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**UNITED STATES DISTRICT COURT  
DISTRICT OF UTAH, CENTRAL DIVISION**

United States of America,	)	<b>Civil No. 2:10 CV 00638 CW</b>
	)	
Plaintiff,	)	
	)	
v.	)	<b>Complaint</b>
	)	
Kevin Hartshorn, conducting business	)	
through the Church of Compassionate	)	
Service,	)	
	)	
Defendant.	)	

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**Complaint and Request for Injunctive Relief**

Plaintiff, the United States of America, for its complaint against Kevin Hartshorn,  
states as follows:

### **Jurisdiction and Venue**

1. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and 26 U.S.C. §§ 7402 and 7408.
2. This suit is brought under Sections 7401, 7402, and 7408 of the Internal Revenue Code (26 U.S.C.) to restrain and enjoin Hartshorn from promoting false church-based tax-fraud schemes as described below.
3. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General under 26 U.S.C. §§ 7402 and 7408.
4. Hartshorn resides in Orem, Utah and conducts business through the an entity he calls the Church of Compassionate Service in Orem, Utah, within this judicial district.
  - A. Hartshorn's Previous Promotion of a False Church-Based Tax-Fraud Scheme through the International Academy of Lymphology**
5. Hartshorn previously promoted a false church-based tax-fraud scheme known as the International Academy of Lymphology ("IAL").
6. IAL ostensibly existed to promote the practice of "lymphology," which claims that by "deep breathing, rubbing the body, stroking the body, [and] compressing tissues" one can "get oxygen to every cell in your body so your body can heal itself."

7. IAL purported to be a “non-secular health-educational religious organization” and referred to itself as a church or church organization in IAL literature.
8. Although referring to itself as a church, IAL was in fact a false church-based tax-fraud scheme promoted by Hartshorn and others so that IAL members could avoid filing federal income tax returns, unlawfully reduce or eliminate their federal income taxes, and hide their assets from the IRS.
9. As part of this false church-based tax-fraud scheme, IAL falsely informed customers that by donating \$5,000 to become “certified lymphologists,” the customers would have “no personal income” and be “no longer part of the IRS System.”
10. IAL also falsely informed its customers that there are “no taxation requirements on [the customers] from the Internal Revenue Service because they have voluntarily taken upon themselves membership in an organization holding higher venue than even the IRS.”
11. In addition to falsely informing customers that they can be exempt from taxation by becoming certified lymphologists, IAL advised customers to create LLCs so that customers could receive income and pay expenses without reporting the income to the IRS.

12. IAL also falsely instructed customers that by obtaining a “ministry” in the “Church and Order” of IAL, customers could claim that any income they earned was done for the “sole purpose of obtaining” funds for the church and thus not taxable as income.
13. IAL also falsely instructed customers that by becoming ministers of IAL, any “funds, benefits, assets, lands, valuables and other distribution which the customer received was not the customers’ personal property” (and thus subject to creditors like the IRS), but property of the church as part of the customers’ “sacerdotal functions and religious worship.”
14. IAL also falsely informed customers that through IAL’s services customers could convert non-deductible living expenses into deductible business expenses.
15. As an example of one taxpayer’s use of IAL to unlawfully reduce his reported income tax liability, in *Singer v. Commissioner*, 2002 WL 1825363 (U.S. Tax Ct. May 7, 2002) the United States Tax Court held that an IAL certified lymphologists was not able to deduct personal living expenses related to his “health, wealth and healing ministry,” because this was simply part of a strategy “designed generally to lower, if not eliminate, petitioner’s Federal income tax liability by converting personal living expenses into deductible business expenses. At best, petitioner’s activity was a fanciful

attempt, not grounded in reality, to reach some promised land.”

16. Hartshorn actively participated in the IAL church-based tax-fraud scheme from as early as 1983 to as late as 2004.
17. According to Hartshorn’s resume, he became a Doctor of Preventive Medicine and Certified Lymphologist of IAL in 1983.
18. Hartshorn was listed as the IAL Executive Administrator, a member of the IAL government board, and signed membership documents in this capacity.
19. Hartshorn also signed IAL documents as IAL’s Chief Executive Officer.
20. As part of his duties at IAL, Hartshorn was involved with setting up customers’ LLCs and served as the registered agent for LLCs and other entities created by IAL.
21. According to Hartshorn’s resume, after becoming a Certified Lymphologist for IAL in 1983, he sold insurance and investments in the State of Washington from 1985 to 1990.
22. Hartshorn also claims in his resume to have worked from 1985 to 1990 for Advance Checking, the largest check-cashing chain in the State of Washington, and to have developed a chain of stores that generated income of \$800,000 to \$1 million per month.
23. Hartshorn also claims in his resume to have served from 1990 to 1996 as the Vice President of Expansion for Corporate Services, where he directed

and managed over eighty business ranging from loans and financial services, check cashing, catalog sales, furniture and electronics, restaurants, and real estate development and investment companies.

