

IRS Guilty of Fraud

IRS Abuse- Criminal

If you ever had any doubts concerning the morally depraved and illegal activities of IRS employees, the U.S. Court of Appeals case *Dixon v. U.S.* [91 AFTR 2d 2003-569 (9th Cir. 2003)] filed January 17, 2003, should strike fear in your heart. The U.S. Court of Appeals remanded this case twice and finally, on the taxpayer's fourth appeal, the U.S. Court of Appeals decided to reverse the U.S. Tax Court's decision based on intentional acts of fraud, perjury, witness tampering, secret IRS payoffs, and secret IRS deals that favored some taxpayers and damaged others. All of these acts were perpetrated by corrupt IRS employees and attorneys.

Even more reprehensible is the fact the top brass at IRS awarded the corrupt attorneys large monetary bonuses for their efforts to win this case at all costs. If this had happened in the private sector, the above acts would have been referred to as payoffs or bribes.

The Dixon case is quite long, but I have listed a few excerpts for you to get a feel for the scathing decision handed down by the U.S. Court of Appeals.

1. Counsel for the IRS committed intentional fraud on the court.
2. IRS counsel entered into secret agreements with certain taxpayers in exchange for false testimony and cooperation in the government's case.
3. IRS attorneys corrupted the adversarial nature of the proceeding, the integrity of the witnesses, and the ability of the court to judge with impartiality.
4. IRS attorneys violated the rights of taxpayers who agreed to be bound by the U.S. Tax Court decision.
5. Factual findings of the U.S. Tax Court support the conclusion that fraud plainly designed to corrupt the legitimacy of the truth-seeking process was

perpetrated on the trial court by IRS attorneys McWade and Sims.

6. There can be no questions here — the actions of IRS attorneys McWade and Sims amounted to fraud on both the taxpayers and the U.S. Tax Court. The proceeding (in U.S. Tax Court) was a charade fraught with concealed motives, hidden payments, and false testimony.

The Appeals Court ordered sanctions against the U.S. Tax Court and the IRS attorneys. Get this — IRS attorneys McWade and Sims were suspended for two weeks without pay and transferred to another district. McWade took early retirement and kept his cash bonus. Sims returned his cash bonus, but continues to work (administrative duties only!) for the IRS Regional Counsel's Office in San Francisco.

Now stop for a moment: what fines, penalties and jail time would you and your attorney receive for the same type of illegal behavior? I guarantee — you and/or your attorney would be serving a sentence of 3 - 5 years in a federal penitentiary!

The Dixon case offers important insight into the day-to-day operations at the IRS. Every office has a secret cadre of employees and managers that know "what is best for the IRS" and they develop their own vigilante style of enforcement. That is, they have no qualms about bending, breaking or distorting the law — to accomplish in their view "the real mission of the IRS."

This case is a real eye-opener for the American public and I am sure this is why the IRS attorneys in collusion with their friends at the U.S. Tax Court fought so hard to beat down the taxpayers so many times — hoping always that the taxpayers would take their licking and go home. To classify this case as repugnant is an understatement indeed! But it clearly demonstrates the widespread abuse secretly condoned at almost every IRS office nationwide.

Now let's talk about how the IRS cabal (secret cadre) takes care of their own. The Treasury Inspector General for Tax Administration is charged with the responsibility of investigating and recommending for prosecution any IRS employee that participates in any illegal activity involving fraud, waste, abuse, etc. Where is the Inspector General for this case? Why has there not been a housecleaning of corrupt IRS employees in the Regional Counsel's office? How can these criminals (officers of the court) continue to practice law and continue to work for the IRS? The answer: the cabal is alive and well, and as demonstrated by

this court case the secret web of vigilantes runs from the lowest post of duty to the highest IRS offices in Washington, D.C.

The costs associated with said crimes of the Internal Revenue Service and its corrupt employees involved two court systems, four appeals, thousands of wasted hours for the taxpayers and the government, and unbelievable legal fees to represent the taxpayers in four courts. Yet the total cost to the career IRS employees that committed these crimes was nothing more than two weeks pay and a transfer — not a real deterrent for future activities of the cabal.

IRS ABUSE — Civil

You can't mention IRS abuse without mentioning the IRS Collection Division. The two are synonymous. The men and women who work in the Collection Division are known as Revenue Officers (R.O.'s). R.O.'s can be compared to bad debt collectors or bounty hunters. They are not rewarded for being nice or helpful to taxpayers. They are rewarded for closing cases and collecting tax.

R.O.'s are trained to "be your friend " at first because they want you to volunteer all your personal and business information. You know, just file this and disclose that, and everything will be all right. And oh, by the way, sign everything under the penalties of perjury. When the R.O. has all the chips on his side of the table, he suddenly turns into the meanest, nastiest person you have ever met. Revenue Officers will lie to you time after time if there are no witnesses around. If you get smart with an R.O., he will enter all kinds of derogatory information in your file that will indicate you are hostile and uncooperative. If you have to appeal your case, everyone up the ladder will automatically view you as hostile and uncooperative.

It is interesting to note that an R.O. can lie to the taxpayer and prepare bogus reports without fear of a reprimand. However, you, the taxpayer, can be punished with monetary fines and/or jail time for lying to an R.O., or omitting a bank account on one of your financial statements. If R.O.'s were required to submit their reports under the penalties of perjury, the entire Collection Division would implode.

R.O.'s enjoy making surprise visits to your home or office, and they will start pumping you for information as soon as you open the door, before you have had

time to think about your answers. Caution: If you come face-to-face with an R.O. simply identify yourself, take his card, and tell him you will have someone contact him in a few days. Do not invite him in for a visit. Get away as soon as you can. Let a professional handle your case. R.O.'s are not your friends. They are bounty hunters and they will lie to you and violate your rights to get whatever they want as long as there are no witnesses.

According to a March 18, 2003, article in the *Wall Street Journal*, the Treasury Inspector General has received more than 3,500 complaints filed against IRS employees for such acts as falsification of documents, destroying documents, harassment, threats of violence, and threats of audit, assault and battery, and extortion.

