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7 **IN THE UNITED STATES DISTRICT COURT FOR THE**
8 **WESTERN DISTRICT OF WASHINGTON**
9 **AT TACOMA**

10 UNITED STATES OF AMERICA)

11 Plaintiffs,)

12 v.)

Civil No.

13 RAYMOND LEO BELL individually and)
14 d/b/a AMERICAN BEAUTY ROSE; and)
15 THE BEST WAY, INC.)

**COMPLAINT FOR PERMANENT
INJUNCTION AND OTHER
EQUITABLE RELIEF**

16 Defendants.)

17 **Nature of Action**

- 18 1. This is a civil action brought by the United States of America pursuant to §§ 7402 and
19 7408 of the Internal Revenue Code (26 U.S.C.) (I.R.C.) to enjoin the defendants,
20 Raymond Leo Bell, individually and d/b/a American Beauty Rose; and The Best Way,
21 Inc., and all those in active concert or participation with them from:
22 a. Organizing, selling, or participating in abusive tax shelters, plans, or programs
23 that advise or encourage taxpayers to attempt to evade the assessment of their
24 correct federal tax obligations;
25 b. Making false statements about the legality of any deduction or credit, the
26 excludability of any income, or the securing of any other tax benefit by reason of
27 participating in such tax shelters, plans, or programs;
28 c. Instructing or advising taxpayers to understate their federal-income-tax liabilities;

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U.S. Department of Justice
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- d. Instructing or advising taxpayers not to file federal-income-tax returns;
- e. Promoting the false and frivolous position that federal income taxes can be legally reduced or eliminated by using trusts or claiming tax-exempt status to shelter income from income and employment tax;
- f. Engaging in any conduct that interferes with the proper administration and enforcement of the internal revenue laws through promotion of false tax schemes;
- g. Engaging in any activity subject to penalty under I.R.C. §§ 6700 and 6701.

Jurisdiction

2. 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 of the United States, pursuant to the provisions of I.R.C. §§ 7402 and 7408.
3. Jurisdiction exists under 28 U.S.C. §§ 1340 and 1345 and I.R.C. §§ 7402(a) and 7408.
4. Venue is proper in the United States District Court for the Western District of Washington under 28 U.S.C. § 1391.

Defendants

5. Bell has engaged in conduct in this district and elsewhere subject to penalty under I.R.C. §§ 6700 and 6701, and has engaged in conduct that interferes with the enforcement of the internal revenue laws. Bell conducts business through the unregistered business entity American Beauty Rose, and through The Best Way, Inc.
6. The Best Way, Inc. is a corporation registered with the Washington Secretary of State. Raymond Leo Bell is its registered agent. The Best Way, Inc. serves as the registered agent for the corporations Bell creates for his customers. The Best Way, Inc., through Bell, has engaged in conduct subject to penalty under I.R.C. § 6700, and has engaged in conduct that interferes with the enforcement of the internal revenue laws.

Defendants' Abusive Schemes—Variations on a Tax-Evasion Theme

7. Defendants organize, promote, and market two abusive tax avoidance schemes using legal entities in a fraudulent attempt to avoid income and employment tax, and to thwart the IRS's ability to collect their customers' unpaid federal tax liabilities.
8. Defendants' first scheme employs a series of sham trusts whereby customers, typically small business owners, fraudulently use business income to pay their personal living expenses.
9. Under the second scheme, defendant assist customers in incorporating their businesses, and then advise them to deduct artificial and inflated business expenses on their corporation's tax returns, and to deduct unallowable personal expenses on their individual tax returns.
10. Both schemes result in defendants' customers illegally shielding a substantial portion, if not all, of their business profits, which otherwise would have been paid to the customers as wages, from income and employment tax.

Defendants' Abusive Trust Scheme

11. Defendants promote a system of trusts with the ultimate goal of fraudulently concealing income and assets from the IRS.
12. Defendants advise and assist customers in transferring their businesses to a business trust or "Unincorporated Business Organization" (UBO). The customer continues to operate the business in the same manner as before the trust was set up.
13. Defendants advise and assist customers in transferring their personal assets and real property to a family trust, while maintaining the same control over the assets as before the transfer.

