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**TRANSCRIPT OF NATHAN J. HOCHMAN, TAX DIVISION'S ASSISTANT ATTORNEY
GENERAL ANNOUNCING CREATION OF THE NATIONAL TAX DEFIER INITIATIVE.**

WASHINGTON, D.C

**APRIL 8, 2008
11:00 A.M. EDT**

MR. HOCHMAN: Good Morning. My name is Nathan Hochman, and I am the Assistant Attorney General of the Tax Division of the United States Department of Justice. I am here this morning to announce the launch of the National Tax Defier Initiative, also known as the TAXDEF Initiative, and to discuss its goals and its parameters. I will also highlight three civil injunction complaints that have just been filed as part of the TAXDEF initiative against a nationwide and significant tax defier operation. At the end of my remarks I will be happy to take questions.

As we speak, millions of hard-working American's are taking time out of their hectic schedules to perform a time-honored but time consuming and, often, arduous task: that task is filing their tax return. While many may be anxiously awaiting a refund check, some know that, come April 15, they will have to make a tax payment. Why do the majority of the over 130 million Americans voluntarily participate in this annual tax ritual? Certainly it's not because it is intrinsically enjoyable to file a tax return, albeit for a few who enjoyed math and logic games in school. They participate because they know and appreciate a very simple equation of American citizenship. That, with the privileges this country gives you; you have both obligations and responsibilities to give back.

The saying above the IRS's building on Constitution Avenue, right over there, by Supreme Court Justice Oliver Wendell Holmes states it best: "Taxes are what we pay for a civilized society." From the quality of the air we breathe, the food we eat, the water we drink, the streets we drive on and the security we expect, taxes are the lifeblood of the American civilized society.

Now, what do honest, law-abiding tax payers expect in return from the government? They expect that, if they are honoring their legal obligation to truthfully and accurately file their returns and pay their taxes, their neighbors on their right and their neighbors on their left are going to do so as well. And if they don't, they expect the government to enforce tax laws equally on everyone. One of the greatest challenges to tax compliance is the perception, today and in the past, that everyone may not be paying their fair share of taxes. Now, not only does tax compliance, or rather, tax non-compliance, violate fundamental notions of fairness, it also has real and significant economic consequences to this nation.

In the last several years, the notion of a tax gap has been much discussed and debated. Some estimate that the tax gap approaches 345 billion dollars per year - a significant portion of which is attributable to individual and small businesses engaged in non-compliance.

Now, tax non-compliers come in a wide variety of folks, some of which can be brought into compliance through education, and other of which can only be brought into compliance through enforcement. Today, I want to focus on a particularly pernicious and egregious character in the tax non-compliance world: the tax defier.

The tax defier is not someone who has a legitimate legal or factual dispute with the government about the amount of their tax due. We welcome such legitimate disputes administratively before the IRS, or in court. The tax defier is not someone who is merely exercising his or her first amendment rights to challenge the tax policy choices of Congress.

Instead, the tax defier is someone who rejects the fundamental basis, the legal underpinnings of our entire tax system, and flies in the face of legal precedent going back decades that has upheld the Constitutional and statutory validity of that system. And, this is important, and taxes specific and concrete action to violate the law. It is the tax defier's conduct which results in frivolous returns, bogus tax schemes, and frivolous claims that threatens the foundation of our tax system, in which will be and can be vigorously countered. Although the tax division and the IRS have been effective at times at going after tax defier activity, the problem demands constant vigilance.

Today, I want to renew and revitalize the tax division's commitment to going after tax defier conduct by announcing the creation of the National Tax Defier Initiative, or the TAXDEF Initiative. I have asked Jennifer Iloh, who's present today, one of the nation's leading experts in the enforcement efforts against tax defiers, to head up and be the National Director of the TAXDEF Initiative. As National Director, she will report directly to me, and she will use and coordinate the entire tools in the Federal Government's arsenal to civilly and criminally go after tax defiers, wherever they might be.