Many professional organizations, such as the American Bar Association, have openly criticized the Internal Revenue Service for the low standards required for initial employment with the Collection Division. Controversies oftentimes occur simply because the new R.O. was poorly trained and does not have the ability to read or comprehend the Internal Revenue Manual he is supposed to follow. This pattern of hiring less-than-qualified individuals leads to many mistakes and abuses that never get reported. Yet this is the person authorized to seize your bank account, your automobile, and your wages.

IRS ABUSE — Undercover Agents (Entrapment (?))

Attention, all citizens, business owners and self-employed persons: Lend me your ears! The next time you respond to an ad in a newspaper, receive a telephone call or a visit from a stranger promising you a business opportunity that sounds "too good to be true," you may want to proceed with caution because that person may be an IRS Special Agent. The agent may appear as a business broker, clergyman, lawyer, or used car salesman. He will have a phony office, business cards and stationery, telephone numbers, license plates and plenty of cash — all courtesy of the IRS Criminal Investigation Division.

"Business Opportunity Projects" (a.k.a. BOP's) always involve IRS Special Agents posing as prospective purchasers of businesses. They always represent themselves as buyers of businesses that will allow them to skim lots of cash. Most owners tend to exaggerate their claims and point out the reasons why their business is a

particularly good buy; then they proceed to tell the undercover agent everything he wants to know. Smile, you're on *Candid Camera*! You have been Bopped!

The typical business owner does not have a clue he is dealing with an IRS undercover agent until it is too late. Many citizens want to refer to the above tactics as entrapment; however, as you will soon see, even if you challenge the "con" and ask the person if he works for the IRS, the agent is authorized to lie to you. This issue was specifically addressed in *United States vs. Centennial Builders, Inc.* (summarized below).

[Special Agent] McCammon visited [the taxpayer], Jones, at his retail cleaning business identifying himself as a private businessman interested in buying a cleaning business. During the meeting, the agent asked for information about his cash business and Jones specifically asked McCammon if he was an IRS investigator. McCammon denied that he was, and continued to ask questions.

Based on the information provided by Jones, McCammon issued eight summonses to four banks, two corporations, and two accountants demanding books and records relating to the taxpayer's income tax liabilities. The summonses were enforced by the federal district court, and the taxpayer appealed this decision to the U.S. Court of Appeals.

Here is what the court had to say:

In the end, the appellant's arguments boiled down to the proposition that it is just not fair for an undercover IRS agent to entice taxpayers into discussing assets relating to their tax liability without informing them of his identity as an IRS Agent. We have rejected similar contentions before and we reject them here. We are not here to prescribe "fair" rules for the "game" of lawmen vs. lawbreaker. The law does not denounce clever or innovative police work within the bounds of the Constitution even though the lawbreaker really has no chance of escaping prosecution. [emphasis added]

Woe be unto you if you are 100% compliant with all IRS rules and regulations, but you choose to exaggerate your cash opportunities simply because you want to sell a "dog" business to an "idiot" that has too much money. Hold on to your hat; you are in for the ride of your life.

Your only defense against an IRS undercover agent is references, references, and more references. Who does the agent know and what deals has he done in the past?

IRS Employees "Busted"

Twice a year the U.S. Treasury Inspector General for Tax Administration (TIGTA) is required to publish a report that includes the number of complaints filed against IRS employees for civil and criminal violations. The number of "officially numbered complaints" averages 6000-8000 per year.

The complaints that can be verified with witnesses and/or documents will be worked, and the IRS employee will suffer various reprimands that may or may not affect his career. However, if the charge is serious, most IRS employees elect to transfer to another government agency or take early retirement once they become aware of an impending investigation. If the charges are criminal, they simply go to jail.

It should be noted that the number of IRS violations is far greater than the number reported by TIGTA. The reason is — all IRS employees must terminate their interview the moment they become aware the taxpayer is tape-recording their conversation. Taxpayers are required to give IRS employees 10 days written notice of their intent to tape-record an IRS interview. Furthermore, the tape-recorded interview must take place in an IRS office and the employee's group manager must be present. No chance of collecting any evidence here!

Let's take a casual look at some of the criminal violations reported by TIGTA for the period April 2002 - September 2003.

September 2003

IRS employee indicted for soliciting \$500,000 bribe and receiving partial payment to "fix" case under his control.

September 2003

IRS employee sentenced to 63 months in federal prison for affiliation with known prostitution ring, theft of government automobile, and impersonation of an FBI agent.

September 2003

IRS employee indicted for theft of \$127,000 in tax payments from IRS lockbox.

September 2003

IRS employee sentenced to four months in federal prison for illegally accessing IRS computer system and arranging tax refunds for herself and friends.

July 2003

IRS employee sentenced to five months in federal prison for entering the IRS computer system and deleting \$55,000 tax liability for a friend.

July 2003

IRS employee indicted for threatening two state police officers that he would have their tax returns audited should they continue with his arrest.

December 2002

Two IRS employees indicted for the destruction of records stolen from the IRS processing center. The records affected 300 taxpayers and cost the government \$1.2 million in lost revenue.

January 2003

IRS employee signs agreement to repay government \$132,000 in illegal wages he received while working full-time at his own business.

November 2002

IRS employee sentenced to 30 months in federal prison for accepting a \$6,000 bribe to disclose secret grand jury information.

January 2003

IRS employee pleads guilty to storing 9000 digitized images of child pornography on government computers.

July 2002

IRS employee arrested for submitting false documents regarding workmen's compensation claim that paid him \$110,000 in benefits.

June 2002

IRS employee pleads guilty to altering checks and money orders made payable to the IRS. Employee altered documents and deposited them to his personal bank account.

June 2002

IRS employee pleads guilty to opening envelopes from taxpayers and altering tax

return information in a way that would direct their refunds to his personal bank account.

The above cases represent only a sample of the 6000-8000 complaints filed against IRS employees each year. If you have the stomach for reading more about the above cases, as well as many others, you should visit TIGTA's website at <http://www.ustreas.gov/tigta>.

