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CLERK U.S. DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
BY DEPUTY

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

UNITED STATES OF AMERICA,

Plaintiff,

v.

BRUCE HAWKINS, individually and d/b/a,  
HAWKINS & ASSOCIATES,

Defendant.

Civil No. **C06-5142** RBC

**Nature of Action**

1. This is a civil action brought by the United States of America under §§ 7402 and 7408 of the Internal Revenue Code (26 U.S.C.) (I.R.C.) to enjoin the defendant, Bruce Hawkins individually and d/b/a Hawkins & Associates, and all those in active concert or participation with him, from promoting a tax-fraud scheme.

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, under the provisions of I.R.C. §§ 7402 and 7408.

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1 3. Jurisdiction exists under 28 U.S.C. §§ 1340 and 1345 and I.R.C. §§ 7402(a)  
2 and 7408.

3 **Defendants**

4 4. Bruce Hawkins resides at 15821 28<sup>th</sup> Avenue Northwest, Gig Harbor,  
5 Washington 98332.

6 5. Hawkins conducted business through his law practice, Hawkins & Associates,  
7 located at 15821 28<sup>th</sup> Avenue Northwest, Gig Harbor, Washington 98332.

8 **Hawkins's Fraudulent Schemes**

9 6. Hawkins was a Washington state attorney until he was disbarred on September  
10 28, 2005. Beginning in 1997, Hawkins, individually and through his law practice,  
11 Hawkins & Associates LLC., promoted several types of tax-fraud schemes. Hawkins's  
12 schemes involve promoting and establishing fraudulent offshore tax shelters for  
13 customers and promoting a "High Octane Business Structuring" scheme centered on  
14 establishing fraudulent corporations and falsely advising customers of tax benefits  
15 purportedly derived from them.

16 7. Hawkins promoted the tax-fraud schemes described below while general  
17 counsel for his previous employer, Bank Exchange, at tax-fraud scheme seminars  
18 sponsored by International Global Properties, as a former board member and lecturer at  
19 tax-fraud scheme seminars sponsored by Stratia Corporation, over the Internet at  
20 prosperitasinternationale.com, in lectures recorded by Stratia and sold to customers in  
21 CDs and DVDs, and in his book, *Silent Partner*.

22 **Hawkins's West Indies International Credit Union Scheme**

23 8. Hawkins actively promoted, assisted, and advised customers in establishing  
24 fraudulent LLCs in order to make purported "investments" in an international credit  
25

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1 union. Hawkins falsely advertised that the structure of this “investment” effectively  
2 obscures customers’ identities, circumvents federal tax laws, and makes reporting interest  
3 income and capital gains unnecessary.

4 9. As part of this scheme, Hawkins assisted in the creation of the Prosperitas  
5 Internationale Credit Union in Nevis, West Indies. Customers were invited to join  
6 Prosperitas in order to take advantage of Prosperitas’s supposedly tax-free interest-  
7 earning deposit accounts.

8 10. In order to help customers evade federal income tax on interest earned in these  
9 accounts, Hawkins aided customers by creating Nevis LLCs. Hawkins created Nevis  
10 LLCs so that the customer, who was listed as a “co-manager,” would own nine percent of  
11 the LLC with a Nevisian corporation purportedly owing the other ninety-one percent  
12 ownership interest in the LLC.

13 11. As part of this scheme, Hawkins advised customers that despite their  
14 purported nine-percent ownership interest, they would retain complete control of any  
15 funds deposited in these accounts.

16 12. As part of this scheme, including at Prosperitas seminars in Cancun, Mexico,  
17 Hawkins falsely advised customers they could circumvent the controlled-foreign-  
18 corporation rules (I.R.C. §§ 864 and 958, requiring U.S.-owned corporations to pay taxes  
19 on their foreign income) because less than ten percent of the customers’ Nevisian LLC is  
20 U.S.-owned,

21 13. As part of this scheme, Hawkins also falsely advised customers that because  
22 they only owned a nine-percent interest in the LLC, the LLC was tax-exempt and the  
23 customers did not have to report the accounts or any interest earned on these accounts to  
24 the IRS.

