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**IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE**

UNITED STATES OF AMERICA)
)
 Plaintiff,)
)
 v.)
)
 JOHN SINCLAIR, individually and d/b/a)
 FORTRESS INTERNATIONAL;)
 CANDACE SINCLAIR, a/k/a CANDEE)
 JORDAN, individually and d/b/a)
 FORTRESS INTERNATIONAL; DIRECTOR)
 OF INTEGRITY MINISTRIES; and)
 DIRECTOR OF INTERNATIONAL)
 INTEGRITY FOUNDATION)
)
 Defendants.)

Civil No.

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

Nature of Action

1. This is a civil action brought by the United States of America pursuant to §§ 7402 and 7408 of the Internal Revenue Code (26 U.S.C.) (I.R.C.) to enjoin the defendants, John Sinclair, individually and doing business as Fortress International; Candace Sinclair, also known as Candee Jordan, individually and doing business as Fortress International; Director of Integrity Ministries; and Director of International Integrity Foundation, and all those in active concert or participation with them from:

COMPLAINT
(Civ. No.)

U.S. Department of Justice
P.O. Box 7238, Ben Franklin Station
Washington, D.C. 20044
Telephone: (202) 514-0564

- a. Organizing, selling, or participating in abusive tax shelters, plans, or arrangements that advise or encourage customers to attempt to evade the assessment or collection of their correct federal tax obligations;
- b. Making false statements about the legality of any deduction or credit, the excludability of any income, or the securing of any other tax benefit by reason of participating in such tax shelters, plans, or arrangements;
- c. Instructing or advising customers to understate their federal-income-tax liabilities;
- d. Instructing or advising customers to not file federal-income-tax returns;
- e. Promoting the false and frivolous position that federal-income taxes can be legally reduced or eliminated by using "Contract Trusts" to shelter income;
- f. Promoting the false and frivolous position that federal-income taxes can be legally reduced or eliminated by using "Corporations Sole" and "Ministerial Trusts" to shelter income;
- g. Engaging in any conduct that interferes with the proper administration and enforcement of the internal revenue laws;
- h. 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. John Sinclair 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. John Sinclair conducts business through the

1 unregistered business entity, Fortress International. John Sinclair resides at 10152 N.E.
2 137th Place, Kirkland, WA 98034.

3 6. Candace Sinclair, also known as Candee Jordan, is John Sinclair's wife. She has engaged
4 in conduct in this district and elsewhere subject to penalty under I.R.C. §§ 6700 and
5 6701, and has engaged in conduct that interferes with the enforcement of the internal
6 revenue laws. Candace Sinclair conducts business through the unregistered business
7 entity, Fortress International. Candace Sinclair resides at 10152 N.E. 137th Place,
8 Kirkland, WA 98034.

9 7. Director of Integrity Ministries ("Integrity Ministries") has engaged in conduct in this
10 district and elsewhere subject to penalty under I.R.C. §§ 6700 and 6701, and has engaged
11 in conduct that interferes with the enforcement of the internal revenue laws. Integrity
12 Ministries was incorporated in the state of Washington as a Washington Acknowledged
13 Corporation Sole of the Church in 2000. Glen Stoll serves as its registered agent. Its
14 address is 9115 236th S.W.#B, Edmonds, Washington.

15 8. Director of International Integrity Foundation ("Integrity Foundation") has engaged in
16 conduct in this district and elsewhere subject to penalty under I.R.C. §§ 6700 and 6701,
17 and has engaged in conduct that interferes with the enforcement of the internal revenue
18 laws. Integrity Foundation was incorporated in the state of Washington as a Washington
19 Acknowledged Corporation Sole of the Church in 2000. Glen Stoll serves as its
20 registered agent. Its address is 9115 236th S.W.#B, Edmonds, Washington.

21 9. Fortress International is an unregistered business through which defendants promote their
22 abusive schemes.

1 **Defendants’ Fraudulent Schemes—Variations on a Tax-Evasion Theme**

2 10. Defendants organize, promote, and market two fraudulent tax schemes using legal
3 entities in a fraudulent attempt to evade income and employment tax, and to thwart the
4 IRS’s ability to collect their customers’ unpaid federal tax liabilities.