- 1 14. Defendants advise customers to have the business receive all business income and pay
2 ordinary business expenses, including a nominal salary to the customer, and distribute the
3 business profits to the family trust.
- 4 15. Defendants advise customers to use the money distributed to the family trust to maintain
5 the family residence and pay other personal living expenses of the customer.
- 6 16. Defendants falsely advise customers that they need only report on their federal income
7 tax returns the family trust income remaining after the trust has paid the customers' living
8 expenses. Defendants falsely claim that because the family trust holds customers'
9 personal assets, the cost of maintaining those assets is a legitimate trust expense.
- 10 17. The relationship of defendants' customers to their income and assets is not altered by
11 participation in this abusive scheme. Participants, typically self-employed persons,
12 operate their businesses in virtually the same manner under defendants' program as they
13 did before using the program.
- 14 18. The "trusts" that defendants create for their customers are shams, devoid of economic
15 substance. Alternatively, the "trusts" are grantor trusts that may be disregarded for
16 federal-income-tax purposes.
- 17 19. Defendants also advise customers to file fraudulent UCC-1 statements with the
18 Washington State Department of Licensing, to make it appear that their assets are fully
19 encumbered, in order to "protect" assets from IRS liens and levy.
- 20 20. As a result of this scheme, defendants' customers illegally fail to report on their federal
21 income tax returns a substantial portion, if not all, of their business profits and other
22 income.

23 **Defendants' Fraudulent Tax-Exempt Corporation Scheme**

- 24 21. After the Internal Revenue Service began auditing defendants' trust customers, Bell
25 developed a second abusive tax scheme whereby he advises and assists customers in
26

falsely claiming tax-exempt status for their businesses, and in fabricating and inflating improper deductions in a fraudulent attempt to evade income and employment taxes.

22. Defendants market this scheme as a way to create a purported tax-exempt organization. In fact, defendants merely instruct customers to falsely designate their corporations as tax exempt when requesting a Taxpayer Identification Number on IRS Form SS-4, despite knowing that such designation is false. Defendants do not advise customers to apply for tax-exempt status, despite instructing them to claim this status when submitting Form SS-4.

23. Defendants advise customers to draw a nominal salary from the corporation, so as to minimize reported wage income, which is the amount of their income subject to employment tax.

24. Defendants falsely advise customers that their corporations can “lease” assets from the customer at an inflated rate, and that the customer can claim deductions for expenses related to the “leased” property on their personal income tax returns. These “leased” assets are typically the customer’s personal residence and other personal assets of the customer, none of which are used in the customer’s business operations.

25. Defendants’ advice concerning “lease payments” results in their customers’ improperly evading employment and income taxes. When customers personally draw lease payments from their corporations for phony business expenses, the corporate profits, which customers previously received as wages, are not reported for employment tax purposes. Furthermore, when customers deduct “lease expenses” against that income, they are claiming unallowable personal expense deductions, improperly shielding that income from tax.

26. Defendants advise customers to file fraudulent UCC-1 statements with the Washington State Department of Licensing in order to “protect” assets from IRS liens and levy.

27. Defendants assist customers in preparing incorporation documents, lease agreements, and other forms and documents necessary to the abusive scheme.

28. As a result of this scheme, defendants' customers illegally shield a substantial portion, if not all, of their business profits from income and employment tax.

Promoting the Scheme: False Statements about the Internal Revenue Laws

29. Defendants market these schemes through word of mouth, and through the Internet.

30. In promoting the scheme, defendants falsely and fraudulently claim that the following benefits are available to participants:

- a. "SAVES \$\$\$\$\$\$ SIGNIFICANTLY REDUCES INCOME TAXES both personal and business;"
- b. "HELPS PREVENT SEIZURE OF YOUR ASSETS;"
- c. "PROTECTS YOUR ASSETS - LIMITS YOUR LIABILITIES;"
- d. "UNIVERSALLY ELIMINATES UNNECESSARY ESTATE TAXATION;"
- e. "The Hunts and the Rockefellers have spent over \$15,000,000.00 researching and instituting Common Law Trust Organization structures;"
- f. "With creation of more trusts and a little effort, taxes disappear. With more effort even the value of the holdings can be completely hidden;" and
- g. "Look what Business and Family Trusts Can Do for You: Glamorous Vacations!...Exotic Automobiles!...Luxury Boats!...\$\$\$ Investments!..."