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1 14. In a March 16, 2000 legal memorandum Hawkins wrote as general counsel to  
2 the Bank Exchange, Hawkins advised Bank Exchange that customers are not required to  
3 report on Schedule B of IRS Form 1040 that they hold funds in offshore accounts.  
4 Hawkins falsely advised that funds deposited by customers in these accounts were for  
5 “member shares” and thus not “funds” required to be reported under the plain language of  
6 Schedule B requiring taxpayers to self-report “an interest in or a signature authority over  
7 a financial account in a foreign country, such as a bank account, securities account, or  
8 other financial account.”

9 15. On information and belief, Hawkins provided his March 16, 2000 legal  
10 memorandum to prospective customers to assure them (falsely) that the tax-fraud scheme  
11 described above did not violate the internal revenue laws.

12 16. As part of this scheme, Hawkins required customers seeking to set up a  
13 Nevisian LLC to fill out a “Limited Liability Company Purchase Order” and to send this  
14 document to Hawkins & Associates.

15 17. Hawkins required customers seeking to set up a Nevisian LLC to pay \$3,750  
16 to Hawkins & Associates to create the fraudulent Nevisian LLC and for membership in  
17 the international credit union, and \$850 in yearly fees to remain part of Prosperitas.

18 **Hawkins’s Fraudulent Nevada LLC**  
19 **and High Octane Business Structuring Scheme**

20 18. Hawkins also promoted a High Octane Business Structuring (HOBS) tax-fraud  
21 scheme.

22 19. As part of this scheme, Hawkins created Nevada LLCs for his customers.  
23 Hawkins advised using Nevada as the base of the purported “corporation,” claiming its  
24 state laws provide asset-protection devices that can legally obscure the customers’  
25 identity and protect the customers’ funds from lawsuits.

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1           20. Hawkins advised customers that they would have complete control over, and  
2 would be the sole owners of, their purported Nevada LLC.

3           21. Hawkins's HOBS scheme fraudulently attempted to classify all of the  
4 customers' personal income as their purported Nevada LLC's "business expenses."  
5 Hawkins advised customers to channel their personal income through their Nevada LLC  
6 to derive the tax benefits of a corporation for their personal finances.

7           22. Hawkins's HOBS promotional efforts included falsely advising customers that  
8 all their personal expenses were deductible through their purported "corporation."  
9 Hawkins also told customers that it is their "creative challenge" to classify their personal  
10 expenses as business deductions.

11           23. Hawkins advised customers to name their children as stockholders of the  
12 Nevada LLC so that family vacations could be deducted as stockholder meetings.

13           24. Hawkins's HOBS promotional efforts included advising customers to initiate a  
14 series of inter-company loans to eliminate taxes on net income not spent on other  
15 expenses during the year. These loans created fraudulent business expenses designed to  
16 exclude the transferred funds from taxation. Hawkins falsely advised customers that if  
17 structured and timed properly, these series of loans and forgiveness-of-indebtedness  
18 transactions could prevent the income from ever being taxed.

19           25. As part of this scheme, Hawkins recommended a loan scheme to customers  
20 whose purported Nevada LLC company had net income otherwise subject to tax.  
21 Hawkins advised customers to make a "loan" from their LLC with net income to a second  
22 Hawkins-created customer-controlled company. Under this scheme, the second company  
23 by prearrangement "defaulted" on this loan at the end of its fiscal year. This resulted in  
24 the company with the net income being able to claim a "bad debt deduction." This

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1 deduction was structured to offset the full amount of the net income. The second  
2 company effectively received the forgiveness of indebtedness as income which was either  
3 offset against its losses, or which is transferred to a third company starting the cycle  
4 anew. As a result the customer could fraudulently classify the “loaned” amount as a  
5 deductible business expense, yet retain complete control of the funds.

