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IRWIN SCHIFF AND TWO ASSOCIATES INDICTED FOR TAX FRAUD

WASHINGTON D.C. - Eileen J. O'Connor, Assistant Attorney General for the Tax Division, United States Department of Justice; Daniel G. Bogden, U.S. Attorney for the District of Nevada; and Nancy Jardini, Chief, Internal Revenue Service Criminal Investigation Division announced today that in Las Vegas, Nevada, a federal grand jury returned a thirty-three (33) count indictment charging Irwin Schiff, Cynthia Neun, and Lawrence Cohen with conspiracy (18 U.S.C. §371), and aiding and assisting in the preparation and filing of fraudulent federal income tax returns (26 U.S.C. §7206(2)). Messrs. Schiff and Cohen are also charged with income tax evasion (26 U.S.C. §7201). Ms. Neun is also charged with willfully failing to file federal income tax returns (26 U.S.C. §7203), Social Security disability fraud (42 U.S.C. §408) and theft of government property (18 U.S.C. §641).

If convicted, Mr. Schiff faces maximum potential sentences totaling forty-three years in jail and \$3.25 million in fines; Ms. Neun, fifty-one years in jail and \$3.4 million in fines; and Mr. Cohen, twenty-seven years in jail and \$1.5 million in fines.

"There is no magic way out of paying taxes," said Assistant Attorney General Eileen J. O'Connor. "If you fall for a scheme to cheat the IRS, you may lose your money to a con artist. You may wind up in federal prison. In the end, you will still owe taxes, and you may also owe interest and penalties."

"The indictment today reminds us that fulfilling individual tax obligations is a legal requirement and those who willfully evade that responsibility will be prosecuted," stated Nancy Jardini, Chief, IRS Criminal Investigation. "We should not forget that the ultimate victims in tax fraud cases are the people of the United States. Those taxpayers who diligently file tax returns each year."

Count one of the indictment alleges that the defendants conspired to file and cause other persons to file fraudulent tax returns, including more than 4,950 tax returns that fraudulently reported no income, a scheme the defendants referred to as a "zero return." Counts two through sixteen of the indictment charge the three defendants with allegedly aiding and assisting in the preparation and filing of fraudulent "zero returns." The indictment alleges that the fraudulent "zero returns" reported zeroes on every line of a federal income tax return related to income and expenses, and often claimed a full refund of all federal taxes withheld or paid over to the IRS. It also alleges the defendants promoted the "zero return" scheme through written materials and audiotapes sold through a business known as Freedom Books; and during seminars, radio shows such as "Freedom Now" (co-hosted by Mr. Schiff and Ms. Neun), and personal consultations with clients.

The indictment further alleges that after filing "zero returns," many of the defendants' clients faced IRS audits and collection of taxes due. Mr. Schiff, who has owned Freedom Books since at least 1995, together with his co-defendants, allegedly encouraged clients to pay for additional products that were supposed to help the clients handle their problems with the IRS. The indictment alleges that Mr. Schiff and Ms. Neun charged clients for writing responses to IRS correspondence, drafting court pleadings, and representing them at administrative hearings before the IRS or in judicial proceedings. Between 1997 and 2002, Freedom Books allegedly generated gross business receipts of approximately \$3,726,000. Despite owning the lucrative business, the indictment alleges Mr. Schiff did not report any income on any federal income tax return filed with the Internal Revenue Service for calendar years 1987 through 2002.

The indictment also charges Mr. Schiff with allegedly evading the payment of \$1,369,000 in federal taxes, interest, and penalties due for the years 1979 through 1985. It alleges that he hid income and assets in an offshore bank account, using wire transfers and debit cards to bring the money back as needed; opened bank accounts using fictitious tax identification numbers; tried to hide the true ownership of his car by placing it in the name of a Pennsylvania-based business; and conducted financial transactions through anonymous warehouse banking services offered by the Christian Patriot Association.

On June 7, 2002, after trial in the United States District Court in Oregon, leaders of the Christian Patriot Association, including Richard and Dorothy Flowers, were convicted of tax crimes in connection with a "warehouse bank" scheme designed to eliminate records customarily made in financial transactions.

The charges contained in the indictment are only allegations. In the American justice system, a person is presumed innocent unless and until he or she is proven guilty in a court of law.