24. Despite Hartshorn's claimed extensive professional experience set forth in his resume, Hartshorn has not filed a federal income tax return since 1986.

25. Hartshorn ran IAL along with Kerry Smith, the Executive Trustee, until March of 2004, when Hartshorn, along with several other persons, proclaimed his separation from Smith due to Smith's alleged "apostasy" in conducting affairs for the purported church.

**B. Hartshorn's Promotion of a False Church-Based Tax-Fraud Scheme through the Church of Compassionate Service.**

26. Hartshorn presently works as a "Senior Minister" for the Church of Compassionate Service ("The Church").

27. The Church is primarily comprised of persons who, like Hartshorn, came from IAL after becoming disillusioned with certain decisions of IAL.

28. The Church claims to be a "Free-Church under God" and to not be "recognized" by the IRS.

29. In order to be members of the Church, customers are provided a "Ministers Handbook" that contains an overview of the Church and forms for potential members to fill out.

30. According to the Church, members are “ministers” who are required to take a vow of poverty.
31. Upon taking the vow of poverty, “ministers” denounce all of their worldly possessions by quit-claiming their property to the church, which the church then quit-claims to a trust, thereby putting ministers’ assets beyond the reach of creditors like the IRS.
32. While in form the ministers’ property has been transferred to trusts created by the Church, in substance the trusts created by the Church serve merely as the ministers’ alter ego or nominee to hide the ministers’ assets from the IRS, while the ministers continue to enjoy full use of the assets.
33. The Church falsely states that “ministers” no longer have taxable income after taking the vow of poverty because when “ministers of the Order take the Vow of Poverty, even the IRS recognizes that they have no income and that any income they receive belongs to the religious order. . .If a minister has no income, then there is no income tax.”
34. The Church also falsely states that because ministers’ services are provided for the benefit of the Church, “nothing inures to the benefit of a minister, the minister has no income, nothing in their name and nothing is taxable to them.”

35. The ministers' vows of poverty are patently false, because after taking these vows, the wages or income earned by ministers, which were formerly deposited into their personal bank accounts, are simply deposited into Church bank accounts and disbursed on the ministers' demand for their living expenses in exactly the same fashion as the ministers had disbursed funds out of their personal bank accounts prior to the vows of poverty.
36. In order for its members to continue to live in the same fashion as before taking the vows of poverty, the Church also provides debit cards to its ministers to meet their day-to-day expenses, such as food, utilities, rents/mortgages, vehicle expenses and entertainment.
37. While in form the ministers take a vow of poverty, in substance the ministers continue to earn income from the fruit of their labors and use this income to pay for their living expenses.
38. Hartshorn knows or should know that courts have consistently rejected the same or similar "vows of poverty" to avoid income tax.
39. According to the Church, "ministers" are required to live in their home and thus are entitled to claim their home as a "parsonage" owned by the church.
40. The Church also falsely states that because ministers' homes are "parsonages," the home and all "parsonage" effects become the property of the Church and thus exempt from the claims of creditors like the IRS.

41. The Church also falsely states that because ministers' homes are "parsonages," the Church's payments for the ministers' household and personal living expenses are excludible from the ministers' gross income.
42. Hartshorn knows or has reason to know that courts have consistently rejected same or similar "parsonage" claims to avoid income tax or to put taxpayer assets beyond the reach of creditors like the IRS.
43. The Church also falsely instructs its members that all of their "occupational duties and activities," that is, their income-generating activity, are "fruit" or "labors" used to "further accomplish the missions of the Order."
44. As part of this false church-based tax-fraud scheme, the Church instructs members who have existing businesses to transfer their businesses to a "feeder" LLC set up by the church.
45. The Church refers to these LLCs as "feeder" LLCs because the LLC's purported role is to "feed the religious order."
46. The Church falsely states that because all of the money that goes into these feeder LLCs is to feed the religious order, the LLC "is not considered doing any trade or business [and] there is no filing requirement according to [the Internal Revenue Code]."
47. Hartshorn knows or has reason to know that LLCs that earn income are required to file federal tax returns.