IRS Informant Reward Program (a.k.a. Snitch)

In the former Soviet Union, people had to be very careful about discussing their business and personal affairs because almost everyone was a spy for the secret police agency known as the KGB. It appears that the Internal Revenue Service has studied the "Soviet Model" and has set up a new division known as **The Informant Reward Program**.

When Congress passed the Tax and Healthcare Act on October 6, 2006, it radically changed IRC § 7623 that authorizes the IRS to contract with **private individuals** to act as part-time IRS Agents who will investigate business entities and individuals involved in civil and criminal tax violations. This new program will become the "Central Intelligence Agency" for processing and managing all information received from informants nationwide. It will also establish revenue production goals, communication procedures, data bases, and operating guidelines for handling the new informants that will be contracting with the IRS. This new office will be located in Fresno, California and it will be similar to the Special Situation Room used by the FBI for monitoring federal crimes in the U.S.

Many people who have personal knowledge of federal tax violations will suddenly want to give up their day job and become subcontractors for the Internal Revenue Service. Unfortunately, most of these people will be disgruntled corporate employees, former business partners, ex-spouses and professionals who have inside information including, but not limited to, lawyers, accountants, bankers, and stockbrokers. This new program is guaranteed to not only enrich the IRS coffers (its primary purpose) but, it will also enrich the bottom line for the new breed of IRS Informant.

Commissions for IRS Informants

Rewarding snitches that inform on taxpayers has been around since 1939, but the early Code only authorized IRS to pay rewards to informants for **criminal** tax violations. The statute was changed in 1996 to authorize payment of rewards relating to **civil** tax violations. In 1997, IRS raised the reward ceiling from \$100,000. to 2 million. In 2004, the IRS raised the reward ceiling to 10 million. The 2006 Act changed Code § 7623 by allowing the reward payments to be based on a percentage of the amount of tax, interest, and penalties actually collected. The new percentage range is 15% to 30% and the actual percentage for each reward depends upon the amount of credible information provided by the informant.

Example: Let's say a high-level accounting employee works for a large corporation that decides to engage in a scheme that will allow it to avoid paying \$100 million in federal income tax. Should this employee decide to become an IRS informant, the amount of the tax liability could easily double to \$200 million due to interest and penalties. If this employee receives only the minimum reward of 15%, he will be entitled to a check in the amount of \$30 million. Similar numbers will surely appear on future IRS Recruiting Posters at a web site near you.

IRS Agents vs. IRS Paid Informants

When an IRS Agent is auditing a taxpayer and fraud is discovered, he must immediately withdraw from the case and turn the case over to the Criminal Investigation Division (CID). A few days later, two Special Agents from CID will notify the taxpayer that he is the target of criminal investigation and they will read him his Fifth Amendment Rights. From this point forward, the taxpayer does not have to answer any questions and his individual records are protected from further scrutiny.

But what happens when the informant has established a relationship with his IRS Handlers, and he continues to work at his place of employment where he will be able to monitor the actions of the taxpayer, copy records, remove and return records, make voice and video recordings and initiate probes for further information. Remember, an informant working on commission is going to be aggressive in collecting the evidence his IRS Handlers need for a successful prosecution; especially so when the informant's paycheck will be in the millions.

Informants have always been a good source of information for IRS investigations, but once the snitches become aware of the "new and improved" **Informant Reward Program** that allows them to collect up to 30% of the tax, penalties and interest collected by the government there will be a flood of new applicants

knocking at the IRS door. The risk reward ratio will be too great for most people who have inside information and this is the reason why IRS had dedicated an entire service center to handle the **Informant Reward Program**.

Under the old program, there was no central office to manage informant data and there were few regulations on how informants were hired or paid. Many informants provided information that led to successful investigations but they never got paid. Under the new program, the informant's right to a paycheck has been dramatically improved and for the first time in IRS history, the informant will have the right to demand judicial review of the amount recovered by IRS and the method that was used by IRS Managers to determine the amount of his reward.

Warning

It appears IRS has created a monster that will recruit many part-time paid informants and we will see the erosion of our rights against unreasonable search and seizure and self incrimination under the Fourth and Fifth Amendments to the U.S. Constitution. Early this year, the Director of the Fresno Center reported that he has already received boxes and boxes of records from individuals who have applied for rewards under the new program.

The huge economic incentives offered by the IRS to recruit informants will surely result in a back log of litigation: There will be problems associated with the Fourth and Fifth Amendment violations previously discussed, and there will be problems associated with the criminals that will be hired and paid as IRS Informants. All you have to do is look at the number of DEA and FBI paid informants who have robbed, framed, and murdered their competitors and enemies while working for the government. A more subtle example is as follows: Let's say there are two criminals that owe IRS a lot of tax on their unreported income and one of the criminals decides to become an IRS Informant; moreover, the informant agrees to testify against his partner in exchange for immunity from prosecution. In this situation, one criminal goes to the federal penitentiary for 10-years and the other is on his yacht enjoying his \$10 million reward courtesy of the IRS. Who says crime doesn't pay?

The Attorney Larry Becraft Landmark IRS Case

By: Frederick Mann

Disclaimer: This report is intended purely as a communication of information in accordance with the right of free speech. It does not constitute legal or tax advice. Anyone seeking legal or

tax advice should consult a competent professional. The author, editor, or publisher assumes any responsibility for the consequences of anyone acting according to the information in this report. **Readers are specifically advised to obey all laws to the letter.**

U.S. V. LLOYD R. LONG The following article is reprinted from the December 1993 edition of *Free Enterprise Society News*, 300 W. Shaw Ave. #205, Clovis, Calif. 93612:

"A not guilty verdict came in the Eastern District of Tennessee in the case of U.S. v. Lloyd R. Long, #CR-1-93-91. The verdict came on October 15th, 1993.

This was an amazing case involving the income tax. A Chattanooga jury agreed with the argument by Long that the income tax is actually an excise tax and only applies to certain classes of people.

Nationally prominent attorney Lowell Becraft, of Huntsville Alabama, assisted by attorney Russell J. Leonard of Sewanee, Tennessee, defended Lloyd R. Long of Decherd, Tennessee. Long was charged with willful failure to file income tax returns for 1989 and 1990.

