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SAN DIEGO BUSINESS OWNERS ADMIT TAX EVASION RELATED TO ABUSIVE TAX SHELTER SCHEME

A San Diego business owner and his wife have been charged with tax evasion in relation to a long-running scheme in which they defrauded the Internal Revenue Service by diverting millions of dollars of corporate and personal income to offshore bank accounts and by concealing assets.

Anthony Arnold Mitchell, 78, and his wife, Dorothy May Mitchell, 74, both of San Diego, were charged this morning in United States District Court in Los Angeles. The Mitchells, who previously owned a San Diego paint business called Pro-Line Paint Company, have agreed to plead guilty to the tax evasion charges. Additionally, Anthony Arnold Mitchell has agreed to plead guilty to conspiring to defraud the IRS.

This case relates to offshore investment accounts that the Mitchells created under nominee names with the intention of concealing a substantial portion of their personal and corporate income from the IRS. The nominee investment accounts were held under an entity known as "The Genesis Fund" that was purportedly an unregulated private investment fund that engaged in foreign currency trading through offshore accounts maintained in Hong Kong, Macau and elsewhere.

According to plea agreements also filed this morning, the Mitchells became involved in the abusive trust scheme through a promoter of such schemes based in San Juan Capistrano. In his plea agreement, Anthony Arnold Mitchell admitted that he and his wife used the off-shore accounts and committed various acts in an attempt to conceal funds from the IRS, including \$3.7 million they earned from the sale of their paint business in 1996.

In their plea agreements, the Mitchells also acknowledged attempting to conceal their income by creating a false business expense on Pro-Line's corporate income tax return that included a backdated and bogus contract designed to make it appear that Pro-Line was obligated to pay a software company millions of dollars for computer services. In fact, the software company was sham. The sale of Pro-Line was structured to appear that the \$3.7 million payment for Pro-Line went to the software company, when in reality the funds passed through various nominee accounts controlled by the Mitchell's trust promoter, for the benefit of the Mitchells.

In a further effort to defraud the IRS, the Mitchells filed for personal bankruptcy in Sacramento in 1995. Their bankruptcy petition failed to disclose their ownership of Pro-Line, as well as other assets.

Anthony Arnold Mitchell also admitted in his plea agreement that he and his wife deposited nearly \$1 million into a Cayman Islands bank account at the (now defunct) Guardian Bank & Trust in 1994. The bank issued Anthony Arnold Mitchell and his wife Visa debit cards that enabled them to freely spend their Cayman Island account funds in the United States.

The scheme resulted in an underpayment of approximately \$3 million in corporate and personal income taxes.

The plea agreements call for the Mitchells' to cooperate in additional government investigations and prosecutions. Earlier this week, the Mitchells both testified as government witnesses in a criminal trial in federal court in Portland, Oregon involving other defendants charged with promoting tax evasion schemes.

This case is part of an ongoing nationwide crackdown on abusive trust schemes being conducted by IRS-Criminal Investigation. In April, eight individuals associated with a tax fraud group known as "We the People" were arrested by special agents with IRS-Criminal Investigation after they were indicted on various charges, including failing to file tax returns and conspiracy to defraud the Internal Revenue Service. The promoters sold bogus trusts to taxpayers in the Los Angeles and Orange County areas.

In addition to criminal investigations, the IRS has been cracking down on promoters of abusive trusts by filing civil lawsuits. Recently, the Department of Justice and the IRS filed a civil lawsuit against three individuals in San Diego, Boston and Cincinnati for selling bogus trusts to hundreds of taxpayers.

IRS Commissioner Charles O. Rossotti, testifying before the Senate Finance Committee in April, said that "identifying and combating actively promoted tax schemes was the IRS' highest compliance priority."

Michael S. Kochmanski, Special Agent-in-Charge of the Los Angeles Field Office of IRS-Criminal Investigation, stated: "Taxpayers should not believe that he or she can ignore the IRS and get away with it. Anthony and Dorothy Mitchell tried to and did not get away with it. The honest taxpayer should be aware that the IRS is cracking down on these abusive trust schemes and believes that everyone should pay their fair share."

Anthony Arnold Mitchell has agreed to plead guilty to conspiracy and tax evasion charges, which collectively carry a maximum sentence of 10 years in federal prison. Dorothy Mitchell has agreed to plead guilty to tax evasion, a crime that carries a maximum sentence of 5 years in prison and a \$250,000 fine.

This case is the result of an ongoing investigation by the Los Angeles Field Office of IRS-Criminal Investigation, which was assisted by the Sacramento Field Office of the Federal Bureau of Investigation.

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