



# Department of Justice

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## DEPARTMENT OF JUSTICE FILES SUITS ACROSS THE COUNTRY IN CRACKDOWN ON SO-CALLED "TRUST" SCHEMES

### *"Trust" Schemes Nationwide Cost Treasury Nearly \$3 Billion Annually*

**WASHINGTON, D.C.** - The Department of Justice announced today that it has filed lawsuits in San Diego, Boston, and Cincinnati as part of a campaign to stop the spread of phony trust schemes which the government contends are being used illegally to evade the payment of taxes. The lawsuits are the latest installments in a government crackdown on the promoters of bogus tax scams.

"Today's technology has made marketing tax fraud schemes incredibly easy," said Eileen J. O'Connor, Assistant Attorney General in charge of the Department's Tax Division. "With the filing of these suits, the Tax Division takes another step in its efforts to stop the proliferation of bogus "trusts" and other tax cheating schemes. While the promoters of these schemes say they lead to tax savings, they can lead instead to substantial penalties, including a prison sentence."

In one of the cases filed today, the government alleged that a promoter charged customers several thousand dollars each to set up trusts and transfer the customers' property into the trusts. The complaint alleges that the trusts were then used to illegally claim tax deductions for personal expenses such as utility payments, gardening expenses, and home maintenance costs, and to avoid reporting and paying tax on income.

In the complaint filed in San Diego, the Justice Department alleges that Roderick Prescott, of Solana Beach, California, through businesses named "Trust Educational Services" and "National Trust Services," sold hundreds of sham trust schemes. Prescott and his businesses sold trust packages for as much as \$15,500. The complaint also alleges that Prescott's activities have cost the Treasury more than \$135 million so far.

In the Boston case, the government alleges that Kevin Mahoney of Attleboro, Massachusetts, promotes sham trust schemes through businesses named "the Citadel Group," "Cornerstone Financial Group," the "National Association of Certified Estate Planning Attorneys," and "the Liberty Network." The complaint alleges that Mahoney sold his trust materials for more than \$3,500. The government filed a similar suit in federal court in Chicago last month against two alleged operators of the same scheme—Michael D. Richmond and Rex E. Black.

In the suit filed in Cincinnati, the government alleges that Robert Welti, an accountant in Ripley,

Ohio, prepared tax returns for clients across the country that claimed improper tax deductions or failed to report income which resulted in estimated tax losses of over \$3 million per year. According to the complaint, Welti charged his clients \$2,400 to prepare tax returns based on the bogus trust schemes. The complaint states that although Welti's clients come from 20 different states, they all rely on trusts to evade taxes that use the same address in Belize, a "tax haven" country.

Last year, 45 people were convicted for tax evasion because of their participation in phony trusts. Defendants who were sentenced to prison faced sentences averaging more than five years. As of December 31, 2001, the IRS had 160 open criminal investigations involving trust schemes.

If someone claims that a trust will lead to lower taxes, here are some warning signs that the scheme could instead lead to prison:

- deductions for personal expenses paid by the trust.
- depreciation deductions for a personal residence.
- high fees for trust packages, to be made up by promised tax benefits.
- lack of an independent trustee.
- use of terms like "pure trust," "constitutional trust," "sovereign trust," "unincorporated business organization," or "common law trust."

IRS Commissioner Charles Rossotti said "Promoters can entice taxpayers into abusive trust schemes by making promises that are too good to be true. Getting involved in such schemes can be a costly mistake for taxpayers. Before entering into any arrangements, make sure you consult with a reputable, trusted tax professional for advice. Taxpayers who want to report possible schemes can call the IRS at 1-800-829-0433." The IRS estimates that abusive trust schemes cost the public about \$3 billion every year.

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