In presenting the case for the IRS, the government, represented by assistant US attorney Curtis Collier assisted by special agent Michael Geasley of the IRS, declared that Long had grossed income in excess of \$49,000.00 for each year, and that he willfully failed to file income tax returns.

The defense admitted that Long had an income in excess of \$49,000.00 for each year in question, and that he did not file a return. He then proceeded to prove to the jury beyond a reasonable doubt that he was not liable for an income tax, nor was he required by law to file.

Defense testimony showed a case titled *Brushaber v. Union Pacific Railroad* wherein it was the unanimous decision of the US Supreme Court that the 16th amendment did not give Congress any new power to tax any new subjects; it merely tried to simplify the way in which the tax was imposed. It also showed that the income tax was in fact an excise tax on corporate privileges and privileged occupations. The defense then brought out a case entitled *Flint v. Stone Tracy* wherein an excise tax was defined as a tax being laid upon the manufacture, sale and consumption of commodities within the country; upon licenses to pursue certain occupations; and upon corporate privileges.

Mr. Long's attorneys also brought out a case entitled *Simms v. Arehns*, wherein the court ruled that the income tax was neither a property tax nor a tax upon occupations of common right, but was an excise tax.

The defense then brought out a case entitled *Redfield v. Fisher*, wherein the court ruled that the individual, unlike the corporation, cannot be taxed for the mere privilege of existing, but that the individual's right to live and own property was a natural right upon which an excise cannot be imposed. Defense also pointed to a couple of studies done by the Congressional Research Service that shows the income tax is an excise.

Next, defense pointed out that in Tennessee Supreme Court case *Jack Cole v. Commissioner* the court ruled that citizens are entitled by right to income or earnings and that right could not be taxed as a privilege. In another Tennessee Supreme Court case *Corn v. Fort* the court ruled that individuals have the right to combine their activities as partnerships; and that this is a natural right independent and antecedent of government.

The prosecution did not challenge or attempt to refute any of these cases cited, or the conclusions of the courts.

Defense brought out in testimony the fact that nowhere in the entire IRS Code was anyone actually made liable for the income tax. They showed that in the IRS's own privacy act notice only three sections were cited, and that none of these sections made anyone liable for the tax. They also proved that this was not an oversight by showing that the alcohol tax was worded so clearly that no one could misinterpret who was liable for the alcohol tax.

Prosecution did not challenge or attempt to refute this point, nor were they able to show a statute that made anyone liable for the income tax.

Defense then presented the mission statement of the IRS stating that the income tax relied upon voluntary compliance, and a statement from the head of the alcohol and tobacco tax division of the IRS which in essence showed that the income tax is 100% voluntary, as opposed to the alcohol tax, which is 100% mandatory.

Mr. Long stated that in 1989 he knew that the income tax was in fact an excise tax; and that he was not enjoying any corporation; and that income or earnings from the exercise of common right could not be taxed as an excise or otherwise; and that nowhere in the IRS Code was he made liable for the tax; and that the income tax was voluntary. Long then stated he was so intimidated by the IRS that he filed and paid his voluntary assessment.

He then began a series of letters to the IRS explaining that he had no licenses or privileges issued to him by the federal government. He asked for direct answers to simple questions, such as "Am I required to file federal income tax returns?"; and "Am I liable for federal income taxes?" The IRS never gave a direct answer to any questions. Instead they inferred and insinuated and extrapolated and beat around the bush, and generally avoided answering. So Mr. Long testified that he decided to stop volunteering.

The IRS brought in 2 expert witnesses. Both were actually IRS employees who had received training as professional witnesses. Upon cross-examination by Attorney Becraft, one witness, a Ms. Jeu, stated that a secret code known only to the IRS, and encoded on Mr. Long's permanent record, showed that the IRS knew that he was not required to mail or file a return. Ms. Jeu made every effort to avoid this admission to the point that she was beginning to frustrate the jury. The other witness, upon cross-examination by Becraft gave testimony that conflicted with the Privacy Act notice.

The government also attempted to institute "guilt by association" in that they claimed Mr. Long had known and relied upon persons of questionable character. They argued that the writers of

some of the books he read and people he knew had been convicted of tax-related charges in the past and were in fact criminals.

Long responded that just because a person had been convicted of a crime by a court, did not invalidate everything said. To illustrate his point, he pointed out that apostle Paul was a murderer, but that by the grace of God he became the greatest of the Apostles. Mr. Long added that he did not rely on anything that he did not personally check out thoroughly.

In summation Attorney Larry Becraft reminded them that Galileo was imprisoned for holding a belief that conflicted with one which everyone else knew as a fact; and that Columbus, acting on a belief which conflicted with what everyone else knew as a fact, discovered something no one else thought existed.

The jury agreed with the defense. By finding Mr. Long "Not Guilty" on all counts they have ventured into history as preservers of freedom.

A Chattanooga TV Station quoted a government spokesman as saying that this case will change the way the IRS will handle such cases in the future. They indicated that they will be less likely to prosecute if a jury isn't going to decide in their favor.

Mr. Long's spirit was best expressed when he was asked for a final statement by a reporter as he was leaving the courtroom. His words: "To God be the glory!" Congratulations, Lloyd!"

"I DON'T WANT TO FIGHT THE IRS" Before analyzing the Becraft Landmark case, I want to address an emotional issue. For emotional reasons many people fear the IRS. They have seen horror stories about IRS victims on TV and read about them in the newspapers. They don't want to rock the IRS boat because they fear they might become an IRS victim. They know that the IRS is a terrorist organization that can take their personal property, destroy their business, and ruin their lives. Their fear and emotion prevents them from thinking rationally about the IRS.

The IRS could even utilize their terrorist brothers from the Bureau of Alcohol, Tobacco and Firearms to slaughter anyone who tries to rock the boat. Did you see the pictures of the Waco massacre on TV?

The following article appeared in The Arizona Republic of May 19, 1994:

"IRS failing to collect millions, report says '92 audit level was half what it was in '81

The Associated Press WASHINGTON - The Internal Revenue Service failed to collect \$127 billion in taxes from 1992. Yet audits that might have curbed the ever-growing tax gap were conducted at half the rate of 11 years earlier, a congressional report says.

