

FILED AND ENTERED
JUN 10 2004

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U.S. BANKRUPTCY COURT
PATRICIA W. HARRIS, CLERK

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7 **UNITED STATES BANKRUPTCY COURT**
8 **DISTRICT OF NEVADA**

9 In re:) CASE NOS: BK-03-17306-LK
10 National Audit Defense Network)
11) Chapter 7
12)
13 Debtor.)
14 _____)
15 United States)
16 v.) Adversary No. 04-1181
17 National Audit Defense Network, et al.)
18 _____)

19 ***STIPULATION RESOLVING INJUNCTION ACTION***
20 ***AGAINST DEBTOR BY THE UNITED STATES***
21 ***AND***
22 ***ORDER APPROVING SAME AND***
23 ***ENTERING PERMANENT INJUNCTION***
24

25 The United States ("US"), by its attorneys, and National Audit Defense Network, debtor,
26 by the Chapter 7 Trustee, William A. Leonard, Jr. hereby stipulate and agree as follows:

- 27 1. Debtor commenced this case by filing a voluntary petition under the Code on June 11,
28 2003.
2. On May 27, 2004, this case was converted to a Chapter 7 proceeding.

1 3. Previously, on March 13, 2004, the US commenced litigation against debtor and other
2 entities and individuals in District Court, Case No. CV-S-04-0455 ("Injunction Action").

3 4. Subsequently, on May 25, 2004, the Injunction Action was referred to the Bankruptcy
4 Court.

5 5. In lieu of further proceedings in the Injunction Action and as debtor has ceased
6 operations as of the conversion of this case to Chapter 7, the Chapter 7 trustee on behalf of
7 National Audit Defense Network and its estate, hereby stipulates and agrees to the entry of a
8 permanent injunction pursuant to 26 U.S.C. §§ 7407, 7408 and 7402(a) to prohibit it from:

- 9 (a) Acting as a federal-income-tax-return preparer (as defined in 26 U.S.C. §
10 7701(a)(36)).
- 11 (b) Organizing or selling abusive tax shelters, plans, or arrangements that advise or
12 encourage taxpayers to attempt to evade the assessment or collection of their
13 correct federal tax.
- 14 (c) Engaging in conduct subject to penalty under 26 U.S.C. §§ 6700, 6701, or 6694.
- 15 (d) Engaging in conduct that substantially interferes with the enforcement of the
16 internal revenue laws.
- 17 (e) Promoting any false or fraudulent tax scheme.
- 18 (f) Preparing or assisting in the preparation of federal-income-tax returns for others.
- 19 (g) Organizing, promoting, or selling the Mallforall, Shopn2000, or TaxBreak2000
20 programs, home-based businesses, incorporation services, or any other
21 arrangements that facilitate or advocate noncompliance with the income tax laws
22 or tax evasion or misrepresent the tax benefits realized by using the arrangements.
- 23 (h) Making false or fraudulent representations, in conjunction with organizing or
24 selling a plan or arrangement, that: (i) prospective customers may take business
25 tax deductions or credits without regard to whether the individuals have a *bona*
26 *fide* business and business purpose; (ii) prospective customers may claim the 26
27 U.S.C. § 44 disabled-access tax credit for any website modification; (iii)
28 prospective customers may claim the 26 U.S.C. § 44 disabled-access tax credit

1 and § 162 trade or business expense on their federal-income-tax returns, even if
2 they have no *bona fide* business, the expense is not reasonable and necessary, or
3 the business modification is sold along with the business itself; (iv) prospective
4 customers who purchase any product or service or start, own, or operate home-
5 based businesses may automatically (or through simply handing out a business
6 card or through mentioning—without making a demonstrated and sincere effort to
7 conduct business—the business to someone) claim tax deductions for meal
8 expenses, automobile expenses, travel (including vacation) expenses, and
9 residence-related expenses (including mortgage, electricity, and insurance); (v)
10 prospective customers who start, own, or operate home-based businesses can
11 demonstrate that they are trying to make a profit merely by printing up and/or
12 handing out business cards; (vi) prospective customers who start, own, or operate
13 home-based businesses can employ their children between 7 and 17 years old, pay
14 the children a wage, and then take the money back from the children; (vii)
15 prospective customers who start, own, or operate home-based businesses can
16 “write off” or depreciate their home for federal income tax purposes; (viii)
17 prospective customers can claim income tax deductions and credits for hobby
18 expenses or turn a hobby into a home-based business merely by printing business
19 cards, handing out business cards, and/or keeping records; (ix) tax credits and
20 deductions that are available to all businesses, regardless of their form (*e.g.*,
21 partnership, sole proprietorship, or corporation), are exclusively available to
22 corporations; (x) prospective customers will automatically reduce their federal-
23 income-tax liability by forming a corporation; (xi) prospective customers are
24 guaranteed or promised a tax refund, additional tax deductions, or tax credits,
25 merely by purchasing or signing up for any services or products, including
26 purchasing a business or signing up for audit defense, tax-return review, and/or
27 tax-return preparation; (xii) prospective customers who purchase any products
28 that include purported tax benefits and that are paid for with purported promissory