5 11. Defendants’ first scheme employs a series of sham trusts whereby customers, typically
6 small business owners, fraudulently use business income to pay their personal living
7 expenses.

8 12. Under the second scheme, defendants assist customers in creating “Ministerial Trusts”
9 which they claim are exempt from all requirements under the internal revenue laws.
10 Defendants advise customers using their ministerial trust scheme to stop paying income
11 and employment taxes and stop filing federal tax returns.

12 13. Both schemes result in defendants’ customers illegally concealing a substantial portion, if
13 not all, of their income and business profits, which otherwise would have been paid to the
14 customers as wages, subject to income and employment tax.

15 **Defendants’ Abusive Trust Scheme**

16 14. Defendants promote a system of trusts with the ultimate goal of fraudulently concealing
17 income and assets from the IRS. Defendants falsely claim that their trusts allow
18 customers’ otherwise taxable income to be shielded from federal income and
19 employment tax.

20 15. Defendants advise and assist customers with creating and using a series of personal and
21 business trusts from which to conduct their personal and business activities. Defendants
22 advise customers that their income should be redirected to their newly formed trusts, and
23 falsely advise customers that by redirecting income to the trusts their income is no longer
24 taxable. Defendants falsely advise customers that their income is taxable only if it is
25 received directly by the customer. Defendants falsely tell customers that their newly
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1 formed trusts can pay their living expenses. Defendants falsely tell customers that if their
2 trusts pay them only a fraction of their total income (with the trusts paying their living
3 expenses), the individual customers are not be required to file federal income tax returns
4 themselves.

5 16. The Sinclairs typically serve as “Executive Trustees” of their customers’ trusts, while the
6 customers act as “Managing Director.” This arrangement is intended to present the false
7 appearance of an independent trustee. In fact, the customers maintain exclusive control
8 over all trust property.

9 17. Customers using the Sinclairs’ program typically transfer their business assets to a trust,
10 and purportedly operate their business as a trust. Prior to using the program, customers
11 typically operated their businesses as sole proprietorships. After purportedly transferring
12 the business to trusts, the customers continue to operate their businesses in virtually the
13 same manner as before.

14 18. Defendants advise their customers to deposit their business income, typically from a sole
15 proprietorship, into a trust checking account. They advise customers that their trusts are
16 not obligated to pay tax on this income under the false notion that trust income is not
17 taxable income until it is disbursed to an individual.

18 19. Defendants advise customers to draw minimal salaries from their trusts, and to use this
19 income to pay for food and certain other personal items. Defendants calculate this salary
20 to be equal to their customers’ combined personal exemption and standard deduction
21 amounts, so that nominal amounts of income, if any, are reported as subject to federal
22 income tax.

23 20. Defendants advise customers to pay for certain personal assets and expenses directly
24 from their trust accounts. They falsely advise customers that they can purchase vehicles,
25

1 household furniture, jewelry, watches, and pay for car insurance and upkeep for personal
2 vehicles using non-taxed trust income.

3 21. The relationship of defendants' customers to their income and assets is not altered by
4 participation in defendants' scheme. Customers, typically self-employed persons,
5 operate their businesses in virtually the same manner under defendants' program as they
6 did before using the program. The major difference is that payments from third parties
7 (such as insurance companies or other businesses) are no longer made to the customer
8 personally; instead they are made directly to customers' purported trusts.

9 22. This arrangement allows defendants' customers to hide their income from the IRS yet
10 receive all of the income they received before using the program. This is because
11 information reporting requirements under the Internal Revenue Code generally apply
12 only to payments made to individuals, and not to trusts and corporations.

13 23. The "trusts" that defendants create for their customers are shams, devoid of economic
14 substance. Alternatively, the "trusts" are grantor trusts that may be disregarded for
15 federal-income-tax purposes.