"IRS major enforcement activities have not grown over the past decade," according to the General Accounting Office, the auditing arm of Congress.

From 1981 to 1992, the odds of getting audited fell from 1-in-20 to 1-in-33 for corporations and from 1-in-56 to 1-in-110 for individuals.

Those numbers may be misleadingly optimistic, the congressional agency said.

"IRS classifies certain taxpayer contacts as audits, when in fact taxpayers' books and records were not examined," it said.

The \$127 billion tax gap in 1992, the latest year available, was 67 percent larger than the \$76 billion gap in 1981. If all of it had been collected, it would have cut the record \$290 billion budget deficit of 1992 nearly in half.

The gap represented 18 percent of what taxpayers owed the government. IRS Commissioner Margaret Milner Richardson has vowed to reduce that to 10 percent by the year 2000.

Frank Keith, a spokesman for the IRS, said the compliance rate should start improving noticeably in several years as the IRS brings more-modern computer equipment on line and completes research that should better identify taxpayers who are most likely to pay less than they owe.

But the report notes that Congress has been funding stepped-up enforcement efforts since the late 1980s, with poor results.

"Enforcement staffing has been declining since 1988 and is about what it was in 1987. Because of overall budget shortfalls, IRS has reallocated funds from compliance initiatives to non-enforcement efforts, such as returns processing," the report says.

The compliance and enforcement staff declined from 57,470 in 1988 to 51,305 in 1992.

The report recommends that the IRS more strongly focus its compliance efforts on areas most likely to bear fruit, such as small companies and sole proprietorships, without waiting for the results of research.

Simply doing a better job of matching financial information, such as forms on partnership income, to taxpayers' returns should yield large results, it says.

The report also urges the IRS to revamp procedures to emphasize early telephone contact with delinquent taxpayers rather using the mail. And it said that if the IRS did a better job of answering its phones, taxpayers would be less likely to pay too little." [emphasis added]

The most important lesson to be learned from the above is that the IRS has limited resources. There are at least 10 million people in the U.S. who don't file tax returns nor pay federal income taxes - people the IRS claims should file and pay. The real number may be much higher: 20 or 30 million. In fact, there is an explosion of people opting out of the tax system. Every week I hear of a new organization that "untaxes" people. This is an unstoppable tide the IRS is powerless against. The probability of the IRS "going after" a particular individual is very small.

IS THE IRS REALLY A PAPER TIGER? According to tax attorney Donald W. MacPherson (Tax Fraud & Evasion: The War Stories - one of the best tax books I know of):

"Once you get past all of the tax statutes passed by Congress, the rules of evidence and of criminal procedure, interpretation by the courts of the laws and the rules, you are left with human drama. Conflict. IRS special agent versus citizen target. Justice Department prosecutor versus defense attorney. The final arbitrator of this combat is the jury of twelve. That which is public record is but one-tenth of the story. The flesh and blood war stories are intended to cut through the legalese to the end that you will be brought to understanding, and through understanding harbor fear no longer. Nor will the Monster, discovered as a paper tiger, any longer intimidate you, the sovereign citizen, the master. Beastmaster...

Failure to file an income tax return, failure to pay income taxes, and attempted income tax evasion are not crimes in this country. Not yet anyway. For those acts (or failures to act) to constitute a crime, one first must act with specific intent to violate the law; knowing what the law forbids or requires, one must set out with the specific purpose to violate the law. Willfulness. Specific criminal intent. Ignorance of the law is an excuse. Congress has declared that the tax laws are so complex that ignorance of the law is a defense so far as it goes to the citizen's state of mind; or, in other words, so far as it tends to negate willfulness.

Second, the government must assemble evidence and prove beyond a reasonable doubt to the satisfaction of twelve jurors that you intended to violate the law. If good faith belief or misunderstanding or reliance on the advice of counsel is raised, then the government must, in effect, prove beyond a reasonable doubt that you did not believe in good faith or did not in good faith rely on the advice of your attorney or accountant. At least some federal appellate courts hold that the belief or misunderstanding is subjective not objective. This nuance means, in the final analysis, that it is not even relevant whether what you believed was right or wrong, or whether the jury determines it was reasonable or unreasonable for you to so believe what you claim you believed. All that matters is whether you in fact believed it. Put another way, the government must, then, prove beyond a reasonable doubt that you did not believe what you claim you believed.

Is it any wonder then the fine-tune processing by IRS and Justice Department of criminal tax cases? After two years of investigation by the IRS special agent of the Criminal Investigation Division (CID) and review by his supervisor, plus further review by chief of CID and IRS District Director, the case then goes to the office of District Counsel, the IRS lawyers, for review. Then to Justice Department in Washington, D.C. for review where it may remain for another year or two. Then back to the local U.S. Attorney for further fine-tuning and additional investigation, if necessary, and the ultimate prosecution by way of grand jury indictment or, in the case of misdemeanor rather than felony, by a charging paper signed by the U.S. Attorney, called an "Information." A long, arduous pipeline. For the Beast can ill afford to lose criminal tax cases. If IRS cannot succeed in putting behind bars those it believes to be tax cheats, what then the impact upon the remaining one hundred million and our system based upon "voluntary compliance?"

... Just how far can you push IRS and not be prosecuted? What are the "limits of the tax law?" What must the IRS prove? The answers are found in the criminal tax cases that are won! The proof is in the pudding. If an Arkansas woman who did not file a tax return for eighteen years beat IRS at criminal charges, by what should you feel intimidated?

Consider this analogy: you go to a haunted house as a child and under cover of darkness are frightened by ghosts and goblins. Your imagination runs wild while at the house, and later you attempt, without success, to stave off recurring nightmares. In effort to put the matter to rest, your parents take you during daylight hours back to the haunted house and show you the tricks of the trade. The props used. That goblin was but one-sixteenth inch cardboard. Cardboard which even as a child, you could rip apart with your bare hands. Don't you feel silly? The nightmares go away...

