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DEFENDANT ARRESTED IN INTERNATIONAL TAX EVASION SCHEME

SACRAMENTO--United States Attorney McGregor W. Scott and IRS Criminal Investigation Special Agent in Charge Victor S.O. Song announced today that KAREN LOUISE YOUNCE, 52, of Grass Valley, California, was arrested in Grass Valley by IRS special agents on Friday, April 9, 2004. She is charged with assisting clients in hiding income from the IRS through the use of Caribbean bank accounts. She made her initial appearance this afternoon before U.S. Magistrate Judge John F. Moulds. YOUNCE was detained pending the government's motion for detention, which is set for tomorrow, April 13, 2004, before U.S. Magistrate Judge Dale A. Drozd.

On April 1, 2004, a Federal Grand Jury in Sacramento returned an indictment charging YOUNCE, along with SCOTT BAKER RIESS, 47, of Crestline, California, with one count of conspiracy to defraud the United States, and seven counts of aiding and assisting in the presentation of a false tax return. In addition, defendant YOUNCE is also charged with one count of corruptly interfering with the administration of internal revenue laws, and seven counts of bank fraud.

According to Assistant U.S. Attorney James P. Arguelles, who is prosecuting the case, the indictment was the result of an extensive investigation undertaken by the Internal Revenue Service - Criminal Investigations, including an undercover operation in which an IRS agent posed as a potential YOUNCE client. The indictment charges that during the period of 1992 through 2002, YOUNCE and RIESS marketed, set up, and administered sham domestic and foreign trusts for the purpose of assisting their clients in the illegal evasion of income tax. The indictment specifically alleges that as part of the scheme, a client's taxable income would appear "on paper" to flow through a series of domestic and foreign trusts. The last trust in the chain would then distribute the funds back to the client in an unreported transaction, avoiding the payment of any income taxes on the client's funds. Although these trusts had nominal trustees to make it appear as if they were independent entities, in reality all of the assets in these trusts remained under the full control of the clients. In addition to her administration of these trusts, YOUNCE also controlled holding companies and bank accounts in the Turks and Caicos Islands, British West Indies, which were used to facilitate the movement and repatriation of her clients' funds offshore. In total, the indictment alleges that YOUNCE and RIESS helped their clients illegally evade paying federal income taxes on over \$2 million dollars of earnings.

YOUNCE is also individually charged with participating in a bank fraud scheme which

involved the use of worthless checks drawn on an account in her own name which she had previously closed. As part of the scheme, YOUNCE used these worthless checks to make payments to the IRS, and to various creditors.

If convicted of the conspiracy charge, YOUNCE and RIESS each face a maximum sentence of five years in prison, and up to a \$250,000 fine. If convicted of the tax charges, YOUNCE and RIESS face a maximum sentence of three years in prison, and a \$100,000 fine for each count of conviction. Finally, if convicted of the bank fraud charges, YOUNCE faces a maximum sentence of thirty years in prison, and a \$1,000,000 fine for each count of conviction.

The charges in the indictment are only allegations and the defendants are presumed innocent until and unless proven guilty beyond a reasonable doubt.

A copy of this news release is available at <http://www.usdoj.gov/usao/cae/home>, select Press Releases.

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