



Unscrupulous Trust Promoters Target Medical Profession

With the many demands both professionally and personally placed on you in the medical profession, the last thing you need is to get your financial affairs in disarray and incur steep penalties because of unscrupulous tax advisors. Or worse—much worse—knowingly participating in an illegal tax evasion scheme that may land you in federal prison. Don't get caught up in "too good to be true" tax scams—scams that consist only of "sham transactions" that lack economic substance.

Promoters are actively targeting affluent investors from the medical profession with the allure of offshore trusts or other schemes that purport to shelter taxable income for the purpose of escaping the payment of federal income tax, but these scams are often a costly endeavor—personally and professionally.

Know the difference between avoiding and evading taxes

Many trusts are legitimate. Legal trusts are frequently used in estate planning and charitable transfers of property. But should you try to avoid taxes by investing in abusive trusts or by going offshore? The answer is "No." All U.S. citizens are taxed on worldwide income, no matter where it is stored or hidden. A basic principle in federal tax law is that income is taxed to the party who earned the income.

In recent years the Internal Revenue Service has detected a number of promotions involving abusive trust schemes that specifically target the medical profession by advertising that they can reduce their tax liability. Multilayered trusts, in combination with other business forms, are used to conceal the medical professional's control over the trusts and his/her assets. The goal of this layered distribution of income is to gradually reduce or eliminate taxable income through the use of bogus deductions and offshore diversions of income.

What to look for

When looking at the validity of a trust setup, you must determine who is spending and controlling the income and assets. In many abusive trust schemes, the income and assets are controlled no differently than if the taxpayer had never formed a trust. In other words, at the end of the business day, you are in the same position you were before entering the scheme—you control your assets.

There are various types of abusive trust schemes that promise benefits that may include (1) the reduction or elimination of income subject to tax, (2) deductions for personal expenses paid by the trust, (3) depreciation deductions of an owner's personal residence and furnishings, (4) a stepped-up basis for property transferred to the trust, (5) the reduction or elimination of self-employment taxes, and (6) the reduction or elimination of gift and/or estate taxes.

A real-life ENT Example

The following summary is an extract from public record documents on file with federal courts in the Eastern District of California.

In October 2001, a California ear, nose, and throat specialist along with two other California physicians entered into a plea of guilty to one felony count in violation of Section 371 of Title 18, conspiracy to defraud the United States and to one felony count in violation of 26 U.S.C.

Section 7206(1), making and subscribing to a false tax return.

According to the indictment, the doctors became clients of a Utah trust promoter named Lonnie D. Crockett (who pled guilty in August 2001 for defrauding the IRS by conspiring to commit tax evasion and will be sentenced in February 2002).

The three physicians, along with others, conspired to conceal from the Internal Revenue Service millions of dollars in taxable income through the use of foreign bank accounts held in the names of trusts. Trusts were used in an elaborate scheme to funnel income into, and out of, domestic and offshore bank accounts, and to conceal the income from the Internal Revenue Service.

On January 7, 2002, the ENT doctor received a 24-month term of imprisonment to be followed by three years of supervised release. The doctor must pay fines, restitution to the IRS, and costs of prosecution in addition to the back taxes, interest, and penalties owed.

Don't let this happen

The IRS does not want this to happen to you. The IRS-Criminal Investigation has, since 1996, obtained 120 convictions of individuals for illegal trust schemes. The average prison term for those sentenced to prison is three and one-half years. Mark E. Matthews, Chief IRS-Criminal Investigation, cautions taxpayers to be very careful, "this can be a very expensive detour in someone's life."

If you are interested in further information about foreign and domestic trusts, visit the IRS-Criminal Investigation website at www.treas.gov/irs/ci.

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