The paper tiger. The bureaucrat, also known as the bureaurat. If the IRS agent was truly competent and was not lazy, why had he not struck out for business on his own? Coffee and cigarettes and federal service retirement pay? The paper tiger exposed by the light of day. But who would dare to turn on the switch, or open the curtain, for this vampire Monster to be exposed to sunlight?"

BUT EVEN IF YOU FOLLOW THEIR RULES, THEY MAY "COME AFTER" YOU The following IRS atrocity story comes from Tax Revolt: The Battle for the Constitution by Martin A. Larson, who got it from the Rocky Mountain News of May 3, 1979. It is the story of Jasper and Lucille Gates of Denver, CO, which began when they received a letter from the IRS stating that they had overpaid their 1972 tax by \$1,197. However, they never received a refund. Instead, in June 1974 they were notified, without explanation, that they owed \$4,451. Soon another letter came, claiming the deficiency was \$4,206. In October the IRS claimed they owed \$13,700, in November it was \$15,000. By October 1975 the alleged deficiency had grown to \$16,000 - all without explanation. Then in August 1978 the IRS seized their bank accounts worth about \$13,000 and their home worth about \$100,000. They sold the home for \$16,000. Mrs. Gates, in a wheel-chair, was evicted. With the help of sheriff's deputies, the Gates' furniture and personal effects were thrown into the street. When the news media contacted the IRS, the response was that the IRS couldn't comment because of the Privacy Act.

The next IRS atrocity story is also one where the victims followed the "IRS rules." In June, 1988 Kay Council of High Point, NC came home one night to find a note from her husband, Alex: "My dearest Kay - I have taken my life in order to provide capital for you. The IRS and its liens which have been taken against our property illegally by a runaway agency of our government have dried up all sources of credit for us. So I have made the only decision I can. It's purely a business decision... You will find my body on the lot on the north side of the house." At the end of a nine-year battle over a disallowed tax shelter, the IRS claimed that the Councils owed \$300,000 in taxes, interest, and penalties. When their financial resources were exhausted, Mr. Council committed suicide to provide Mrs. Council with \$250,000 insurance money to continue the battle. Ironically, Mrs. Council eventually won a court ruling that she and her husband owed the IRS nothing - the IRS deficiency notice had been sent four months after the statute of limitations had expired. Mrs. Council, 48, said, "I was cheated of growing old with the man I love." (This case was also the subject of a Money magazine cover story at the time.)

The important thing to realize here is that whether or not you follow the supposed "rules" of the IRS, you are at risk. I don't know who is most at risk, those who follow the "rules," or those who don't. It's quite possible that those who have least contact with the IRS are also least at risk. You could argue, "I don't want to fight the IRS, therefore I will have **nothing to do with them. I** won't file returns and I won't pay." Or, "I'll be a good boy (or girl), file my returns, and pay them - because I want to fight the IRS." An extensive survey would have to be done to determine if the above arguments are closer to the truth than, "I don't want to fight the IRS, therefore I'll file and pay."

In the absence of conclusive evidence, the last is merely an emotional argument with no foundation.

THE 16TH AMENDMENT The first important point is that the Sixteenth Amendment to the U.S. Constitution does not grant the federal government any new taxing power. In other words, the 16th Amendment is nothing but a smoke screen, used by the IRS to pull the wool over the eyes of the ignorant and the naive.

There is also a question about whether the 16th Amendment was properly ratified. In their book, *The Law That Never Was: The Fraud of the 16th Amendment and Personal Income Tax* (Constitutional Research Associates, PO Box 550, South Holland, IL 60473; 1985), Bill Benson and M.J. "Red" Beckman provide conclusive evidence that the 16th Amendment was not properly ratified. For a summary of their findings, you may want to read the excellent book, *The Federal Zone: Cracking the Code of Internal Revenue*, by Mitch Modeleski (Account for better citizenship, c/o PO Box 6189, San Rafael, Calif., PZ 94903/TDC.)

This raises the issue of judicial fraud. Because the U.S. Constitution severely limits what the federal government may do, judicial fraud has been resorted to in order to create and expand various federal agencies not authorized by the Constitution. The 16th Amendment was gotten onto "the books" through judicial fraud.

THE BECRAFT STRATEGY Mr. Becraft's strategy was to establish in court certain weaknesses of the IRS, namely:

The supposed "income tax" is really an excise tax which only applies to certain classes of people, engaged in certain activities. The 16th Amendment grants no additional taxing power to the federal government. An individual (as opposed to a corporation) has a natural right to live, work, and own property, without being taxed. Individuals have the right to produce earnings and income, not subject to taxation. Individuals have the right to combine their activities in the form of partnerships; this is a natural right, independent of and antecedent to government.

[This is a very important principle. The American political system is based on the principle that individuals have rights which precede the Constitution and are not dependent on it. In other words, the Constitution or Bill of Rights doesn't grant any rights; our rights are senior to these documents. The Constitution does grant the federal government certain very limited powers which are specified. It also stipulates, through the Bill of Rights, that the federal government's role is limited to the specific powers granted. As a result, today, practically everything the

federal government does is unconstitutional, illegal, and criminal. A famous Supreme Court case reflects the seniority of individual rights to government:

"The individual may stand upon his constitutional rights as a citizen. He is entitled to carry on his private business in his own way. His power to contract is unlimited. He owes no such duty [to submit his books and papers for an examination] to the State, since he receives nothing therefrom, beyond the protection of his life and property. His rights are such as existed by the law of the land [Common Law] long antecedent to the organization of the State, and can only be taken from him by due process of law, and in accordance with the Constitution. Among his rights are a refusal to incriminate himself, and the immunity of himself and his property from arrest or seizure except under a warrant of the law. He owes nothing to the public so long as he does not trespass upon their rights." *Hale v. Henkel*, 201 U.S. 43 at 47 (1905).

Nowhere in the entire Internal Revenue Code is any individual made liable for the income tax. This is not an oversight. In contrast to the income tax, the alcohol tax is so clearly worded that nobody could misinterpret who is liable for it. (The prosecution did not attempt to challenge or refute this point. They were unable to show a statute that makes anyone liable for the income tax.) The mission statement of the IRS states that the income tax relies upon voluntary compliance. (The head of the alcohol and tobacco tax division of the IRS has stated to Congress that the income tax is 100% voluntary, while the alcohol tax is 100% mandatory.)