1 notes can ignore the promissory note or pay off the promissory note merely by
2 clicking on a website link or by some other artifice; (xiii) prospective customers
3 who purchase any services or products that include purported tax benefits and that
4 are paid for with promissory notes can rely on a third party to pay off the
5 promissory note on their behalf, unless there is a binding contract with a
6 legitimate, viable third party who has agreed to pay off promissory notes as
7 described in the representation to the customers; (xiv) prospective customers can
8 “wait until the end of the year” to reconstruct their business records (purportedly
9 to see “what you want [to be] in those records” in case the IRS wants to verify
10 claimed business deductions); (xv) prospective customers can or should create
11 and/or use multiple corporations to “roll over” profits from one corporation to
12 another, thereby creating the impression that a corporation that earned a profit
13 didn’t actually earn it; (xvi) prospective customers can claim business-related
14 expenses, even though the defendant or person working in association with the
15 defendant, also states that “I don’t care if you make a profit, as long as you are
16 doing something that you can claim as a business” or any similar statement; (xvii)
17 prospective customers can purchase “prepaid legal,” “travel agency” or “NADN
18 referral” businesses or any other business, membership, or any arrangement, and
19 then automatically claim business-related tax deductions and credits, without
20 making a demonstrated and sincere effort to earn a profit from the business,
21 membership, or arrangement; (xviii) prospective customers should purchase
22 products such as “hit generators” and “search-engine optimizers” to create the
23 appearance of running a business; or (xix) prospective customers’ purchase of
24 products such as “hit generators” and “search-engine optimizers” will prevent the
25 IRS from auditing customers;

- 26 (i) Engaging in activity subject to penalty under 26 U.S.C. § 6700, *i.e.*, organizing,
27 promoting, or selling a plan or arrangement and in connection therewith making
28 gross valuation overstatements or making statements regarding the excludibility of

1 income or the securing of any other tax benefit that he or she knows or has reason
2 to know are false or fraudulent as to any material matter.

3 (j) Engaging in activity subject to penalty under 26 U.S.C. § 6701, *i.e.*, preparing
4 and/or assisting in the preparation of a document related to a matter material to the
5 internal revenue laws that includes a position that he or she knows will, if used,
6 result in an understatement of tax liability.

7 (k) Engaging in other similar conduct that interferes with the
8 administration or enforcement of the internal revenue laws.

9 (l) Preparing or assisting in the preparation of federal income tax returns and from
10 directly or indirectly: (i) further engaging in any conduct subject to penalty under
11 I.R.C. § 6694, *i.e.*, preparing any part of a return that includes an unrealistic
12 position; and (ii) further engaging in any other activity subject to injunction or
13 penalty under I.R.C. §§ 7407 or 6694 including acting as an income-tax-return
14 preparer while also guaranteeing the payment of any refund or the allowance of
15 any credit and including fraudulent or deceptive conduct that substantially
16 interferes with the proper administration of the internal revenue laws.

17 (m) Interfering with the enforcement of the internal revenue laws.

18 6. Each party to this stipulation shall bear its own costs.

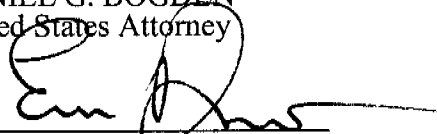
19 7. Debtor consents to bankruptcy court jurisdiction in accord with 28 U.S.C. § 157(c)(2).
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1 8. The Chapter 7 Trustee further agrees to provide full and complete access to any and all
2 documents^{1/} of debtor in his possession or control to the United States upon reasonable notice.

