



# Department of Justice

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## PRESS RELEASE

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March 1, 2005  
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### **WASHINGTON STATE TRUST PROMOTERS INDICTED FOR TAX CONSPIRACY**

#### *Counseled Clients to Hide Income and Assets in Trusts*

WASHINGTON D.C. - Eileen J. O'Connor, Assistant Attorney General for the Tax Division, United States Department of Justice and John McKay, United States Attorney for the Western District of Washington, announced that a federal grand jury in Seattle, Washington has returned an indictment against DAVID C. STEPHENSON and MICHAEL J. SHANAHAN. The indictment charges the defendants with one count of conspiring to defraud the United States by impeding and impairing the Internal Revenue Service in the ascertainment and collection of income taxes. Additionally, STEPHENSON is charged with three counts of failing to file tax returns and criminal contempt for violating a permanent injunction against him. SHANAHAN is also charged with one count of failing to file tax returns.

According to the indictment, STEPHENSON and SHANAHAN sold packages of trusts and corporations to clients who used the entities to conceal assets and income from the IRS and thereby reduce or eliminate income taxes. The defendants falsely advised clients to transfer assets and income to the trusts and corporations and that, after doing so, neither the clients nor the entities would be required to file tax returns. Moreover, the defendants falsely informed clients that they could continue

to control the property conveyed to their trust packages, just as if the trusts did not exist. During the life of the conspiracy, the defendants created and sold more than 400 trust packages and helped their clients to avoid paying more than \$7,000,000 in income taxes.

The indictment also alleges that the defendants typically charged approximately \$3,000 to \$8,000 for a trust package and concealed their activities from the IRS by not filing income tax returns on the money they earned from their promotion of the trust packages.

Additionally, on July 30, 2004, the United States District Court permanently enjoined STEPHENSON from promoting abusive trusts and, as part of this injunction, required STEPHENSON to turn over to the government a complete list of customers to whom he had sold trusts. The indictment alleges that STEPHENSON committed criminal contempt by producing a false client list.

The charges contained in the indictment are only allegations. In the American justice system, a person is presumed innocent unless and until he or she is proven guilty in a court of law. Both men will have a detention hearing at the Federal Courthouse in Tacoma at 3:00 PM today.

The maximum penalty for conspiring to defraud the United States (18 U.S.C. Section 371) is five years' imprisonment and a \$250,000 fine. For each charge of failing to file an individual return (26 U.S.C. Section 7203), the defendants face an additional maximum sentence of one year in jail and a \$100,000 fine. The punishment for contempt of court (18 U.S.C. Section 401) is a fine or imprisonment, or both, at the discretion of the court. The United States is represented in this case by Assistant United States Attorney Arlen R. Storm and Tax Division Trial Attorney Edmund P. Power.

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Additional information about the Justice Department's Tax Division and its enforcement efforts may be found at [www.usdoj.gov/tax](http://www.usdoj.gov/tax).