IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF MISSOURI
ST. JOSEPH DIVISION

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| THE UNITED STATES OF AMERICA | ) | |
| | ) | |
| Plaintiff, | ) | |
| | ) | |
| v. | ) | Civil No. 08-6018-CV-SJ-ODS |
| | ) | |
| A. BLAIR STOVER, JR. | ) | |
| | ) | |
| Defendant. | ) | |

**COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF**

Plaintiff, United States of America, for its complaint against defendant A. Blair Stover, Jr., states as follows:

**Nature of the Action**

1. Stover promotes numerous tax-fraud schemes, including but not limited to schemes that involve his helping customers to use (i) sham management companies that do not perform management services; (ii) sham management companies whose shares are unlawfully owned entirely by Roth Individual Retirement Accounts; (iii) Roth Individual Retirement Accounts that unlawfully own property.

2. The United States is bringing this complaint under 26 U.S.C. §§ 7402(a) and 7408 of the Internal Revenue Code (I.R.C.) to enjoin Stover and anyone acting in concert with him from directly or indirectly:

a. Organizing, promoting, marketing, or selling any plan or arrangement – including but not limited to the tax schemes described in this complaint – that advises or assists others in violating or attempting to violate the internal revenue laws or unlawfully evading the assessment or collection of their federal tax liabilities;

b. Engaging in conduct subject to penalty under I.R.C. § 6700, *i.e.*, organizing or selling any plan or arrangement and in connection therewith (a) making a gross valuation overstatement or (b) making or furnishing false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, or the securing of tax benefits derived from participation in a plan or arrangement, when he knows and/or has reason to know the statements are false or fraudulent as to a material matter;

c. Engaging in conduct subject to penalty under I.R.C. § 6701, *i.e.*, preparing or assisting in the preparation of, or advising with respect to a document related to a matter material to the internal revenue laws that includes a position that he knows will, if used, result in an understatement of tax liability;

d. Engaging in conduct subject to penalty under I.R.C. §§ 6707(a), *i.e*., failing to file a return or statement with the IRS that identifies and describes any reportable or listed transaction, any potential tax benefits expected to result from that transaction, as well as other information required by statute;

e. Engaging in any other conduct that interferes with the administration or enforcement of the internal revenue laws;

f. Providing any individual or entity with any advice relating to federal taxes; and

g. Aiding, assisting, and/or advising with respect to the preparation of any federal tax return or representing customers before the IRS.

3. An injunction is warranted based on Stover's conduct as a promoter of tax-fraud schemes. Stover has been promoting tax-fraud schemes since at least the mid-1990s. Stover's numerous tax-fraud schemes have caused substantial harm to the Government. The Internal Revenue Service is harmed because it must continuously devote limited resources to detecting and examining inaccurate returns filed by Stover customers, and to attempting to assess and collect unpaid taxes from those customers. The amount of tax loss caused by Stover's promotions is incalculable but likely in the hundreds of millions of dollars.

## Jurisdiction and Venue

4. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345, and by 26 U.S.C. §§ 7402(a) and 7408.

5. This action for injunctive relief is brought at the request of the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the discretion of a delegate of the Attorney General of the United States, pursuant to 26 U.S.C. §§ 7402 and 7408.

6. Venue is proper in this Court under 28 U.S.C. § 1391 because a substantial part of the events giving rise to this suit took place in this district.

7. Stover does business in this district at Kruse Mennillo LLP, which is located at 1300 Northwest Jefferson Court, Blue Springs, Missouri 64015 and also at his law firm office, which is located at 5559 N.W. Barry Road, No. 173, Kansas City, Missouri 64154. Stover resides at 21675 Highway 273**,** Platte City, Missouri 64079 Platte City, Missouri and also in Beverly Hills, California.

## Background Facts

8. Stover is a native of Missouri who is 46 years old. He received a Bachelor of Science in Business Administration from Missouri Western State College, a Masters in Business Administration from Northwest Missouri University, and a Juris Doctorate Degree from the University of Missouri, Kansas City. He is a licensed attorney in Missouri.