6 26. Hawkins’s HOBS scheme also helped customers create fraudulent  
7 deductions using a “captive insurance” plan.

8 27. Under Hawkins’s captive-insurance scheme, he helped customers create a  
9 purportedly tax-free, customer-controlled, offshore entity. Hawkins arranged for the  
10 customer’s Nevada LLC to purchase a sham “insurance plan” from the customer-  
11 controlled new offshore entity (the captive insurance entity). This resulted in the Nevada  
12 LLC claiming a fraudulent deductible “business expense,” while the customer retained  
13 complete control of the funds in the offshore entity. The cost of the purported insurance  
14 was not deductible because there was no transfer of risk and no real insurance.

15 28. As part of his HOBS scheme, Hawkins also fraudulently advised customers to  
16 “rent” their house to their Nevada LLC for less than two weeks. Hawkins advised  
17 customers to set the rent equal to the amount of the mortgage payments, real estate taxes,  
18 and other expenses for the year, a cost clearly higher than fair rental value for the short  
19 period described above. Hawkins falsely advised customers that this rental “income” was  
20 not taxable under I.R.C. § 280A(g), since the rental period was less than fifteen days.  
21 This resulted in the customers improperly reducing their reported tax liability because the  
22 Nevada LLC deducted the customer’s personal expenses of the mortgage payments, real  
23 estate taxes, and other expenses for the year as a business deduction.



1 33. Based on his education and experience, Hawkins knew, or had reason to  
2 know, that his false statements described in this complaint were false or fraudulent.

3 **Harm to the Government**

4 34. Despite an IRS request on April 15, 2005, Hawkins has not turned over a  
5 customer list or any other customer information to the Internal Revenue Service.

6 35. Hawkins claims that the organization through which he promoted the tax-  
7 fraud schemes discussed above has 1,000 customers across the United States, and  
8 potentially some internationally, who have purchased his services for creating fraudulent  
9 offshore and/or fraudulent Nevada LLCs.

10 36. Hawkins's schemes harm the government by fraudulently reducing customers'  
11 reported tax liabilities. Based on Hawkins's promotional materials, it is possible that over  
12 1,000 customers have used his international credit union and HOBS schemes to evade  
13 taxes on most, if not all of their income.

14 37. The Internal Revenue Service must dedicate its scarce resources to the  
15 detection and examination of the inaccurate returns filed by Hawkins's customers as  
16 result of his tax-fraud schemes, and in the recovery of unpaid taxes.

17 38. Some of this revenue loss may never be recovered.

18 39. Hawkins's background and extensive involvement in these elaborate schemes  
19 indicate that the misconduct described in this complaint or other similar misconduct is  
20 likely to recur unless he is permanently enjoined.

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

22 40. The United States incorporates by reference the allegations contained in  
23 paragraphs 1 through 39.

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

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

10           43. Section 6701 penalizes a person who aids or assists in, procures, or advises  
11 with respect to the preparation or presentation of any portion of a return or other  
12 document, knowing or having reason to believe that such document will be used in  
13 connection with any material matter under the tax laws, and knowing that such portion, if  
14 used, would result in an understatement of another person's tax liability.

15           44. Hawkins sold and organized tax-fraud schemes that falsely promised tax  
16 benefits to customers.

17           45. In organizing and selling these schemes, Hawkins made false or  
18 fraudulent statements regarding the tax consequences of the schemes.

19           46. Hawkins knew or had reason to know that these statements were false or  
20 fraudulent statements within the meaning of 26 U.S.C. § 6700.

21           47. If he is not enjoined, Hawkins is likely to continue to organize and sell tax-  
22 fraud schemes.

23           48. In creating Nevada LLCs as part of the tax-fraud schemes discussed above,  
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1 Hawkins prepared documents, including documents relating to the formation and  
2 operation of the LLCs, that he knew or had reason to know would be used by his  
3 customers to understate their tax liability within the meaning of 26 U.S.C. § 6701.