48. While in form the feeder LLC receives the ministers' income, in substance the ministers retain control over the funds by using Church debit cards and a bill paying system to use LLC funds for the ministers' personal expenses.
49. In an effort to show its purported charitable purpose and so that ministers can claim that the income they earn is not subject to tax, the Church also requires its ministers to generate monthly "service reports" for supposed charitable efforts undertaken by its ministers as part of the Church's mission.
50. These "service reports" are patently false, as they simply reflect the same income-generating work performed by the ministers before becoming church members.
51. As an example, minister Bruce Calkins, a histotechnologist, reported 233 hours of "service" to the Church in July 2009 for "Service to Kaiser Permanente Hospital Pathology Department as Histotechnologist—Serving patients with excellence in diagnostic medicine."
52. In order to conceal its illegal activity, the Church prohibits its members from speaking to any governmental authority. The Ministers Handbook states that "you are not authorized to speak to any governmental authority about anything. All requested or written communication must be forwarded to [the Church] for proper reply with appropriate contact information."

53. The Minister's Handbook also provides a script to its members to use if a government agent comes to their home, to wit: "I'm so sorry. I am a member of a religious order and I am not authorized to speak with you. Please give me your contact information and I will forward it to the Order for a proper response."
54. As an example of the Church's efforts to muzzle its members and substantially interfere with the IRS's lawful investigation of the Church's tax-fraud scheme, on October 17, 2006, Hartshorn, listing himself as a "Reverend," sent a letter on Church letterhead to the IRS, indicating that all further correspondence regarding "Reverend Cynthia Ceteras," the taxpayer under investigation, be sent to the Church because the taxpayer "is under a Vow of Obedience to her Superiors in the Order [and] she may not speak with you."
55. In this October 2006 letter, Hartshorn also falsely states that because Ceteras is an ordained minister of the Church, she "receives no pay or income," that all services she performs are "as an agent of the Order. . .and are qualified [non-taxable] services," and that she "has no income and is not a "Taxpayer."
56. The Church has refused to stop promoting this sham church-based tax-fraud scheme, as demonstrated by a letter from the Church's lawyer to the IRS

dated May 26, 2009 that sets forth the “Church’s position that anyone who is a full-time minister having undertaken a vow of poverty and otherwise complying with the Church rules, and who no longer controls any assets or owns any assets, need not file tax returns or ever pay FICA even if their ministry generates money for the Church.”

**Count I**

**Injunction under 26 U.S.C. § 7408 for Violation of 26 U.S.C. § 6700**

57. The United States incorporates by reference the allegations in paragraphs 1 through 56.
58. 26 U.S.C. § 7408 authorizes a court to enjoin persons who have engaged in any conduct subject to penalty under 26 U.S.C. § 6700 if the court finds that injunctive relief is appropriate to prevent the recurrence of such conduct.
59. 26 U.S.C. § 6700 penalizes any person who organizes or sells a plan or arrangement and makes, in connection with organizing or selling the plan or arrangement, a statement regarding the excludibility of income or securing of other tax benefit that the person knows or has reason to know is false or fraudulent as to any material matter.
60. Hartshorn promotes a false church-based tax-fraud scheme through the Church of Compassionate Service. In promoting this fraudulent tax scheme, Hartshorn falsely promises customers that they can reduce or

eliminate their federal income taxes, refuse to file federal income tax returns, and legally put their income and assets beyond the reach of the IRS. Hartshorn knows or has reason to know that his promotion and program contains false or fraudulent statements within the meaning of 26 U.S.C. § 6700.

61. If he is not enjoined from promoting the false church-based tax-fraud scheme described above, Hartshorn is likely to continue engaging in conduct subject to the § 6700 penalty and continue aiding his customers in hiding their assets and income from the IRS.

## **Count II**

### **Injunction under 26 U.S.C. § 7408 for Violation of 26 U.S.C. § 6701**

62. The United States incorporates by reference the allegations in paragraphs 1 through 61.
63. Section 7408 of 26 U.S.C. authorizes a court to enjoin persons who have engaged in conduct subject to penalty under 26 U.S.C. § 6701 from engaging in further such conduct. Section 6701 imposes a penalty on any person who aids in the preparation of any portion of a return or other document, who knows the portion or document will be used in connection with any material matter under the internal revenue laws, and who knows

the portion or document (if so used) would result in understating another person's tax liability.

