

News Release

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U.S. Department of Justice

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Ohio*

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William J. Edwards, United States Attorney for the Northern District of Ohio, announced today that an Information was filed against Stephan Karchut, charging him with one count of attempting to evade his 2004 income taxes. According to the Information and other court records, Karchut has been the sole operator of a business known as PC Surveillance, located in Cortland, Ohio, where Karchut also resides.

The Information alleges that beginning in 2002, Karchut followed erroneous advice of a person who held himself out as a tax professional (referred to by his initials, "DR") to conceal his income and tax liabilities. Karchut failed to file income tax returns for 2002 - 2004, on DR's false advice that under Section 861 of the Internal Revenue Code income is not reportable unless it is received from foreign source – the so-called "861 argument." Karchut also structured the ownership of PC Surveillance as a supposed limited liability company in a manner that DR designed to conceal Karchut's control of the business, using various other entities and a purported Individual Retirement Account as nominal owners of the business.

According to the Information, as of at least mid-2005, Karchut questioned the validity of the 861 argument and realized that the nominal ownership arrangement of PC Surveillance.net LLC was a device to conceal his true ownership and control over the business. He nevertheless continued to present that argument and to conceal his ownership and control over the business in his communications with the IRS in accordance with advice he continued to receive from DR. In particular, for 2004, Karchut attempted to evade income taxes of at least \$34,075, owing on unreported income of at least \$161,849, by failing to file a personal income tax return; by filing a false business tax return for PC Surveillance, LLC, showing himself as having only a 1% ownership interest; and by sending correspondence to an IRS agent claiming he could not file a personal return until the IRS showed him what Tax Code provision applied to income earned in the United States and by falsely claiming that he only worked "now and then" for PC Surveillance.

If convicted, the defendant's sentence will be determined by the Court after review of factors unique to this case, including the defendant's prior criminal record, if any, the defendant's role in the offense and the characteristics of the violation. In all cases the sentence will not exceed the statutory maximum and in most cases it will be less than the maximum.

The government's case is being prosecuted by Assistant United States Attorney John M. Siegel, following an investigation conducted by the Internal Revenue Service, Criminal Investigation, Youngstown, Ohio.

An information is only a charge and is not evidence of guilt. A defendant is entitled to a fair trial in which it will be the government's burden to prove guilt beyond a reasonable doubt.

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