In his own defense Mr. Long then stated the following:

The income or earnings from the exercise of an individual's common right cannot be taxed as an excise or otherwise. Nowhere in the IRS Code does it make him liable for the tax. The income tax is voluntary. Mr. Long sent the IRS a series of letters, asking the IRS questions such as, "Am I required to file income tax returns?" and "Am I liable for federal income taxes?" The IRS never gave a direct answer to any questions. [Through this series of letters, Mr. Long created a legal foundation. The fact that he believed he was not liable was legally established. This makes it very difficult for Mr. Long to be convicted of a crime, which requires willful intent - the knowing intent to do wrong. Mr. Long established that he could not be guilty of willful failure to file, because he believed he didn't have to file. This principle has been upheld by the U.S. Supreme Court: "If the defendant had a subjective good faith belief, no matter how unreasonable, that he was not required to file a tax return, the government cannot establish that the defendant acted willfully." *Cheek v. U.S.*, 111 S.C. 604 (1991).]

The IRS then brought in their two expert witnesses. One of them, Ms. Jeu, admitted under cross-examination by Mr. Becraft that:

The IRS used a secret code, known only to them, by which certain people were classified by the IRS as not liable. In their own system the IRS had classified Mr. Long as not liable for federal income tax.

The above admissions by the IRS witness must have been the final nails in the coffin of the IRS's case.

COUNTS AND PRE-TRIAL MOTIONS It is instructive to examine the counts for which Mr. Long was prosecuted, as well as the pre-trial motions. Mr. Long was charged under two counts of willful failure to file income tax returns for 1989 and 1990. After stating in **many words that** Mr. Long was supposed to file, each count proceeds: "... that well knowing and believing all of the foregoing, he did willfully fail to make an income tax return..." Of course, during the trial Mr. Long established that he did not know and did not believe that he was supposed to file. The IRS failed to write to him that he was supposed to file, when he requested that information. Furthermore, the IRS had classified Mr. Long as someone not liable. [It boggles the imagination that the IRS could have been so stupid as to prosecute Mr. Long!] Note that Mr. Long was prosecuted for failure to file tax returns - not for failure to pay federal income taxes.

Mr. Long filed a motion requesting a bill of particulars to specify which statute he was alleged to have violated, because the statute cited in the counts he was charged with, mentioned only the penalty for willful failure to file, so it must have been some other statute that was allegedly violated.

The prosecution responded with a motion opposing the request for a bill of particulars on the grounds that it was "... typical of motions filed in tax protestor cases. This motion is frivolous and places an unnecessary burden upon the resources of the court..." The request for a bill of particulars was denied.

Next, Mr. Long filed two motions to have a list of the jury panel for his trial released to him at least 30 days before his trial, so he could establish if any of the jurors had been subjected to tax audits or other investigations. The prosecution had no objection to these motions and they were granted.

Mr. Long also filed three motions requesting that a wide range of information concerning the officers who investigated his case, as well as prosecution witnesses, and information relating to IRS administrative and computer systems, be made available to him. The prosecution objected to these motions on the grounds that they were essentially frivolous and typical of tax protestors.

The court denied Mr. Long's motions, with the exception that: "Upon request of the defendant the government shall permit the defendant to inspect and copy or photograph books, papers, documents, photographs, tangible objects, buildings or places, or copies of portions thereof, which are within the possession, custody or control of the government, and which are material to the preparation of the defendant's defense or are intended for use by the government as evidence in chief at the trial, or were obtained from or belonged to the defendant."

Mr. Long then filed a motion to dismiss the case against him, partly on the grounds that the counts against him failed to charge an offense and that he was not within the purview of the Internal Revenue Code. This motion was dismissed.

Mr. Long also filed a brief to ensure that during the trial he would be able to fully testify in his own defense, submitting as evidence citations of all relevant court cases relating to his defense. This is a very important brief, because it counters the attempt often made by the prosecution in

tax cases to prevent the defendant from defending himself, by ruling certain evidence inadmissible.

Specifically, what filing such a brief does is get "on the record" (so it can be used in court later) the "legal foundation" on which the defendant is basing his or her defense. This is important in establishing to the jury "subjective good faith belief" as discussed earlier. This solid legal foundation concerning your "subjective good faith belief" is critical to successfully refute the government's claim that you had the "specific intent" to "willfully avoid a known legal duty."

To reiterate, if you truly believe you have no legal duty - based on your solid, good faith legal foundation - to file, the government is unlikely to be able to prove its case beyond a reasonable doubt to a jury. So you win! Of course, if you lay the proper foundation early, it's extremely unlikely that the government would be foolish enough to prosecute you.

Mr. Long then filed a 22-page brief challenging the admissibility of computer evidence. The basic argument is that evidence derived from computer records long after the event was not admissible. The fact that computer records indicate that someone didn't file doesn't constitute evidence that he didn't file. [This brief could have been a "red herring" to misdirect the prosecution into believing that the main thrust of the defense would be that the prosecution couldn't prove that the defendant hadn't filed.

JURY INSTRUCTIONS A "defendant's supplemental requested jury instructions" was filed. The purpose was to clearly establish in the minds of the jurors what the prosecution had to prove in order to establish guilt. These were the most important requested jury instructions:

For the government to prove guilt, the following three elements need to be established beyond reasonable doubt: 1.The defendant is a person required to file a return. 2.The defendant failed to file a return. 3.The defendant's failure to file a return was willful. The burden is on the prosecution to prove every one of the above elements. The defendant may rely on a "good faith defense" - "If a person in good faith believes that he has done all that the law requires, he cannot be guilty of the criminal intent to willfully fail to file a tax return."

FREEDOM TECHNOLOGY Freedom Technology consists of the knowledge, skills, and methods to live free - the street-smart know-how to outwit freedom-violators at every turn. It also includes the means to protect yourself, your income, and your assets against onslaughts by freedom-violators. Ultimately, Freedom Technology also includes the means to blow away the bogus power of the freedom-violating elite.