3 Dated: June 9, 2004

4 **The United States of America**

5 DANIEL G. BOGDEN
6 United States Attorney



7
8 EVAN J. DAVIS
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10 Trial Attorney, Tax Division
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18 **National Audit Defense Network**



19 WILLIAM A. LEONARD, Jr.
20 Chapter 7 Trustee of the Estate

21 **ORDER**

22 Based on the foregoing,

23 **IT IS HEREBY ORDERED** that National Audit Defense Network and its estate are
24 permanently enjoined and prohibited from the following pursuant to 26 U.S.C. §§ 7407, 7408
25 and 7402(a):

26 (a) Acting as a federal-income-tax-return preparer (as defined in 26 U.S.C. §
27 _____
28

^{1/}Without limitation, "documents" shall mean all writings and any other means by which information is recorded or transmitted, and all copies, except those which are identical in every respect to the original, including, without limitation, microfilms, other film records or impressions, audio or video tape recording or compact disk recordings, computer cards, computer data, floppy disks, computer printouts, printed, typed, hand written or other readable paper, correspondence, memoranda, reports, telegrams, calendars, summaries, notes, bills or other records.

1 7701(a)(36).

- 2 (b) Organizing or selling abusive tax shelters, plans, or arrangements that advise or
3 encourage taxpayers to attempt to evade the assessment or collection of their
4 correct federal tax.
- 5 (c) Engaging in conduct subject to penalty under 26 U.S.C. §§ 6700, 6701, or 6694.
- 6 (d) Engaging in conduct that substantially interferes with the enforcement of the
7 internal revenue laws.
- 8 (e) Promoting any false or fraudulent tax scheme.
- 9 (f) Preparing or assisting in the preparation of federal-income-tax returns for others.
- 10 (g) Organizing, promoting, or selling the Mallforall, Shopn2000, or TaxBreak2000
11 programs, home-based businesses, incorporation services, or any other
12 arrangements that facilitate or advocate noncompliance with the income tax laws
13 or tax evasion or misrepresent the tax benefits realized by using the arrangements.
- 14 (h) Making false or fraudulent representations, in conjunction with organizing or
15 selling a plan or arrangement, that: (i) prospective customers may take business
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17 *fide* business and business purpose; (ii) prospective customers may claim the 26
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20 and § 162 trade or business expense on their federal-income-tax returns, even if
21 they have no *bona fide* business, the expense is not reasonable and necessary, or
22 the business modification is sold along with the business itself; (iv) prospective
23 customers who purchase any product or service or start, own, or operate home-
24 based businesses may automatically (or through simply handing out a business
25 card or through mentioning—without making a demonstrated and sincere effort to
26 conduct business—the business to someone) claim tax deductions for meal
27 expenses, automobile expenses, travel (including vacation) expenses, and
28 residence-related expenses (including mortgage, electricity, and insurance); (v)

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2 demonstrate that they are trying to make a profit merely by printing up and/or
3 handing out business cards; (vi) prospective customers who start, own, or operate
4 home-based businesses can employ their children between 7 and 17 years old, pay
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7 “write off” or depreciate their home for federal income tax purposes; (viii)
8 prospective customers can claim income tax deductions and credits for hobby
9 expenses or turn a hobby into a home-based business merely by printing business
10 cards, handing out business cards, and/or keeping records; (ix) tax credits and
11 deductions that are available to all businesses, regardless of their form (*e.g.*,
12 partnership, sole proprietorship, or corporation), are exclusively available to
13 corporations; (x) prospective customers will automatically reduce their federal-
14 income-tax liability by forming a corporation; (xi) prospective customers are
15 guaranteed or promised a tax refund, additional tax deductions, or tax credits,
16 merely by purchasing or signing up for any services or products, including
17 purchasing a business or signing up for audit defense, tax-return review, and/or
18 tax-return preparation; (xii) prospective customers who purchase any products
19 that include purported tax benefits and that are paid for with purported promissory
20 notes can ignore the promissory note or pay off the promissory note merely by
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23 are paid for with promissory notes can rely on a third party to pay off the
24 promissory note on their behalf, unless there is a binding contract with a
25 legitimate, viable third party who has agreed to pay off promissory notes as
26 described in the representation to the customers; (xiv) prospective customers can
27 “wait until the end of the year” to reconstruct their business records (purportedly
28 to see “what you want [to be] in those records” in case the IRS wants to verify

