

IRS ZEROS IN ON CALIFORNIA DOCTORS

On November 4, 2004, the Department of Justice announced that a federal court in San Diego issued a temporary restraining order to X&ecute, lan, Inc., and a number of related entities and persons. The order freezes over \$500 million in banks and investment accounts. According to court documents, X&ecute advised thousands of medical professionals, doctors, and dentists to place income in various fraudulent tax avoidance schemes employing purported supplemental insurance products or improper charitable deductions. The defendants are estimated to have sold their fraudulent tax reduction schemes to approximately 4,000 doctors, who may now owe as much as \$420 million in taxes plus interest and penalties. One of the IRS's top priorities is combating abusive tax schemes and promotions, and for the last three years it has met with members of the American Medical Association and American Dental Association to educate medical professionals about scams, schemes, and cons being promoted to their members.



IRS GETS NEW WEAPONS IN BATTLE AGAINST ABUSIVE TAX SHELTERS

The IRS is getting powerful new weapons in its long-running war on bogus tax shelters courtesy of recent Congressional action. The new legislation includes substantial penalties for failing to disclose certain tax-motivated transactions. The new legislation is intended to significantly increase the cost and decrease the benefits of entering into a tax shelter. The legislation also increases the IRS's clout in governing the conduct of tax lawyers, accountants, and other tax professionals. Taxpayers still interested in investing in a shelter should be leery of promoters who tell them that they cannot check out their highly confidential ideas with anyone else. Be certain that you get an independent evaluation by a qualified tax expert who is not connected in any way with the transaction. Do not rely upon the boilerplate opinion letters that promoters wave at you. Avoid transactions that purport to produce large deductions or losses to offset the tax on unrelated income and that do not have meaningful economic consequences. .

WESTERN NORTH CAROLINA BUSINESS MEN CONVICTED ON TAX CHARGES

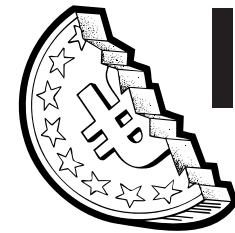
Patrick Grant Davis of Mooresville, NC, and Martin Louis Baucom of Matthews, NC, have been convicted on one count each of conspiracy to defraud the United States and three counts each of failing to file a tax return. Evidence introduced at trial showed that from 1995 to 1997, Davis and Baucom failed to file personal tax returns despite having gross income far exceeding the minimum filing requirements. In addition, the evidence also showed that from 1993 through 2002, Davis and Baucom conspired to impede and impair the lawful function of the Internal Revenue Service in the ascertainment and collection of taxes by conducting their business in such a way as to conceal their true income. The evidence also showed that Davis and Baucom failed to file partnership and employment tax returns relating to their land surveying business, Baucom-Davis and Associates.

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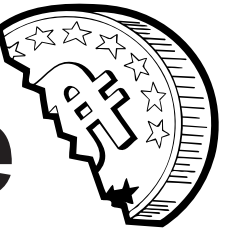
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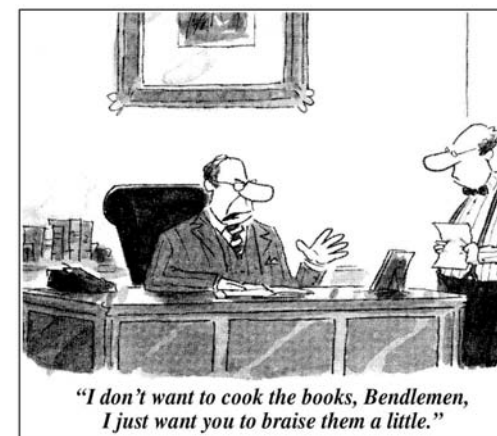
Learn How to Avoid
IRS
problems and solve
them if you find
yourself with one!