4 49. Injunction relief is appropriate to prevent recurrence of this conduct.

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

6 50. The United States incorporates by reference the allegations contained in  
7 paragraphs 1 through 49.

8 51. I.R.C. § 7402(a) authorizes a court to issue injunctions as may be necessary or  
9 appropriate for the enforcement of the internal revenue laws, even if the United States has  
10 other remedies available for enforcing those laws.

11 52. Hawkins substantially interferes with the enforcement of the internal  
12 revenue laws by promoting his tax-fraud schemes and offshore tax shelters.

13 53. Hawkins's conduct results in irreparable harm to the United States for which  
14 the United States has no adequate remedy at law.

15 54. Unless enjoined by this Court, Hawkins is likely to continue to engage in  
16 illegal conduct. The United States is entitled to injunctive relief under I.R.C. § 7402(a).

17 WHEREFORE, plaintiff, the United States of America, prays for the following  
18 relief:

19 A. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter a permanent  
20 injunction prohibiting Hawkins and his representatives, agents, servants, employees, and  
21 anyone in active concert or participation with him, from directly or indirectly by means of  
22 false, deceptive, or misleading commercial speech:

23 (1) Organizing, promoting, marketing, or selling (or assisting therein)  
24 any tax shelter, plan, or arrangement, including but not limited to  
25 those discussed above, or any other tax shelter, plan or arrangement  
that incites or assists customers to attempt to violate the internal

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1 revenue laws or unlawfully evade the assessment or collection of their  
2 federal tax liabilities or unlawfully claim improper tax refunds;

3 (2) engaging in activity subject to penalty under 26 U.S.C. § 6700, including  
4 making, in connection with the organization or sale of any plan or  
5 arrangement, any statement about the securing of any tax benefit that the  
6 defendant knows or has reason to know is false as to any material matter;

7 (3) engaging in activity subject to penalty under 26 U.S.C. § 6701, including  
8 procuring, preparing and/or assisting in the preparation of documents related  
9 to a matter material to the internal revenue laws that he knows will result in  
10 the understatement of another person's tax liability;

11 (4) engaging in any other activity subject to penalty under 26 U.S.C. § 6701;  
12 and

13 (5) engaging in conduct subject to penalty under any provision of the  
14 Internal Revenue Code, or engaging in any other conduct that substantially  
15 interferes with the proper administration and enforcement of the internal  
16 revenue laws.

17 B. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter an injunction  
18 requiring Hawkins to send by first class mail at his own expense the persons listed below  
19 and provide them with a copy of the injunction:

20 (1) all persons to whom he gave, sold, or distributed any materials related to  
21 the tax-fraud schemes discussed above;

22 (2) all persons for whom Hawkins prepared and/or assisted in the  
23 preparation of any tax-related documents; and

24 (3) all persons who contacted either Hawkins, or whom Hawkins contacted,  
25 regarding the tax-fraud schemes described above (in paper form, via  
26 telephone, or through electronic means).

27 C. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter an  
28 injunction requiring Hawkins to turn over to the United States a list of the names,  
addresses, e-mail addresses, phone numbers, and Social Security numbers of (1) all

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1 persons to whom he gave or sold, directly or indirectly, any materials related to the tax-  
2 fraud schemes described above, (2) all persons who assisted in the marketing or  
3 preparation of materials used by Hawkins or written materials sent to potential customers,  
4 (3) all individuals or entities for whom Hawkins, or his associates, prepared or assisted in  
5 the preparation of any tax-related documents, including Nevada LLCs, (4) all individuals  
6 or entities who purchased or used any other tax shelter, plan, or arrangement in which  
7 Hawkins has been involved; and (5) all persons who assisted Hawkins with promoting or  
8 implementing these schemes.

9 D. That this Court allow the government full post-judgment discovery to  
10 monitor Hawkins's compliance with the injunction;

11 E. That this Court grant the United States such other and further relief as the  
12 Court deems just and appropriate  
13

14  
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