There are 5 goals of the TAXDEF Initiative. First, to strengthen and expand the coordination among the tax division, the internal revenue service, and the 94 U.S. Attorney's offices around this nation to ensure that both criminal and civil enforcement tools are being maximized and most efficiently used.

Second, to leverage the vast amount of expertise, experience and resources the government has to enable agents and attorneys to appropriately detect, investigate, and, where appropriate, prosecute, civilly and criminally, tax defiers with the strategy perspective being a national perspective rather than just a local or regional effort.

Third, the TAXDEF Initiative will expand our efforts to enjoin tax defier activity. We have found that civil injunctions played a key role in the enforcement arsenal to go after tax defiers, because in many cases they can go well before the conclusion of a criminal investigation. Since 2001, the tax division has obtained over 320 civil injunctions against fraudulent taxpayers, excuse me, tax preparers, and tax promoters, about a third of which involve tax defier activity. We estimate that we have collected over 600 million dollars in taxes as a result of our efforts.

Fourth, to maximize our use of technology to detect and prosecute cases. The explosion of the internet in the last decade has greatly facilitated tax defier activity. It turned what was once a paper based, local, or regional enterprise into a click and download national operation. Our response must equally tax advantage of the powerful resources of the internet and similar media and advance along with the ongoing changes in technology to bring our enforcement efforts directly to the door of the tax defiers.

Fifth, and perhaps most importantly, the fifth goal of the TAXDEF initiative is to alert and educate the public to the falsity of tax defier claims and publicize the consequences of tax defier conduct. Simply stated, we want to pull back the curtain and show the public that these promoters of these tax and bogus schemes are not some wizards that have revealed the tax-free universe to America, but instead are nothing more than garden variety hucksters and modern day snake oil salesmen, peddling their bogus tax products.

Now, as an excellent example of how the TAXDEF Initiative will work, we have just simultaneously filed three civil injunction complaints in three different Federal Courts, on the east and the west coast, against one of the largest tax defier nationwide organizations out there. As these complaints allege, Pinnacle Quest International, PQI, is a multi-level marketing organization that peddles its bogus tax defier schemes across this country.

As the complaints allege, PQI has over 830 salespeople and, during a 4 year period between 2002 and 2006, had gross sales of over 54 million dollars. It sold its tax defiance products to over 10,000 people, and its leaders have received commissions of over 8.8 million dollars. The harm to the government and to honest taxpayers is well north of 10 million dollars.

The PQI complaints show the evolution of the marketing of tax defier products. Back in the old days, tax defiers, like Irwin Shift, used old school technology - books - to spread their tax defier message. For his efforts, Mr. Shift was convicted and has been convicted 3 times and has been sentenced most recently to serve 151 months in Federal prison.

Next, we saw tax defiers, like Charles Clayton, using advances in technology - audio tapes, video tapes and DVD's - to peddle their bogus tax products. For his efforts, Mr. Clayton is spending the next 60 months in federal prison, having been convicted by a jury in 2006.

As PQI complaints show, PQI has harnessed the internet to deliver its tax defier message nationally, and broadcast that nationally - that message - at trade show-like conferences, at both exotic resorts, and even on cruise ships. For instance, as the complaints allege, if you bought PQI's highest product for \$18750, after buying it's second highest product for \$7500, after buying its first product for \$1350, then you had the opportunity to attend a 400 person Mediterranean Cruise aboard the Celebrity Cruise Line ship Galaxy in May of 2007 to meet all the tax defier vendors you could possibly want to meet. In fact, the complaints describe these vendors as a who's who of notorious tax defiers.

The bogus positions you would have heard have been consistently, repeatedly, and uniformly rejected by the courts for decades. For instance, the argument that the 16th amendment, which created the income tax system, was not properly ratified, rejected by the courts. Filing a tax return is voluntary and not mandatory? Rejected. The internal revenue code does not require citizens to pay taxes on income earned from wage labor? Rejected. IRS employees do not have the authority to access taxes? Rejected. Only citizens who are federal employees have to pay taxes? Rejected. Only citizens living in federally administered territories have to pay taxes? Rejected. And, finally, only engaging in excise, taxable activities like drug-trafficking? Rejected.