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TAX SCHEMER LOOKING FOR BETTER DEAL

If he has not done so by press time, Jerome Schneider is expected to plead guilty to one count of conspiracy to defraud the federal government before the Federal District Court in San Francisco. In hopes of receiving a lighter sentence, Schneider has been providing details of his tax shelter schemes. According to Schneider, anyone who has income hidden in the Caymans or the Bahamas and thinks they are going to elude the IRS is greatly mistaken. They should immediately suspend any belief that this works and set the record straight with the IRS. To get people to buy into the schemes, Schneider said he worked hard to create an aura of respectability. He advertised his "global wealth building" strategies in in-flight magazines. He wrote numerous books including "Offshore Money Havens" and "Global Investing for Maximum Profit and Safety" that made him look like a published authority. He held three-day summits where attendees paid thousands of dollars just to learn his techniques, which were held at the Ritz Carlton hotels in Cancun and Maui. For \$200 an hour, attendees could buy a private consultation. For the finishing touch, he hired prominent Americans such as Rep. W.J. "Billy" Tauzin (R.-La.) and retired Marine Col. Oliver L. North to appear at his events. In the 1990s, hundreds of wealthy taxpayers paid Schneider and his former partner, Los Angeles attorney Eric Wimeyer (since sentenced to one year probation) \$15,000 to \$60,000 to buy shell banks, such as in the Caymans, and then change the bank ownership to a foreign conspirator of Schneider's. Wealthy investors were told that they could put money into these shell banks and hide the income it produced from the IRS. The scheme began to unravel in 1996 when Jack Blum, a former congressional investigator, attended one of Schneider's seminars and returned upset about the blatant tax fraud and the lack of IRS enforcement. As part of his plea agreement, Schneider is expected to turn over a list of his clients. Schneider says that some of his clients understood that what they were doing was bogus and the rest probably knew it was too good to be true. Schneider is now promoting nutritional products, working with some people in Canada on protein powders and fat burners and is living in a 529 square foot apartment..



ATTENTION SHOPPERS: PAY YOUR SALES TAX

Call it the Kozolowski effect. In the wake of last year's indictment of Dennis Kozolowski on charges of evading in excess of \$1 Million in sales taxes, states and some retailers are making it harder for shoppers to evade sales taxes. Many taxpayers have come to view buying items in one state and shipping them to another to avoid sales taxes as the shopping equivalent of jaywalking. Some stores even volunteer to give the customer the merchandise, with no sales tax, and then ship an empty box to an out-of-state address. But no matter where you buy an item, you generally owe a sales or use tax. A growing number of states are adding lines to their tax returns where filers are supposed to declare unpaid taxes in order to bridge their budget shortfalls. Those who don't comply could face serious charges, though state officials concede they rarely crack down on all but the biggest abusers. States are also spending more time pouring through U.S. Customs data to check on purchases from outside the country to find persons who declare a purchase for Customs, but don't pay the required sales tax in his home state. A number of shoppers are voluntarily coughing up sales taxes they should have paid. In New York City, 110 buyers of art, jewelry, and antiques have forked over \$16.3 Million.

CHECK

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IT OUT

IRS TO BEGIN OUTSOURCING DEBT COLLECTION

(Another reason not to answer the phone at dinnertime)

In a dramatic move in how the IRS chases non-payers, it is for the first time hiring private debt collection firms to attempt to collect delinquent taxes. The private contractors will receive up to 25% of the tax debts collected and will be eligible for performance bonuses for hitting certain goals. Beginning in 2005, the IRS intends to hire as many as 10 large collection agencies to pursue overdue taxes. In 2003 alone, there was an estimated \$120 billion in uncollected taxes. An estimated 76,700 taxpayers had delinquent tax bills exceeding \$100,000 as of September 2001, the most recent data available. When fully running, the private collectors will handle an estimated 2.6 million cases each year. The \$13 billion to be given to collectors is greater than the \$8 billion in receipts for the entire debt collection industry in 2002. Critics foresee problems such as whether call-center employees will overstep their bounds by suggesting that they have enforcement powers, especially if they have a high turnover of inexperienced employees with incentives to increase collections. The Treasury Inspector General has said in the past that the IRS had not done a good job overseeing private contractors handling sensitive taxpayer records. The effort will mirror standard private-sector debt collections. The debt collector will first mail letters, complete with payment coupons, to delinquent taxpayers. They will then telephone the taxpayers, though they are not to contact employers or neighbors..

SIX CONVICTED IN TAX-SHELTER CASE

On December 27, 2004, after a seven week trial, a federal jury in Seattle convicted six people for a tax shelter scheme that helped 1500 people take \$120 million in false income-tax deductions from 1997 to 2001. The Justice Department called the scheme by Anderson's Ark and Associates one of the most far reaching tax shelter schemes ever prosecuted. The defendants earned tens of millions by charging clients \$50,000 to \$250,000 each to buy tax shelter plans over the Internet. The scheme involved investments in shell companies, and illusory loans from Costa Rican bank accounts to make it appear that clients had legitimate tax deductible business expenses..