The Long case illustrates all these aspects of Freedom Technology. Mr. Long obviously did acquire some knowledge on how to deal with the IRS. He created a legal foundation by writing a series of letters to the IRS. We don't know the details of Mr. Long's legal foundation. Possibly there were some serious weaknesses in his foundation, which led to his **prosecution**. Of course, it's also likely that he was prosecuted mainly because of the stupidity and incompetence of the government officials concerned.

It's also clear that the prosecution was caught flat-footed, with their pants down. The defense strategy completely outwitted them. They had no answers and couldn't contest any of the evidence relating to the nature of the income tax and who is liable for it. They must have appeared like bungling idiots to the jury.

It's important to realize that the power of the freedom-violators is bogus. People like Lloyd Long and Larry Becraft have the ability to blow away that bogus power - as they did in this case. Every individual has this ability and power. It starts with assuming personal responsibility. It grows as you educate yourself. It comes to fruition when you develop the means to say "NO!" to the system. You, personally, have to do it. Don't expect the politicians to do it for you.

Politicians have a clearly vested interest in maintaining the "status quo" to their advantage. They are generally known to be skillful liars and makers of broken promises. Be true to yourself. Take your personal power back from the politicians and bureaucrats.

Act on that personal power that is yours and yours alone.

RONALD REAGAN ON THE INCOME TAX SYSTEM The following article appeared in the Albuquerque Journal of May 31, 1985: "Reagan Urges 'Rebellion' On Taxes, Government WILLIAMSBURG, VA. President Reagan, promoting his new tax plan on the 220th anniversary of a revolutionary speech here by Patrick Henry, urged "rebellion" against Washington Thursday and expressed sympathy for the "cult of cheating" among American taxpayers.

"It's not considered bad behavior," Reagan said of tax cheating and referring to modern American morals. "After all, goes this thinking, what's immoral about cheating a system that is itself a cheat? That isn't a sin, it's a duty."

"Our federal tax system is, in short, utterly impossible, utterly unjust and completely counterproductive. It has earned a rebellion. And it's time we rebelled."

The outdoor crowd of several thousand, assembled on a sunny, picture-postcard day, erupted into cheers and applause as the president issued his now-familiar call for "a second American revolution."

In Williamsburg, Reagan seemed to equate his own campaign for tax simplification with the revolutionary cause of Patrick Henry, who on May 30, 1765, dramatically stood in the Virginia House of Burgesses and demanded repeal of the Stamp Act that recently had been imposed on colonists by their mother country England.

Henry's call for "tax reform" prompted immediate cries of "treason," but his speech fueled a revolutionary fervor that culminated 13 months later in the Declaration of Independence.

Speaking on the steps of the colonial capitol where Henry had orated, Reagan said the federal income tax is "so rigged, so unfair, that it corrupts otherwise honest people by encouraging them

to cheat.... The current system just doesn't work anymore. The underground economy and the cult of cheating prove this is so."

Reagan recalled that the Founding Fathers argued, "Why should the fruits of our labors go to the crown across the sea?" He added, "in the same sense, we ask today, why should the fruits of our labors go to the capital across the (Potomac) river?"

The president declared, "Now is the time, in short, to get the federal government off our backs and out of our way."

Attacking both Washington and the income tax as symbols of each other will be a key feature of Reagan's strategy for selling his tax plan, particularly when he travels to middle class, family-oriented communities.

Leaving the ghost of Patrick Henry, Reagan flew later to the Main Street world of Sinclair Lewis in Oshkosh, Wis..

Speaking at the Winnebago County Courthouse Reagan asked: "Do the people of Oshkosh want our tax system to be complicated and unfair?"

"No," came the shouted reply.

The president asserted: "the answers are just the same every place I know of except for one city - Washington, D.C. Sometimes folks back there are a little slow to catch on. I may need some help.""

SOURCES Suppose you pay \$10,000 a year on taxes. Suppose by informing yourself you could discover how to legally stop paying those taxes. How much work are you willing to do for \$10,000? How much time are you willing to spend to save an extra \$10,000? How much money are you willing to spend in order to save \$10,000?

The U.S. v. Long Transcript plus exhibits of about 600 pages is available from Lloyd Long, 5048 Roarks Cove Rd, Decherd, Tennessee, PZ 37324/TDC; phone (615) 967-1402. The price is \$250 plus shipping.

Larry Becraft can be contacted at 209 Lincoln St, Huntsville, AL 35801; phone (205) 533-2535.

POST SCRIPT I recently received the following press release: "IMMEDIATE PRESS RELEASE Friday, March 4, 1994, Judge David Hagen, of the Federal District Court in Reno, Nevada, issued a Declaratory Judgement that:

- 1.16th Amendment was and is invalid;
- 2.Federal Reserve Act of 1913 is declared unconstitutional as it was and is applied to State Citizens;
- 3.Cold Reserve Act of 1934 to be fraud on its surface and to be declared unconstitutional; and
- 4.Title 26 USC (Internal Revenue Code) to apply only to the Federal United States (not to the Citizens of the fifty States), and all other implications to be fraud and declared unconstitutional,

The case is known as: Ronald L. Jackson vs. United States, et. al. Case # CV-N-93-401-DWH.

However, as of yesterday, March 9th, the Ninth Circuit Court of San Francisco has placed a federal gag order on Ronald Jackson and all parties involved with the case."

[Late Addition: One of our customers has just sent me the docket of the above case. It seems that no declaratory judgement has been passed. It's also unclear if there really is such a gag order.]

A CALL TO ACTION There is no "gag order" on you. You may study, use, and spread this vital information. As Ronald Reagan implies, it is a duty to "just say 'no'." You owe this duty, not to broken-promise, lying politicians and bureaucrats, but to yourself.

Look within yourself and know that you are FREE! Take back your personal power. Take back that power in the area of taxes. Do all the research you believe is necessary. If, as a result of that research, you make certain discoveries about your "legal duties," then perhaps in good faith you might determine what your proper actions should be.

You may determine that the best and most moral action for you is to just say 'no' to lying politicians and bureaucrats. Just say 'yes' to your personal power and individual sovereignty.