The courts have described these arguments as quote, "absurd, ridiculous, frivolous, and (my favorite) frivolous-squared." The tax defiers often say that they are waiting for the government's response to these arguments, or else they will assume that the government agrees with them. My response today is the same one the government has given, and the courts have given for decades: these arguments are bogus. If you meet the threshold income requirements for filing a tax return, you must file it. If you owe taxes, you must pay them, period.

The PQI complaints show both prongs of how the TAXDEF Initiative will work. Civil injunctions are being sought to stop the PQI organizations, affiliated organizations, and individuals dead in their tracks. But the PQI complaints also reference a recent PQI promoter, Sherry Peel-Jackson. Sherry Peel-Jackson is a former IRS revenue agent who, in addition to her day job, was pedaling frivolous tax products including, on that Celebrity Cruise Line ship Galaxy in May of 2007. The interesting part about that is, the complaints allege, that she was indicted on federal tax crimes just before May of 2007, pedaled her products in May of 2007, and then watched as a jury returned verdicts against her later in 2007. In February 2008, the Federal District Court sentenced Mrs. Jackson to 4 one-year sentences, consecutively. Not concurrently, consecutively. So, Mrs. Jackson, for her efforts, is serving 4 years in Federal Prison.

If facing civil injunctions and criminal punishment is not enough, I want to make sure the message is communicated loud and clear. That the tax defiers. both the promoters, preparers and the tax payers who follow these bogus arguments, face paying back all their taxes, interest, and up to 75% of civil penalties. Effectively, the interest can double the amount of tax owed, and the penalties can effectively triple the amount of tax owed. So you face both civil injunctions, criminal punishment, and folks, the government is going to get all of its money and then some.

This year marks the 75th anniversary of the tax division, and throughout its history it's mission has been the full and fair enforcement our nation's tax laws. As long as there has been a tax division, there have been tax defiers willing to subvert this nation's tax system for their greedy self-interest. Let me repeat that: "Their greedy self-interest." These folks drink themselves with the so-called patriotism, but, at the end of the day, all it's about for them is their greedy self-interest. This Tax Definition Initiative should send an unequivocal message to honest tax payers that, to the extent that any of their neighbors on their right or on their left engage in tax defier conduct, those neighbors will go to bed knowing that tomorrow, may be their day. When there are crimes, they will be prosecuted to their fullest.

Thank you very much. I am now happy to take any questions you might have.

QUESTION: How much do these guys cost the government every year? Do you have any estimates on that?

MR. HOCHMAN: I have no precise estimates other that it's a considerable expenditure of resources on the IRS's part to investigate and bring these cases to light, on the tax division and the U.S. Attorney's part to invest the resources necessary to prosecute them, and ultimately for the courts that have to sit through listening to these frivolous arguments, who eventually rule on them, both at the district court level and the federal level.

QUESTION: (via phone): --

MR. HOCHMAN: I'm sorry? Could you identify yourself? Alright, we'll take another question, yes.

QUESTION: Could you explain what the charts are?

MR. HOCHMAN: Sure. Starting over here. The chart that I'm showing here shows the evolution of one of the tax deferring techniques that they have used to try and subvert the system. Starting down here, what they have done is, in order to supposedly, pay back their tax obligations, they don't recognize U.S. currency. So they'll pay back their tax obligations starting as early as 1994 with something called the public office money certificate, which is basically just a check written to the IRS, not only for their tax obligation in this particular instance -- we've obviously redacted the information that identifies the

particular taxpayer -- but this person actually had the chutzpah to double the amount and seek a refund.

The evolution shows that they got more sophisticated, into what's called the sight draft. While it's not portrayed here on this particular cardboard example, this is actually -- where you see the live chat, it looks exactly like a check. It's in color, it's the approximate size of a check, it's got the serial numbers, the bank serial numbers, and routing numbers on the bottom here, and it's made payable to the IRS for, again, more than the tax payer has owed.