16 **Promoting the Scheme: False Statements about the Internal Revenue Laws**

17 24. Defendants market this scheme through word of mouth, through seminars held in the State
18 of Washington, and through their written promotional materials, titled *Fortress—*
19 *Strategic Asset Protection Solutions for Business Engineering, Estate and Tax Planning.*

20 25. In promoting the scheme, defendants falsely claim that the following benefits are
21 available to participants:

- 22 a. "RETAIN \$\$Thousands of Dollars\$\$ of Annual Earnings WHILE
23 MINIMIZING THE LIABILITY OF ...*Estate Taxes, Excessive Taxes, Property*
24 *Seizures and Tax Liens...* Through BUSINESS ENGINEERING, ESTATE &
25 TAX PLANNING;"
- 26 b. Avoid probate, estate tax, and IRS seizures;
- 27 c. Reduce or eliminate income taxes;

- 1 d. Eliminate capital gains taxes; and
- 2 e. Become artificially poor without giving up your assets in order to qualify for
- 3 Medicaid.
- 4 26. Defendants have made the following false claims about their scheme:
- 5 a. Plato used these types of trusts to “finance his university in ancient Greece;”
- 6 b. William Waldorf Astor used these types of trusts to save his heirs millions of
- 7 dollars in estate tax;
- 8 c. The Rockefeller family may have used over 250 trusts of this type to protect as
- 9 much as one billion dollars in assets; and
- 10 d. Countless others such as Henry Ford II, H.L. Hunt, and Ronald Reagan have all
- 11 used these types of trusts to shield their assets.
- 12 27. In marketing the scheme, defendants have made numerous false statements about the
- 13 internal revenue laws:
- 14 a. Trust income is not subject to tax;
- 15 b. Filing tax returns is voluntary;
- 16 c. Only those individuals or businesses that voluntarily disclose personal
- 17 information on a tax return are subject to tax;
- 18 d. Participants’ trusts cannot be compelled to turn over books or records to the IRS
- 19 or file tax returns;
- 20 e. Property held by a contract trust is exempt from IRS seizure; and
- 21 f. Income to a trust can be used to purchase personal assets without first being
- 22 subject to tax.
- 23 28. The defendants’ false and fraudulent statements have induced customers to participate in
- 24 their illegal scheme.
- 25 29. Defendants charge between \$4,000 and \$8,000 for their trust packages. In exchange,
- 26 customers generally receive a set of four trusts or other entities, complete with pre-
- 27 selected names, and valid employer identification numbers obtained by defendants from
- 28 the IRS.

1 **Defendants' Fraudulent Corporation Sole and Ministerial Trust Scheme**

2 30. During 2000, the Sinclairs developed a business arrangement with Glen Stoll, and began
3 promoting a corporation sole scheme involving ministerial trusts.

4 31. Corporations sole are entities established by law in some states for churches to hold title
5 to property used in association with religious activities. Ministerial trusts are auxiliary
6 entities organized in conjunction with a particular corporation sole. Ministerial trusts
7 claim the same legal and tax attributes as the corporation sole under which they were
8 organized.

9 32. Defendants' corporation sole scheme involves neither churches nor any religious
10 activity. Instead, with the assistance of Glen Stoll, the Sinclairs formed their own two
11 corporations sole, Integrity Ministries, and Integrity Foundation, under which they
12 created numerous ministerial trusts to market to customers. John Sinclair serves as
13 director for Integrity Ministries and Candace Sinclair serves as the director for Integrity
14 Foundation.

15 33. Defendants falsely claim that as corporations sole, Integrity Ministries and Integrity
16 Foundation are exempt from all filing requirements with the IRS, and that they are not
17 subject to tax.

18 34. After forming Integrity Ministries and Integrity Foundation, the Sinclairs created a large
19 number of "ministerial trusts" to market to potential and existing customers. In setting
20 up these ministerial trusts, they established the vehicles sold to and used by their
21 customers to hide income and assets from the IRS in order to evade tax. The trusts were
22 created as "auxiliary" organizations to Integrity Ministries and Integrity Foundation. The
23 Sinclairs claim that as auxiliary organizations to Integrity Ministries and Integrity
24 Foundation, the ministerial trusts they market are entitled to the same tax-exempt status
25 purportedly available to Integrity Ministries and Integrity Foundation.

1 35. In early 2000, the Sinclairs began contacting their existing trust customers and advising
2 them to convert their existing trusts to ministerial trusts under the Sinclairs' corporations
3 sole, Integrity Ministries and Integrity Foundation. They falsely told customers that
4 ministerial trusts were more effective than their existing trusts at protecting assets from
5 IRS seizure. They also falsely told customers that ministerial trust income was never
6 subject to tax. The Sinclairs also falsely advised customers that contributions to their
7 ministerial trusts satisfied the federal tax law requirements for tax-deductible donations.

