

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

***United States Attorney
Karen P. Hewitt***

***For Further Information, Contact: Assistant U. S. Attorneys John Owens 619-557-5629
William Cole 619-557-7859***

For Immediate Release

NEWS RELEASE SUMMARY - March 21, 2008

United States Attorney Karen P. Hewitt announced today that a federal jury returned guilty verdicts as to two defendants, Kathryn Hanes and Madonna Hanes, who were charged with conspiracy to commit tax evasion and tax evasion. During the trial, the Government presented evidence that both defendants undertook numerous affirmative acts, including many “tax protestor” tactics, to commit tax evasion for the tax years 1996, 1997, 1998, 1999, and 2000.

According to the indictment and evidence introduced at trial, defendants Kathryn Hanes and Madonna Hanes conspired to defraud the United States from 1996 through 2000, by failing to file tax returns and by mailing frivolous letters to the IRS claiming: (a) that Kathryn Hanes was not a U.S. citizen; (b) that the IRS had no authority or jurisdiction to collect income tax from Kathryn Hanes; and (c) that Kathryn Hanes earned no income and owed no income taxes. However, the evidence at trial showed that between 1996 and 2000, Kathryn Hanes earned hundreds of thousands of dollars from her chiropractic business, “Biophysics Chiropractic,” which she operated in San Diego, California.

In letters sent to the IRS, which were introduced at trial, defendant Kathryn Hanes claimed that the IRS lacked authority to collect income taxes from her because she placed her income in a “pure trust” which supposedly did not have any income tax requirements. She also falsely claimed that she did not engage in business in the United States. To further evade collection of her taxes, Kathryn Hanes transferred hundreds of thousands of dollars of business profits to the personal bank account of Madonna Hanes, who then used this “tax-free” money on their personal expenses, which included multiple, lengthy vacations to Maui, Hawaii.

United States Attorney Karen P. Hewitt said, “The U.S. Attorney’s Office is committed to aggressively prosecuting those who use frivolous arguments and fraudulent schemes to intentionally dodge their responsibilities to pay the same taxes that honest citizens pay every year.”

“Today’s conviction sends a clear message to those who choose to hide income from the IRS through schemes that promote the funneling of assets into trusts while retaining full control of their assets - You will be prosecuted,” said Catherine D. Tucker, Acting Special Agent in Charge, IRS Criminal Investigation, Los Angeles Field Office. “The public should be wary of these types of bogus schemes and IRS Criminal Investigation will continue to investigate and expose fraudulent trust schemes and ensure the public’s confidence in our tax system.”

This case was investigated by Special Agents with the Internal Revenue Service, Criminal Investigation, and prosecuted by Assistant United States Attorneys John B. Owens and William P. Cole.

For more information on the “non-citizen” strategy and other illegal tax evasion schemes, visit the IRS website at www.irs.gov , and click on the link “Individuals,” and then “Frivolous Tax Arguments.”

A sentencing hearing for the defendants will be held on June 16, 2008 at 9:00 a.m., before United States District Judge Thomas J. Whelan.

DEFENDANTS

Case No.: 04-0604-W

Kathryn Jane Hanes
Madonna Alexandria Hanes

San Diego, California
San Diego, California

SUMMARY OF CHARGES

Conspiracy in violation of Title 18, United States Code, Section 371
Maximum sentence: Five years in prison and fine not to exceed \$250,000

Income Tax Evasion in violation of Title 26, United States Code, Section 7201
Maximum sentence: Five years in prison and fine not to exceed \$250,000

AGENCY

Internal Revenue Service, Criminal Investigation