64. Hartshorn prepared documents for customers, including but not limited to the documents and forms contained in the Ministers Handbook, that were intended to be used (and were used) in connection with material matters arising under the internal revenue laws. Hartshorn knew that these documents (if so used) would result in understatements of customers' tax liabilities. Hartshorn thus engaged in conduct subject to penalty under 26 U.S.C. § 6701.

### **Count III**

#### **(Unlawful Interference with the Enforcement of the Internal Revenue Laws)**

65. The United States incorporates by reference paragraphs 1 through 57.
66. Through the conduct described above, Hartshorn engaged in conduct that substantially interferes with the enforcement of the internal revenue laws. Unless enjoined by this Court, Hartshorn is likely to continue to engage in such conduct. Hartshorn's conduct is causing irreparable injury to the United States, and the United States has no adequate remedy at law:

WHEREFORE, the plaintiff, United States of America, respectfully prays for the following:

A. That this Court find that Hartshorn has engaged in conduct subject to penalty under 26 U.S.C. §§ 6700 and 6701 and that injunctive relief under 26 U.S.C. § 7408 is appropriate to prevent a recurrence of that conduct;

B. That this Court find that Hartshorn has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws and that injunctive relief under 26 U.S.C. § 7408 is appropriate to prevent a recurrence of that conduct;

C. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter a permanent injunction prohibiting Hartshorn, conducting business through the Church of Compassionate Service or through any other name or entity, and his representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with him, from directly or indirectly:

- a. organizing, promoting, marketing, or selling, or assisting in the organizing, promoting, marketing, or selling, any plan or arrangement that advises or encourages taxpayers to attempt to violate internal revenue laws or unlawfully evade the assessment or collection of their federal tax liabilities, including those that promote, sell, or advocate the use of church-based tax-fraud schemes, including IAL and the Church of Compassionate Service, to avoid or evade filing or paying federal tax liabilities.
- b. engaging in conduct subject to penalty under 26 U.S.C. §§ 6700 or 6701, including organizing or selling a plan or arrangement and making or furnishing a statement regarding the right or ability to claim that:
  1. income earned by an individual taxpayer is in fact non-taxable income earned by the church;
  2. the taxpayer is able to pay for personal living expenses by use of church credit or debit cards or checks, without recognizing taxable income;

3. the taxpayer does not earn taxable income or is not required to file a federal income tax return because the taxpayer has taken a “vow of poverty”;
4. the taxpayer does not have to report income because he lives in a “parsonage;”
5. the taxpayer is engaged in charitable or service endeavors when earning income;
6. the taxpayer does not earn taxable income or is not required to file a federal income tax return when the taxpayer assigns income to an LLC, trust or other entity purportedly created by a church but in substance controlled by the taxpayer; and
7. the taxpayer is able to shield personal assets from the IRS by transferring title to a trust nominally controlled by a church or other entity but in fact controlled by the taxpayer.

D. That this Court, under 26 U.S.C. §§ 7402 and 7408 enter an injunction requiring Hartshorn to contact by mail (and also by e-mail, if an address is known) all individuals to whom he provided advice or services through the Church of Compassionate Service and provide a copy of the injunction entered against him.

E. That this Court, under 26 U.S.C. §§ 7402 and 7408 enter an injunction requiring Hartshorn to produce to the United States any records in his possession or to which he has access, identifying the persons to whom he has provided advice or services through the Church of Compassionate Service.

F. That the Court, under 26 U.S.C. § 7402 and 7408, enter an injunction requiring Hartshorn to turn over to the United States a list of the names, addresses, e-mail addresses, phone numbers, and Social Security numbers of all individuals or entities for

whom Hartshorn provided advice or services through the Church of Compassionate Service.

G. That this Court order that the United States is permitted to engage in post-judgment discovery to ensure compliance with the permanent injunction; and

H. That this Court grant the United States such other relief, including costs, as is just and equitable.

Dated this 12<sup>th</sup> day of July, 2010.

CARLIE CHRISTENSEN  
Acting United States Attorney

/s/ Daniel D. Price  
DANIEL D. PRICE  
Assistant United States Attorney