31. Defendants have made the following false and fraudulent claims about their schemes:

- a. The trusts are "IRS-proof," in that "the only entities who can break a trust are the trustees;"
- b. The IRS does not need to know about the trusts;
- c. The IRS cannot obtain trust documents;
- d. Trust customers can use trust income to pay their personal bills;
- e. Trust customers can avoid self-employment tax and "control, manage, and limit both estate tax and current tax liabilities;" and

f. Corporation customers can rent their personal residence, personal vehicles and other personal property to the corporation, and then deduct expenses associated with maintaining those assets against the rental income on their tax returns.

32. The defendants' false and fraudulent statements have induced numerous customers to participate in their illegal schemes.

33. Defendants charge \$1,000 for incorporation. Defendants charge approximately \$1,500 for trust packages.

Defendants' Knowledge of the Illegality of Their Scheme

34. Bell has spent substantial time studying the tax laws.

35. Bell has associated himself with other enjoined abusive scheme promoters and groups that deny the validity of federal tax laws.

Harm to the Government

36. Defendants have sold numerous corporations and trusts to customers participating in their schemes. Defendants have customers in Washington, California, Minnesota and Florida.

37. Defendants have created at least 40 corporations for customers. Defendants also have numerous trust customers. Bell has refused to provide his customer lists or any other information to the government concerning the scope of his promotion.

38. Civil examinations of six of defendants' customers uncovered tax understatements, during the period 1996 to 2001, per participant of over \$17,700 annually. The annual tax understatements of these audited customers ranged from \$2,623 to \$45,947.

39. The tax loss as a result of this promotion is estimated to be substantial. Many of these deficiencies may never be recovered. Therefore, the harm to the government is material, and if defendants' promotional activity is not stopped, it will result in additional harm with each new return filing season.

40. Despite numerous IRS audits of defendants' customers revealing tax understatements, defendants continue to promote these fraudulent schemes.

41. The defendants will not permanently cease this illegal activity unless they are enjoined.

Count I: Injunction under I.R.C. § 7408 for violations of §§ 6700 and 6701

42. The United States incorporates by reference the allegations contained in paragraphs 1 through 41 above.

43. I.R.C. § 7408 authorizes this Court to enjoin persons who have engaged in conduct subject to penalty under I.R.C. §§ 6700 or 6701 from engaging in further such conduct if the Court finds that injunctive relief is appropriate to prevent recurrence of the conduct.

44. Section 6700 imposes a penalty on any person who organizes or participates in the sale of a plan or arrangement and in so doing makes a statement with respect to the allowability of any deduction or credit, the excludability of any income, or the securing of any tax benefit by participating in the plan or arrangement which that person knows or has reason to know is false or fraudulent as to any material matter.

45. Section 6701 penalizes a promoter who aids, assists, or advises with respect to the preparation or presentation of any portion of a return or other document, knowing or having reason to believe that such advice will be used in connection with any material matter, and who knows that such portion, if used, would result in a tax understatement.

46. The defendants organize, promote, and market two abusive tax avoidance schemes, advocating the use of sham trusts and business entities in a fraudulent attempt to avoid income and employment tax, and to thwart the IRS's ability to collect their customers' unpaid federal tax liabilities.

47. In promoting their schemes, the defendants have made false and fraudulent statements regarding the tax benefits available to purchasers of their program. The defendants know or have reason to know that their statements are false or fraudulent.

Count II: Injunction Under I.R.C. § 7402

48. The United States incorporates by reference the allegations contained in paragraphs 1 through 41 above.

49. The defendants have engaged in conduct that interferes substantially with the administration and enforcement of the internal revenue laws.

