

**NEW HAMPSHIRE TAX EVADERS IN CUSTODY AFTER STANDOFF**

Ed and Elaine Brown, who had refused to surrender to authorities after their conviction for tax evasion, were taken into custody after a five-month long standoff with federal agents. Mr. and Dr. Brown, who are in their sixties, had been holed up in their concrete-reinforced home in Plainfield, New Hampshire. They had been convicted of evading \$1.9 million in taxes. Mr. and Dr. Brown insisted throughout their ordeal that there was no valid law that required them to pay income taxes. Marshals cut off utilities to the house four months before taking the couple into custody, but it did not prove much of a hardship as they had a wind turbine, solar panels, and firewood.

**BRAD PITT DEDUCTED WHAT!**

Despite repeated warnings by Treasury officials, IRS employees still are getting nabbed for snooping through confidential taxpayer records without authorization. In some cases, IRS workers were curious about the lives of the rich and famous. In others, they wanted to know about an ex-spouse or neighbor, and in one case an employee was paid by an outsider for information that was used by identity thieves. In the last fiscal year, in excess of five hundred IRS workers were disciplined including suspensions and firings. Some face criminal prosecution. Former IRS Agent Robert Rosner was recently indicted for accessing the IRS computer and then contacting the head of a small business to solicit a bribe of \$5,000 in exchange for his terminating a non-existent audit.

**IRS & FTB TEAM UP ON PAYROLL TAXES**

The IRS is joining with more than a dozen states, including California, in an intensive effort to crack down on employment-tax violations and has signed information-sharing agreements with state labor agencies in 29 states. Among the key issues is whether a worker is an employee or an independent contractor. If an employer incorrectly classifies an employee as an independent contractor it can be held liable for the employment taxes it should have withheld plus penalties. Determining the difference between a worker and an independent contractor can be tricky. The IRS-state initiative also aims to detect businesses avoiding employment taxes by operating in the underground economy by making cash payments to workers and not reporting those payments to the IRS.

Scott Kauffman's...



**IRS Tax Advocate**



A Legal Newsletter

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Learn How to Avoid

**IRS**

problems and solve them if you find yourself with one!

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**THE DIRTY DOZEN**

The IRS has issued its annual list of the top 12 tax scams. Everything from schemes to get bank account and social security numbers to get off the hook for paying taxes. Taxpayers have forwarded to the IRS over 33,000 scam IRS e-mails. Tax rebates are also giving fraudsters a chance to bilk the unsuspecting by convincing taxpayers they will not receive their rebates unless they hand over financial information. The IRS urges taxpayers to avoid these common schemes: **1. Telephone Excise Tax Refund Abuses:** Early filings show some individual taxpayers have requested large and improper amounts for the special telephone tax refund. In some cases, taxpayers appear to be requesting a refund of the entire amount of their phone bills, rather than just the three-percent tax on long-distance and bundled service to which they are entitled. Some tax preparers are helping their clients file apparently improper requests. **2. Abusive Roth IRAs:** Taxpayers should be wary of advisers who encourage them to shift under-valued property to Roth Individual Retirement Arrangements (IRAs). **3. Phishing** is a technique used by identity thieves to acquire personal financial data in order to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for loans in their names. These Internet-based criminals pose as representatives of a financial institution — or sometimes the IRS itself — and send out fictitious e-mail correspondence in an attempt to trick consumers into disclosing private information. **4. Disguised Corporate Ownership:** Domestic shell corporations and other entities are being formed and operated in certain states for the purpose of disguising the ownership of the business or financial activity. Once formed, these anonymous entities are being used to facilitate the underreporting of income, non-filing of tax returns, listed

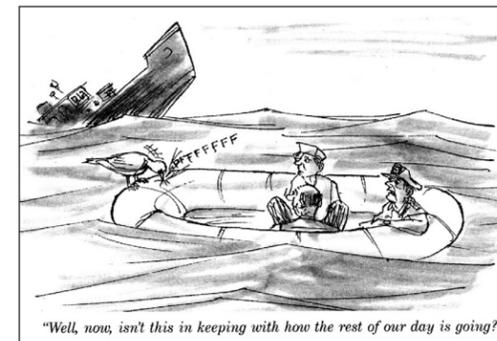
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## IRS GOING AFTER 1031 EXCHANGES

IRS is stepping up scrutiny of a popular strategy used by real-estate investors to defer payment of tax. IRS officials agreed to take action in response to a report by a Treasury Department unit urging it to improve its oversight of like-kind exchanges. Section 1031 exchanges allow participants to defer or avoid capital gains taxes when they sell business or investment property and replace it with a similar asset. The IRS believes too many taxpayers are pushing the envelope with exchanges involving property that is not like-kind or with related parties or incorrectly stating the basis figures or using vacation homes. The report stated that unscrupulous or uninformed promoters are taking advantage of the lack of oversight by the IRS.



"I see by your resume we were in the same prison."