9. Stover worked at Coopers and Lybrand LLC in St. Louis and then in its Kansas City office from 1987 until 1993. During that time, he became acquainted with Allen R. Davison, who worked in Coopers and Lybrand's Omaha, Nebraska office.

10. In 1993, Stover and Davison became affiliated with the Grant Thornton accounting firm and worked in its Kansas City office. There, Stover advanced from Tax Manager to Senior Tax Manager to Tax Partner. Many of the tax schemes Stover promotes and has promoted were initially devised by him when he was at Grant Thornton.

11. In October 2001, Stover and Davison left Grant Thornton. On information and belief, they left after that firm's management learned about the tax schemes that Stover and Davison promoted. On information and belief, Grant Thornton's management became uncomfortable with the tax advice that Stover and Davison offered to customers.

12. After leaving Grant Thornton, Stover continued to promote many of the same tax schemes he had promoted while at Grant Thornton, and he has continued to work with many of the same customers, along with some new customers, as well. Since September 2001, Stover has been affiliated with the national accounting firm of Kruse Mennillo LLP.

13. Stover expanded Kruse Mennillo's tax practice, and remains its Director of Tax Services. He also expanded the firm's business in other ways. He opened additional Kruse Mennillo offices in Blue Springs, Missouri and Phoenix, Arizona. He also established Xnergy, LLC, as a subsidiary of Kruse Mennillo. Xnergy, LLC, describes itself as a multi-faceted financial services company. On information and belief, Stover previously served as an officer of Xnergy, and, on information and belief, he is no longer an officer of Xnergy but continues to remain involved in that company's business.

14. Stover has a customer base that is nationwide. His customers are often wealthy people who own and operate small, lucrative businesses, such as automobile dealerships, land

development companies, and medical or dental practices. His customers are based throughout the United States and largely in Missouri, Kansas, Arizona, California, Colorado and Florida.

15. Over the years, Stover has promoted increasingly aggressive tax schemes as a means of attracting and retaining wealthy customers. Stover's tax-fraud schemes have received national press attention. To avoid detection by the IRS, Stover has modified his schemes or concocted entirely new schemes, knowing that it sometimes takes the IRS years to detect a tax-fraud scheme and pursue customers who use it and promoters who sell it.

16. Stover has generally promoted tax schemes involving either sham management companies or sham property-related transactions.

**Stover's Unlawful Activities**

***Tax-Fraud Scheme No. 1: The Sham Management Company***

17. Stover promotes an unlawful tax scheme that uses sham management companies as a tool for creating bogus tax deductions. He began promoting this scheme in the mid-1990s.

18. Stover establishes sham management companies for his customers who are self-employed or own small businesses. At Stover's direction, these management companies "receive" fees for management services that are never actually performed for the customer's business. At Stover's direction, the customer's business falsely and fraudulently claims these fees as business-expense deductions on its tax return. The sham management company also falsely and fraudulently takes deductions for business expenses incurred in the performance of purported management services. Stover's Sham Management Company scheme enables his customers to evade the payment of income tax.

19. Stover directs and coordinates all aspects of the Sham Management Company Scheme that he promotes. For his services, Stover charges his customers high fees, often as much as $200,000 for complete execution of this tax-fraud scheme. Often, Stover's customers pay him by paying Kruse Mennillo, where Stover is a tax partner.

20. To start the scheme, Stover directs the creation of a sham management company that is often incorporated in Nevada. Stover uses the registered agent services of Nevada Corporate Associates (NCA), a Nevada-based concern, owned by James Hoeppner.

21. Working at Stover's direction, since at least the mid-1990s, Hoeppner makes block filings of "shelf" corporations with the Nevada Secretary of State. These "shelf" corporations are identified by a generic name until the company is "taken off the shelf" to be used as a bogus management company for a Stover customer.