8 36. In promoting and marketing these ministerial trusts to existing and potential customers,
9 the Sinclairs told customers to use the trusts to operate their business and personal
10 activities. The Sinclairs told customers to redirect their income to their trusts, and using
11 that income, have the trusts pay both personal living expenses and their business
12 expenses. Defendants falsely told customers that both personal and business expenses
13 could be paid by the ministerial trusts because the expenses were necessary to further the
14 customers' personal ministries. Defendants falsely told customers that ministerial trusts
15 are not obligated to report income to the IRS. Defendants falsely advise customers to
16 stop filing federal income tax returns. They also falsely advise customers that they are no
17 longer legally obligated to pay any federal income or employment tax.

18 37. Defendants falsely advised customers that ministerial trusts are an effective way to
19 shelter investment income. They falsely claimed that a customer could place stock in a
20 trust and no tax would be due on the investment income or any capital gains.

21 38. Defendants falsely advise customers that if they take a "vow of poverty," the IRS cannot
22 prosecute them for willful failure to file federal income tax returns.

23 39. The Sinclairs did not directly charge their existing trust customers who agreed to convert
24 to their ministerial trust scheme. Instead, customers agreed to attend "courses" on the
25 operation of their newly created ministerial trusts. The Sinclairs charged customers up to
26

1 \$400 per class. The Sinclairs charged new customers \$4,000 for the first ministerial
2 trust, and \$2,000 for each trust thereafter.

3 40. Both John and Candace Sinclair were actively involved in training and educating their
4 ministerial trust customers as to how to fund and operate their ministerial trusts.
5 Defendants advised customers about how to transfer their assets and redirect their income
6 to their newly acquired ministerial trusts. They also falsely advised customers, upon
7 funding of their ministerial trusts, that they no longer had any obligation to file federal
8 income tax returns, or pay any federal income or employment tax. Topics that
9 defendants advised customers about include:

- 10 a. How to maintain their “tax-exempt” status using ministerial trusts;
- 11 b. How to establish and maintain ministerial trust banking accounts;
- 12 c. How to establish and utilize an offshore banking account and corresponding
13 VISA debit card tied to the ministerial trust;
- 14 d. How to transfer assets into ministerial trusts;
- 15 e. How to avoid state and local taxes; and
- 16 f. How to properly receive “tax-exempt” donations.

17 41. Once the Sinclairs’ customers converted to ministerial trusts, at the Sinclairs’ direction,
18 these customers stopped filing federal income tax returns. Also at the Sinclairs’
19 direction, these customers redirected their income to their ministerial trusts.

20 42. The full scope of the Sinclairs’ ministerial trust promotion is unknown. The Sinclairs
21 refused to give the IRS their customer list or any other information regarding the scope of
22 their promotion.

23 43. The tax loss as a result of the Sinclairs’ promotion is estimated to be substantial. Many
24 of the customer tax understatements may never be recovered. If defendants’ promotional
25 activity is not stopped it will result in additional harm with each new return filing season.

1 44. The Sinclairs falsely hold themselves out to be “lawyers” and claim to have spent
2 considerable time studying the tax laws. They are not members of nor licensed with any
3 state or federal bar.

4 45. Despite IRS audit and identification for audit of defendants’ customers, despite the
5 initiation of the civil investigation preceding the present suit, and despite the preliminary
6 and permanent injunctions against their former associate Stephenson, defendants
7 continue to promote these fraudulent schemes. Fortress International bank records
8 through July 2004 show that defendants, operating through Fortress International,
9 continue to promote and sell ministerial trusts. .

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

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

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

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

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

23 50. I.R.C. § 7408 authorizes this Court to enjoin persons who have engaged in conduct
24 subject to penalty under I.R.C. §§ 6700 or 6701 from engaging in further such conduct if
25 the Court finds that injunctive relief is appropriate to prevent recurrence of the conduct.
26

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

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

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

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

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

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

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

21 57. Defendants falsely advised customers that their purported trusts are "IRS-proof," that the
22 trusts' existence and income can be kept secret from the IRS, and that the trusts are not
23 subject to IRS administrative summonses seeking financial records and other documents.
24 Defendants' advice led their customers to impede and obstruct civil tax examinations of
25 their individual income tax liabilities.

