward. Under the plan, which is part of Gov. Arnold Schwarzenegger's proposed budget, tax officials would give confidential informants as much as 10% of the unpaid taxes collected from their neighbors, bosses, spouses or any other scofflaws they report. It is part of the state's continuing effort to get at the roughly \$6.5 billion in taxes that authorities say is owed each year but not paid. Privacy advocates say the plan is more than a little creepy. "The government shouldn't be paying people to snoop into the tax filings of other people," said Teresa Casazza of the California Taxpayers Assn., a business advocacy group. "Based on a hunch that you are going to make some money, you might look through someone's garbage, monitor conversations or maybe try to blackmail them." Officials don't want hunches based on the spending habits of the guy next door. They want bank account numbers, canceled checks and receipts that help them go after big fish: people and companies hiding more than \$50,000 in income.

TAXPAYERS STIFF IRS BY NEARLY \$300 BILLION

Most Americans pay federal taxes when they are due, but there is still a yawning gap, according to the IRS after a three-year study, between what taxpayers owe and what they pay. The major source of the gap (about 80%) is from taxpayers underreporting their income. The majority of taxpayers, the IRS discovered, understate their income rather than overstate deductions. And the income underreported is mostly from business activities (small businesses and self-employed), rather than wages and investments. The other sources for the tax gap are underpayment of taxes and non-filing of returns. Since 2001, the IRS has collected almost 28% more in enforcement revenue (the money the IRS collects in late taxes and penalties as a result of audits and other collection efforts).

CRIMINAL DEFENSE ATTORNEY PLEADS GUILTY

David E. Kenner, whose law offices are in Encino, California, pleaded guilty to earning \$4,085,539 in gross income in 1994 but failing to file his return for that year. Kenner also failed to file his return even after he was advised he was under criminal investigation. Kenner finally filed his return on December 2, 1997. He was ordered to participate in a 9-month home detention program that includes electronic monitoring and placed on probation for three years. Also, Kenner was ordered to participate in a psychological/psychiatric counseling or treatment program and to pay \$1,500 to the Government for the costs of prosecution.

Scott Kauffman, PLC

18881 Von Karman Avenue

Suite 1225

Irvine, CA 92612

Ph: 949-474-1820

Fx: 949-474-1823

besttaxadvocate@email.com

www.besttaxadvocate.com



"You just type in 5-10 years and press 'send.'"

ANOTHER INCOME TAX DENIER HAS HIS DAY IN COURT

Al Thompson gathered two dozen employees of his California manufacturing company, Cencal Aviation Products, four years ago and announced that he had stopped withholding taxes from their paychecks. Mr. Thompson went on to tell his workers that he believed that Americans were tricked into paying taxes and then introduced his new accountant, Joseph R. Banister, a former Internal Revenue Service criminal investigator who travels the country advising business owners that the tax laws are a fraud. Mr. Thompson has since been arrested and is scheduled to go on trial in Sacramento for willful failure to file tax returns and failure to turn over more than \$500,000 that should have been withheld. The trial is expected to last three weeks, and a major piece of evidence will be a videotape of the gathering, which showed Mr. Thompson and Mr. Banister being questioned about court rulings that have rejected similar antitax arguments. His case illustrates some of the reasons that tax evasion is growing, despite repeated statements by the Internal Revenue Service that it is cracking down on those who deny the legitimacy of the tax laws. The Internet, antigovernment news organizations and dwindling law enforcement resources are all factors in the spread of the tax denial movement. The case also highlights a change in tactics by the Justice Department tax division. Criminal cases often take years to develop, allowing tax frauds to continue. For decades, I.R.S. policy was that once a case was treated as criminal, all civil actions ceased. But in 2001, the Justice Department decided to use civil injunctions in tandem with criminal investigations. Now, within weeks of learning about various tax frauds, Justice Department lawyers ask federal judges to issue orders to shut down Web sites and require promoters to turn over lists of customers and other actions. The lawyers have been successful in their cases each of the 121 times they have asked judges to take action. In Sacramento, Judge Frank C. Damrell Jr. of United States District Court ordered Mr. Thompson in 2003 to turn over more than \$500,000 that should have been withheld as taxes and to file tax returns. Mr. Thompson refused to obey, saying the judge had no authority. Last March, Judge Damrell had him arrested. At his trial Mr. Thompson, who is representing himself, is expected to argue that he sincerely believes Congress repealed the tax laws in 1939 and never properly enacted new laws. In a 1991 tax protester case, the Supreme Court ruled that John Cheek, a pilot, could not be convicted of willful failure to file tax returns because he "sincerely believed" he was not required to do so. Mr. Cheek still owed the taxes, however Mr. Thompson's defense will be complicated because of Judge Damrell's orders. Prosecutors are sure to argue that the civil order, as well as a separate state court proceeding, and the fact that Mr. Thompson was jailed three times for civil contempt, gave him ample reason to question whether his belief was mistaken. Prosecutors are expected to argue that he is willfully blind to the law. In the 92 years since the modern income tax began, people who deny the legitimacy of the tax laws have yet to win a case. But their ranks are growing. Their claims are spread by Internet news organizations, which laud them as heroes fighting what they call a conspiracy by the government and mainstream news organizations to trick Americans into paying taxes they do not owe. Tax deniers