50. Defendants falsely advised customers that their purported trusts are “IRS-proof,” that the trusts’ existence and income can be kept secret from the IRS, and that the trusts are not subject to IRS administrative summonses seeking financial records and other documents. Defendants’ advice led their customers to impede and obstruct civil tax examinations of their individual income tax liabilities.

51. On defendants’ advice, their customers have refused to cooperate with legitimate IRS requests, and have repeatedly cancelled audit appointments.

52. Additionally, defendants advised customers to transfer their assets into trusts and other entities, in order to obstruct the IRS’s ability to detect and locate assets from which to collect defendants’ customers’ unpaid tax liabilities.

53. Unless enjoined by this Court, the defendants are likely to continue to engage in such conduct. Their conduct results in irreparable harm to the United States for which the United States has no adequate remedy at law. The United States is entitled to injunctive relief under I.R.C. § 7402(a).

WHEREFORE, the plaintiff United States prays for the following relief:

A. That the Court find that defendants, Raymond Leo Bell, individually and d/b/a American Beauty Rose; and The Best Way, Inc., and all those in active concert or participation with them engaged in conduct subject to penalty under I.R.C. §§ 6700 and 6701, and that injunctive relief is appropriate under I.R.C. § 7408 to prevent the defendants from engaging in further such conduct;

1 B. That the Court find that the defendants engaged in conduct that interferes with the
2 enforcement of the internal revenue laws, and that injunctive relief is appropriate
3 pursuant to the Court's inherent equity powers and I.R.C. § 7402(a) to prevent recurrence
4 of that conduct;

5 C. That the Court, pursuant to I.R.C. §§ 7402 and 7408, enter a permanent injunction
6 prohibiting the defendants and prohibiting their representatives, agents, servants,
7 employees, attorneys, and those persons in active concert with them, from directly or
8 indirectly by means of false, deceptive, or misleading commercial speech from:

- 9 1. Organizing, promoting, marketing, or selling any abusive tax shelter, plan or
10 arrangement that helps customers attempt to violate the internal revenue laws or
unlawfully evade the assessment of their federal tax liabilities;
- 11 2. Organizing, promoting, marketing, or selling any program utilizing trusts, tax-
12 exempt entities, corporations, partnerships, or other similar entities;
- 13 3. Causing or advising other persons and entities to understate their federal tax
liabilities and avoid paying federal taxes;
- 14 4. Further engaging in any conduct subject to penalty under I.R.C. § 6700, *i.e.*,
15 making or furnishing, in connection with the organization or sale of an abusive
shelter, plan, or arrangement, a statement defendants know or have reason to
16 know is false or fraudulent as to any material matter;
- 17 5. Further engaging in any conduct subject to penalty under I.R.C. § 6701, *i.e.*,
18 aiding, assisting, or advising with respect to the preparation or presentation of any
portion of a return or other document knowing that such assistance or advice will
19 result in the understatement of another person's income tax liability; and
- 20 6. Further engaging in any conduct that interferes with the administration and
enforcement of the internal revenue laws.

21 D. That this Court, pursuant to I.R.C. §§ 7402 and 7408, enter an injunction requiring the
22 defendants, at their own expense and as a corrective measure, to provide a copy of the
23 complaint and injunction to each of their customers, current and former, within eleven
24 days of entry of the injunction;

25 E. That this Court, pursuant to I.R.C. §§ 7402 and 7408, enter an injunction requiring the
26 defendants to file with the court and serve on the government, within eleven days of entry

1 of this order, a complete list of customers (including names, mailing addresses, e-mail
2 addresses, phone numbers, and social security numbers or employer identification
3 numbers), including both current and former customers, who have purchased any trust or
4 other type of entity from defendants, or sought or received any tax advice from
5 defendants.

6 F. That this Court, pursuant to I.R.C. §§ 7402 and 7408, enter an injunction requiring the
7 defendants to file with the court and serve on the Government, within eleven days of
8 entry of this order, a complete list of defendants' former and current employees and
9 associates.

10 G. That the Court grant the United States such other and further relief as the Court deems
11 appropriate.

12 Dated this 1st day of October, 2004.

13
14 JOHN MCKAY
15 United States Attorney
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