1 claimed business deductions); (xv) prospective customers can or should create
2 and/or use multiple corporations to “roll over” profits from one corporation to
3 another, thereby creating the impression that a corporation that earned a profit
4 didn’t actually earn it; (xvi) prospective customers can claim business-related
5 expenses, even though the defendant or person working in association with the
6 defendant, also states that “I don’t care if you make a profit, as long as you are
7 doing something that you can claim as a business” or any similar statement; (xvii)
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9 referral” businesses or any other business, membership, or any arrangement, and
10 then automatically claim business-related tax deductions and credits, without
11 making a demonstrated and sincere effort to earn a profit from the business,
12 membership, or arrangement; (xviii) prospective customers should purchase
13 products such as “hit generators” and “search-engine optimizers” to create the
14 appearance of running a business; or (xix) prospective customers’ purchase of
15 products such as “hit generators” and “search-engine optimizers” will prevent the
16 IRS from auditing customers;

- 17 (i) Engaging in activity subject to penalty under 26 U.S.C. § 6700, *i.e.*, organizing,
18 promoting, or selling a plan or arrangement and in connection therewith making
19 gross valuation overstatements or making statements regarding the excludibility of
20 income or the securing of any other tax benefit that he or she knows or has reason
21 to know are false or fraudulent as to any material matter.
- 22 (j) Engaging in activity subject to penalty under 26 U.S.C. § 6701, *i.e.*, preparing
23 and/or assisting in the preparation of a document related to a matter material to the
24 internal revenue laws that includes a position that he or she knows will, if used,
25 result in an understatement of tax liability.
- 26 (k) Engaging in other similar conduct that interferes with the
27 administration or enforcement of the internal revenue laws.
- 28 (l) preparing or assisting in the preparation of federal income tax returns and from

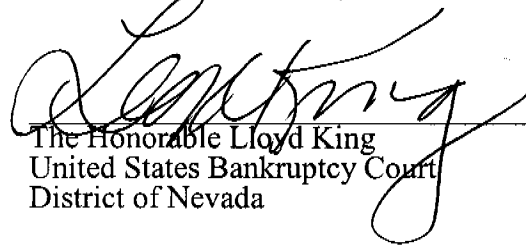
1 directly or indirectly: (i) further engaging in any conduct subject to penalty under
2 I.R.C. § 6694, *i.e.*, preparing any part of a return that includes an unrealistic
3 position; and (ii) further engaging in any other activity subject to injunction or
4 penalty under I.R.C. §§ 7407 or 6694 including acting as an income-tax-return
5 preparer while also guaranteeing the payment of any refund or the allowance of
6 any credit and including fraudulent or deceptive conduct that substantially
7 interferes with the proper administration of the internal revenue laws.

8 (m) Interfering with the enforcement of the internal revenue laws.

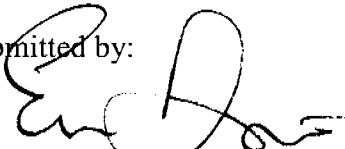
9 **IT IS FURTHER ORDERED** that the Chapter 7 Trustee shall provide full and complete
10 access to any and all documents (as defined above) of debtor in his possession or control to the
11 United States upon reasonable notice.

12
13 Dated: _____

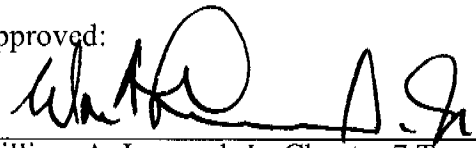
14 **BY THE COURT:**

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16 
17 The Honorable Lloyd King
United States Bankruptcy Court
District of Nevada

18 Submitted by:

19 
20 Daniel G. Bogden
Evan J. Davis
21 Phyllis Jo Gervasio

22 Approved:

23 
24 William A. Leonard, Jr. Chapter 7 Trustee

25
26 June 9, 2004 (4:08pm) C:\WINNT\Profiles\s\farro\Desktop\Revised NADN Injunction.wpd