# CHECK

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# IT OUT

transactions, money laundering, financial crimes, and possibly terrorist financing. **5. Zero Wages:** In this scam, a "corrected" Form 1099 showing zero or little income is submitted with a federal tax return. **6. Return Preparer Fraud:** Dishonest return preparers can cause many headaches for taxpayers who fall victim to their schemes. Such preparers make their money by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Some preparers promote filing fraudulent claims for refunds on items such as fuel tax credits to recover taxes paid in prior years. **7. American Indian Employment Credit:** Taxpayers submit returns and claims reducing taxable income by substantial amounts citing an American Indian employment or treaty credit. Although there is an Indian Employment Credit available for businesses that employ Native Americans or their spouses, there is no provision for its use by employees. **8. Trust Misuse:** For years unscrupulous promoters have urged taxpayers to transfer assets into trusts. They promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. **9. Structured Entity Credits:** Promoters of this newly identified scheme are setting up partnerships to own and sell state conservation easement credits, federal rehabilitation credits and other credits. The purported credits are the only assets owned by the partnership and once the credits are fully used, an investor receives a K-1 indicating the initial investment is a total loss, which is then deducted on the investor's individual tax return. **10. Abuse of Charitable Organizations and Deductions:** The IRS continues to observe the use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income. Contributions of non-cash assets continue to be an area of abuse, especially with regard to overvaluation of contributed property. **11. Form 843 Tax Abatement:** This scam involves the filer requesting abatement of a previously assessed tax using Form 843. Many using this scam have not previously filed tax returns and the tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program. **12. Frivolous Arguments:** Promoters continue to claim the Sixteenth Amendment concerning congressional

## CONVICTIONS MUSHROOM

Real estate tax fraud investigations are on the upswing at the IRS. The agency's criminal investigations division has doubled the number of investigations into mortgage fraud and others real estate schemes. At the same time, courts are imposing harsher sentences for real estate fraud. The IRS says that more than 4,000 returns are currently under audit involving individuals and entities associated with real estate business. The real estate boom in many parts of the country over the past few years has fueled phony real estate schemes. Some of the prevalent scams encountered by the IRS include: *Fraudulent Qualifications:* Buyers and unscrupulous real estate agents fabricate employment and credit histories to qualify for loans. *Fraudulent Settlement Statements:* In this scam, two sets of settlement statements are prepared. One, given to the lender, reflects a highly inflated sales price. The extra money is divided among the straw purchasers. *Unlawful Statements in Quick Sales:* Buyers purchase property at low prices and quickly resell them for a much higher price. Typically, these transactions involve false statements to lenders. Losses to lenders can climb into the millions of dollars. In one scheme in Indiana, 75 fraudulent loans were obtained on properties and after almost all of the loans went into default, lenders lost \$3 Million. Another scam in Indiana cost lenders \$ 8 Million. In 2003 the IRS initiated 215 investigations of real estate fraud in which income realized from the fraud went unreported. That compares to 106 in 2001 and 166 in 2002. The agency secured 81 convictions in 2003, up from 57 in 2002. The incarceration rate also rose over the same period of time from 72% in 2001 to 88% in 2003. Convicted defendants received average prison sentences of 46 months in 2003, up from 24 months in 2001.

power to lay and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. **How to Report Suspected Tax Fraud Activity.** Suspected tax fraud can be reported to the IRS using IRS Form 3949-A, Information Referral. Form 3949-A is available for download from the IRS Web site at IRS.gov, or by mail by calling 1-800-829-3676. The completed form or a letter detailing the alleged fraudulent activity should be addressed to the Internal Revenue Service, Fresno, CA 93888. You may also be entitled to a reward.

## IRS GOING AFTER HIGH EARNERS

The IRS is turning up the heat on high-income earners, especially the self-employed. Audits of taxpayers earning more than \$100,000 increased by 14% in 2006. Audits of those making more than \$200,000 increased by 29%, and those making more than \$1 million increased by 84%. The number of individual audits reached a 10-year high in 2007 and the IRS says it will increase the number of audits this year. Congress is exerting heavy pressure on the IRS to raise additional revenue to shrink the tax gap so it will not have to raise taxes. IRS research shows that much of the non-compliance is coming from the self-employed such as consultants and small business owners whose taxes are not withheld. IRS is also intensifying its focus on abusive tax shelters, partnerships, and S corporations, and it has uncovered significant noncompliance among foreign athletes and musicians who perform in the United States.

## DON'T SPEND THAT BIG REWARD JUST YET

Blowing the whistle on tax cheats could make you rich as long as you have hard evidence and a lot of patience. In some instances, the reward can be as high as 30% of what the IRS collects. The IRS has been receiving some large tips, including one alleging that one the world's biggest companies underpaid its taxes by more than \$2 billion. If successful, though, payouts generally don't begin until 4 to 7 years after the tip is received. Also, the IRS needs hard documents. Without them, they're not interested.