What we've seen most recently, 2008, are examples of something called a bonded promissory note. Again, this is a note made out to Secretary Paulson, Henry Paulson, for the amount of tax owed - \$949,411. Again, they use these notes as their way to subvert and obstruct the Internal Revenue Service in the collection of taxes. What we see in this other cut-out to my far right is an example used by We the People, an organization involving, amongst others, Robert Shultz.

This is the organization that the courts issued a permanent injunction again last summer. And what they did, to show you the way they're trying to get their message out, is that this is an ad that was taken in USA Today, on July 7, 2000. A full page ad, at the cost that it would cost to take out a full page ad in USA Today, in which they, again, go through their arguments, all of which have been rejected by the courts, on, for instance, 'most citizens are not required to file an income tax return.' They don't tell the people who are reading this that the courts have rejected that argument for decades. That the 16th amendment to the Constitution is a fraud. Again, this amendment setting up the income tax system has been ruled on as these arguments have been presented to the courts time and time and time again, and, each time, the courts have affirmed that the 16th amendment was properly ratified. They say if you file, you waive your 5th amendment rights. They bring up the notion that you have a 5th amendment right not to file a return. That is absolutely dead wrong.

So, again, these are examples of what they're -- of the type of tax defier message that they are touting to the public to try to get them to believe them. They don't put in the other side of the argument, though. The fact that each one of these arguments has been rejected. That the people who spout these arguments have been enjoined, including Mr. Schultz, and the fact that the people who spout these arguments and turn that tax defier language into conduct, being frivolous returns or, in these cases, for fictitious obligations, actually go to jail.

Over here on the left, you see two other examples of tax defier techniques. This is a -- you see both what they call the false 1099 and the false 8300 return. The way it works is that they will file a 1099 against a revenue agent, or sometimes a prosecutor, sometimes a judge, and they'll say to that judge, prosecutor or revenue agent that, 'I gave you X thousands of dollars, and therefore when the IRS goes ahead and calibrates, what shows on their records against what the, for instance, revenue agent reports on his tax return, it won't equal, because there will be more information that they've received cash.' But it's a completely bogus 1099, filled precisely by the tax defiers.

Here, it's an 8300 form. This is the form that trader businesses have to file when they receive more than \$10,000 in cash from a taxpayer. Here's an example of one where they said that they received - and we redacted the name of the government employee that was filed against -- \$200 trillion dollars from that tax -- from that government employee in a foreign currency that they labeled North America. Because again, they don't recognize that they are U.S. Citizens, and therefore view North America as a foreign country.

Over here, what you have is another argument, a technique that they use, and they basically send letters. Not only to the Attorney General at the time, but they'll send it to Secretary of State Rice, they'll send it

to the President, they'll send it to Courts. They're trying to overwhelm the system with paper, and basically saying that "I have hereby cancelled by U.S. Citizenship, and therefore do not owe taxes." Well, again, if they've made no income that year and don't meet the minimum threshold for filing return, then they don't have to file a return and don't owe taxes. However, if they did meet the minimum threshold of income, they absolutely have to pay taxes, notwithstanding the fact that they consider themselves a citizen of a particular state or territory and not a citizen of the United States. So these are examples of the tax defier techniques that they use to help subvert and obstruct the system.

QUESTION: Do you know how many cases or indictments you got against defiers last year?

MR. HOCHMAN: Again, part of what we're -- part of the -- another goal, probably the 6th goal of the TAXDEF Initiative, is to better coordinate the data of what's going on in the enforcement efforts around this country. The IRS, by law, is not allowed to label, in its own records, tax protesters or tax defiers and track them under that classification. What is -- as a result, since 1998 when that law was passed, the data and the data points on the amount of enforcement efforts have not been as good as they could be. One of the goals of this initiative is to much more improve that data so that we will have a baseline to track the enforcement efforts and the continued and significant reach of many of these tax defier organizations.