CALIFORNIA FIRM LOOKING TO IRS BONANZA

Diversified Collection Services was born in a cramped, fourth-floor attic in Oakland 28 years ago. Today, the Livermore firm has grown into one of the most prominent and controversial debt collection companies in the country, with more than 750 employees in three states. It has inked contracts with at least 15 states and several federal agencies, including the Department of Education and the Department of Treasury, to collect debts ranging from student loans to taxes that are owed. Now, Diversified could be

CONSTRUCTION OWNER SENTENCED IN MICHIGAN

Gregory Bruce Zolman of Lake Ann, Michigan, has been sentenced to 12 months in prison followed by 12 months supervised release. Zolman was arrested without incident following a Grand Jury indictment on four counts of willfully failing to file a 1995, 1996, 1997 and 1998 federal tax return. Zolman was a licensed builder doing business in the Northwestern Lower Michigan area using the name, "Glen Lake Construction." Although having a gross income of approximately \$598,000 he had not filed a federal income tax return since 1992. The indictment also stated that prior to and during this time, Zolman used additional means to defeat the lawful functions of the Internal Revenue Service. Zolman filed with the Register of Deeds of Leeland County various documents in which he declared, "I am not a citizen of the United States." Zolman also informed the IRS and its agents that he had not taxable income and that his income was "exempt." On June 20, 2002, Zolman plead guilty to one count of willfully failing to file a federal tax return.



"What's lovely this time of the year with no extradition"

angling for one of its biggest deals yet, a contract with the Internal Revenue Service to collect money from delinquent federal taxpayers. Diversified Collection was one of several companies that helped successfully lobby Congress to authorize the IRS to outsource debt collection to private companies for the first time, according to the company. The change was slipped into a major government spending bill last month. But the legislative victory has also raised the company's profile, stoking fears that private bill collectors could harass taxpayers or mishandle confidential taxpayer information. "How do we know they have honest employees?" asked Beth Givens, founder and director of the Privacy Rights Clearinghouse, a San Diego watchdog group, who worries that government agencies don't always provide adequate oversight to outside contractors. "We know that debt collectors are notorious for their abusive tactics." Moreover, Diversified was one of eight companies recently charged by state authorities in Texas with making illegal campaign donations to a political action committee linked to U.S. House Majority Leader Tom DeLay. The California Franchise Tax Board said the firm performed adequately when it helped the state collect child support payments from 1996 to 1998. The firm collected \$2.3 million and pocketed a commission of between 16 and 17 percent. "Everything seemed to be functioning fine," said Franchise Tax Board spokesman Patrick Hill. But Hill acknowledged that the state cannot monitor outside firms as closely as its own employees. More than 40 states, including California, also use collections agencies to handle tax bills. But the move by the IRS has been particularly controversial, drawing opposition from consumer groups, labor unions and some members of Congress. The National Treasury Employees Union, which represents IRS employees, argues it would actually be cheaper to hire additional IRS employees to step up collections, without raising the same degree of privacy concerns. Deputy IRS Commissioner Richard Morgante said the agency has never studied whether it would be more cost-effective to hire more employees or use outside firms to collect the debt. But Morgante said the IRS cannot hire more employees to step up collections, because Congress didn't set aside money in the budget for the new salaries (even though proponents argue the workers could generate more than enough revenue to offset the expense). By contrast, Congress did authorize the agency to send tax debts to outside firms, which would keep 25 cents of every \$1 they collect. "We have a growing backlog of cases that we believe are collectible," Morgante said. "We just don't have the resources to get to them." Despite concerns by consumer groups, Morgante said the IRS will keep close tabs on outside contractors to ensure they do not misuse private information or mistreat taxpayers. He said the agency plans to survey taxpayers and monitor many calls, adding: "We will have the same safeguards as our own employees." In any case, the IRS contracts are likely to be lucrative, because of the large amount of money owed to the federal government. "It's a substantial source of business," Ginsberg said. "It has huge potential for anyone involved." Morgante said the agency will probably pick as many as a dozen companies to handle the tax accounts starting next summer. And because Diversified already has a contract with the Treasury Department to handle other types of money owed to the government, the firm appears well positioned to become one of the contenders.