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

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

8
9 WHEREFORE, the plaintiff United States prays for the following relief:

10 A. That pursuant to I.R.C. §§ 7402(a) and 7408, defendants John Sinclair, individually and
11 doing business as Fortress International; Candace Sinclair, also known as Candee Jordan,
12 individually and doing business as Fortress International; Director of Integrity Ministries;
13 and Director of International Integrity Foundation, and anyone acting in concert with
14 them, be enjoined and restrained from, directly or indirectly, by use of any means or
15 instrumentalities:

- 16 1. Organizing, promoting, marketing, or selling any trust, tax shelter, plan or
17 arrangement, including any type of so-called asset-protection device, or
18 similar arrangement that advises, encourages, or assists taxpayers to
attempt to violate the internal revenue laws or unlawfully evade the
assessment of their federal tax liabilities;
- 19 2. Causing other persons and entities to understate their federal tax liabilities
20 and avoid paying federal taxes;
- 21 3. Making false statements about the allowability of any deduction or credit,
22 the excludability of any income, or the securing of any tax benefit by
23 reason of participating in such trust, tax shelter, plan or arrangement,
including any type of so-called asset-protection device, or similar
arrangement;
- 24 4. Encouraging, instructing, advising or assisting others to violate the federal
25 tax laws, including to evade the payment of taxes;
- 26 5. Engaging in any other conduct subject to penalty under I.R.C. § 6700; i.e.,
by making or furnishing, in connection with the organization or sale of a

1 trust, tax shelter, plan or arrangement, including any type of so-called
2 asset-protection device, or similar arrangement, a statement the defendants
3 know or have reason to know to be false or fraudulent as to any material
4 matter under the federal tax laws;

- 5 6. Further engaging in any conduct subject to penalty under I.R.C. § 6701,
6 *i.e.*, aiding, assisting, or advising with respect to the preparation or
7 presentation of any portion of a return or other document knowing that
8 such document will result in the understatement of another person's
9 income tax liability;
- 10 7. Advising customers to impede, hinder, or obstruct IRS civil tax
11 examinations of their liabilities; and
- 12 8. Further engaging in any conduct that interferes with the administration
13 and enforcement of the internal revenue laws.

14 B. Pursuant to I.R.C. § 7402, that defendants be required within eleven days of entry of an
15 injunction, to file with the Court and serve upon plaintiff's counsel a complete list of
16 customers (including names, addresses, phone numbers, e-mail addresses, and social
17 security numbers or employer identification numbers) who have purchased any trust or
18 other type of entity from defendants, or sought or received any tax advice from
19 defendants;

20 C. Pursuant to I.R.C. § 7402, that defendants be required within eleven days of entry of an
21 injunction, to file with the Court and serve upon plaintiff's counsel a complete list of all
22 entities, including but not limited to family trusts, business trusts, unincorporated
23 business trusts, corporations sole, and ministerial trusts, that they or anyone working at
24 their directions has created for their customers;

25 D. Pursuant to I.R.C. § 7402, that defendants, at their own expense and as a corrective
26 measure, be required to provide a copy of the complaint and injunction to each of their
27 customers, current and former, within eleven days of entry of the injunction. Defendants
28 Candace Sinclair and John Sinclair must each file sworn certificates of compliance
stating that the defendants have complied with this portion of the Order, within twelve

1 days of the date of this Order, and must attach a copy of all correspondence sent with the
2 complaint and injunction;

- 3 E. Pursuant to I.R.C. §§ 7402 and 7408, that defendants within eleven days of entry of an
4 injunction order be required to file with the court and serve on plaintiff's counsel a
5 complete list of defendants' former and current employees and associates; and
6 F. That the United States be permitted to engage in post-injunction discovery to monitor
7 defendants' compliance with this and any other order entered by this Court.

8 Dated this 10th day of January, 2005.

9
10
11 JOHN MCKAY
United States Attorney

12
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28 COMPLAINT
(Civ. No.)