QUESTION: This is a question relating to her question. You said there was 600 injunctions since 2001, a third of which were specifically tax defier related. Over an 8 year span, you can break that down to roughly about 12-13 per year. And, since you don't actually have numbers for tax defiers, I was wondering how you could know that this is a nationwide problem, and, why, with such little numbers, was this initiative prompted?

MR. HOCHMAN: Sure. The numbers, by the way, are about 320 civil injunctions have been filed since 2001, about a third involving tax defier activity. The total amount that we have been able to collect, as a result of stopping these organizations and the IRS going out and getting the tax back, is roughly \$600 million dollars. By the way, that does not include the deterrent effect of both the prosecutions and the civil injunctions. And by that I mean, to the extent that there's some tax payer who is thinking: 'you know, maybe it would be a good idea not to pay taxes. Maybe -- I read in USA Today that people are saying 'you don't have to pay tax.' When we go out and put the much more strong -- we strongly put out the message that these arguments are bogus, than that taxpayer who might have been on the fence and might have gone along with We the People doesn't. It's almost impossible to calculate that deterrent effect, other than to believe it's a multiple of the amount of money we've actually been able to bring in. It's sort of the --.

QUESTION: (via phone) --.

MR. HOCHMAN: I'm sorry? I didn't catch --. If you're on the phone and you asked a question --.

QUESTION: May I ask a question? This is Peter Thomas, from ABC News. How are you?

MR. HOCHMAN: Yes. I'm very well.

QUESTION: One of my questions is, can we get access to some of this audio and video that they use to lure people into these schemes?

MR. HOCHMAN: I'll have to --. The question is whether or not we can get access to the audio and video that these tax defier organizations use to lure people into these schemes. I will defer to Charles Miller after this conference to address that question and see if such video or audio is available.

QUESTION: My second question is, beyond this one organization, PQI, with the 10,000 customers, is there an estimate, is there some estimate that, let's say, 100,000 people who may have been listening to or got caught in these scams? Is that a pretty accurate estimate?

MR. HOCHMAN: Well, again, the estimates vary widely. From the estimates that the organizations themselves put out, which are in the -- everything from the 10's to the 100's of thousands to what the actual number is. Which, again, part of this initiative is designed to help track and figure out. Again, the question was: 'what is the number? Is it 100,000? Is it more?'

We will hopefully, within a certain -- within a, you know, roughly short amount of time, be able to better analyze and better supply that type of data. Right now, again, the estimates are certainly somewhere between the tens of thousands to the hundreds of thousands. PQI, being just one example, involved 11,500 customers itself.

And then, going back to the question that was asked just a moment ago as to why we can believe, based on just civil injunctions, that this is a nationwide problem. It's not just the civil injunctions. It's the civil injunctions and the criminal prosecutions over the last six years that we have seen all over the country. They are in the east coast, the west coast, the south, the Midwest, and the northwest.

We see these organizations probably because of the advents of the internet, the advents of free medium to communicate with people across the entire spectrum of this country. That people can hear this message in a way that, in the old days, they'd have to go to a motel in some small city or large city to sit through a conference and listen to the message and get the product. Where maybe in the old days it was mail-order, and you had to actually find the ad to find the address to go ahead and get their mailings. Nowadays, they don't have that problem. They can basically put something up on a website, and people can click on it from anywhere they're sitting across this nation. Similarly, we're using the internet in the same medium to communicate the message back to these taxpayers that, if you follow these tax defier arguments and engage in this conduct, there are serious repercussions for your actions.

QUESTION: That brings me to the question of the difference between the way you treat the fraudsters and the hucksters who promote these schemes and the gullible people who are attracted to them and fall into their net. Now, in the case, for example, of Snipes, he was acquitted in part because he was successful, was he not, in claiming he was a victim because he didn't really understand what he was getting in to. I assume that's the defense by most of the people. Do you prosecute the gullible as hard as you prosecute the people who perpetrated these schemes?

MR. HOCHMAN: In each and every case, we look at the facts and the evidence in that case and apply it against the relevant law. For a criminal prosecution, the standard is a very high standard. It's an intentional violation of a known legal duty. And you have to prove it beyond a reasonable doubt, and you have to convince 12 jurors unanimously that the person is guilty using the highest standard in the federal system. We evaluate each case on whether or not we can meet that standard, and only bring the cases, or only authorize cases to be brought by U.S. attorney's offices that meet that standard.

QUESTION: What's your success rate?

MR. HOCHMAN: The success rate is substantial. It's over 90%. I mean, if this was the major league and some hitter could bat 900 instead of just 300, he would be considered at world record levels, and that is our level of success in prosecutions against tax defiers.

QUESTION: And again, for the individuals who buy into this, they are -- they get a call from the IRS,

communication error, they have to pay it back?

MR. HOCHMAN: Correct. And at the very minimum, these folks have to pay their taxes back. That the reliance, whether good faith or otherwise, on these tax defier theories that are frivolous, they're going to have to pay the tax back if the interest clock has been going for a number of years. That interest can literally double the tax that they owe. If, in fact, we're able to show that they -- either an accuracy related or fraud related penalty applies, that penalty can be 20 to 75% of the tax owed, plus interest. So at the end of the day, at very minimum, even if they're not facing a civil injunction, or even if they're not criminal prosecuted, they're paying back the tax, the interest, and the usual penalties as well.

QUESTION: The PQI, this is a civil injunction. I mean, don't you think the deterrent would be greater if this were a criminal action --. I'm just asking as far as, you know, you spoke about deterrents and people being sure of the people on their left and right. This is not a criminal action. Is there going to be a follow up criminal action to this?

MR. HOCHMAN: Well, again, what has happened over the last -- particularly over the last 7 years is that the criminal and the civil prosecutions have gone on parallel courses. For instance, as the PQI complaints state directly, one of the PQI promoters, this Sherry Peel-Jackson, was just convicted in late 2007 right after she gave her little talk on that celebrity cruise line ship, and then, she just was sentenced to, what I submit, is a very significant sentence. Four years jail on, by the way, misdemeanors. Her crimes were for willful failure to file her own taxes, and the judge, rather than running that concurrently so it be four one-year sentences that would basically be one year, ran it consecutively to give her the maximum sentence allowable under the law. So I agree with you that in each instance we have to consider - this is what Jennifer Iloh will be the coordinator of - working both civil injunction and the criminal prosecution programs together to achieve the best mix in communicating our deterrent message.

QUESTION: How many more PQI's are out there? Also -- people such as Wesley Snipes --?

MR. HOCHMAN: Unfortunately, I'm not allowed to talk about what's under investigation right now until it manifests itself in either a publicly filed document like a complaint, or an indictment, other than to say that the investigations are certainly ongoing in a variety of capacities around this country. Other questions?

QUESTION: Does the term 'defier' have legal significance?

MR. HOCHMAN: The term defier means being consciously used to distinguish itself from other aspects of conduct that are legitimate. Let's tax the word tax-protester that has been used over the decades. Tax protester, protest in general, has both legitimate and illegitimate components. To the extent that protest defines someone who stands on a soapbox and decries the appropriateness of a particular tax policy, it's a completely legitimate act to do so. However, when that protest turns into defiant conduct, which is the filling of a frivolous return, a bogus claim, engaging some of these bogus tax defier techniques on my right and left - that's when the tax defiant conduct becomes criminal or civil prosecutable. So, I'm -- we decided to use the term tax defier to focus on the 100% illegitimate part of what these folks are doing. And, again, what we're prosecuting is the conduct, not the mere exercise of their first amendment rights. Other questions? Any questions on the telephone? Alright. As we do in court, see no hands, I will adjourn this session. Thank you very much for coming, and, again, to the extent that you have follow-up questions they can be directed to Mr. Miller and we'll do our best to answer them. Thank you very much.

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