22. As designated Nevada resident agent for Stover's bogus management company scheme, Hoeppner provides Stover customers with an in-state address, the use of office space in Las Vegas, and a bulk-mail sorting and forwarding service. The customer and Hoeppner, through NCA, execute a pro-forma (and bogus) "contract for office services," which outlines NCA's purported provision of these services and also appoints "Nevada Corporation Associates, Inc./James B. Hoeppner as Resident Agent for 'The Corporation.'" This contract and the provision of these office services are designed to give the appearance that the sham management companies do actual business in Nevada. Stover's customers pay NCA a one-time fee for his purported incorporation services. This one-time fee is usually in the tens of thousands of dollars. In addition, Hoeppner also charges Stover customers a quarterly management fee of at least $300 for his purported resident agent services.

23. In actuality, Hoeppner only makes the block filings and signs NCA's "contract for office services" with the customer. Stover actually does most of the work necessary to incorporate the customer's sham management company, including providing the customer with bogus incorporation documents. After NCA receives the one-time incorporation fee from Stover's customers, Hoeppner kicks back nearly all of that fee – between 65%-90% – to Stover, unbeknownst to Stover's customers. For example, in 2000, Hoeppner's company, NCA, paid Stover approximately $925,000 in fees; in 2001, NCA paid Stover approximately $1,530,890 in fees; in 2002, NCA paid Stover approximately $1,318,900 in fees, and in 2003, NCA paid Stover approximately $680,350 in fees.

24. On information and belief, Stover has his customers pay NCA in order to hide his direct role in establishing these sham companies.

25. After the sham management company is incorporated for a specific customer, Stover directs the customer's operating business to "hire" that management company to perform purported management services. To further give the appearance that the sham management company performs these services, the operating business and management company may enter into a pro-forma bogus management agreement that Stover provides to his customers.

26. In December of the year in which a customer's management company is formed and in subsequent years, as well, the customer's operating company pays a large management fee to the management company for the performance of services, which will purportedly occur during the management company's following tax year. Those management services are never actually performed. The management company's tax year begins each December and ends in November of the following calendar year.

27. The operating company claims the bogus management fee as a deduction under I.R.C. § 461(h)(3). This I.R.C. provision allows a company to take a recurring item deduction for management fees when a management company will perform services for the operating company within 8 ½ months after the close of the operating company's taxable year. This exception allows deductions only for services the cost of which is reasonably determined during the year in which the deduction is taken. The operating company uses a calendar tax year, ending in December.

28. Stover determines the amount of yearly management fees the operating company pays to the management company for any given year. In doing so he considers the amount of deductions the operating company needs to offset all or nearly all of its taxable income for that year. Thus, the fee bears no relation to any need for management services or any management services rendered.

29. The management fees Stover directs his customers to deduct are nothing more than paper designations; these allocations do not involve the actual transfer of funds from an operating company's bank account to the sham management company's bank account. On information and belief, customers' operating companies and sham management companies even frequently share the same bank account.

30. The management company treats the purported management fees as income received during the management company's tax year (running from November-December) and offsets this income by deducting bogus expenses purportedly incurred in performing management services. In this way, the management company reduces its income. In actuality, the management

company does not perform any of the management services for which it receives management fees; nor does the management company incur expenses that it claims to incur.

31. This tax-fraud scheme is widespread and has enabled numerous Stover customers to evade tax on taxable income for at least a decade. For example, in 1997, Stover established a sham management company for a Kansas-based customer who owned and operated a commercial heating and air conditioning business. The sham management company had a tax year that ran from November-October. The customer's operating company, which was an S corporation that Stover also had created, used a regular calendar year as its tax year.

32. Stover suggested that the customer establish a sham management company as a way of saving taxes. The customer paid Stover $20,000 to establish the sham management company and execute this tax-fraud scheme.

33. In 1997, Stover helped the customer prepare a bogus management agreement that was executed between the customer's operating company and sham management company; the customer was the sole shareholder of each of these companies. That bogus management agreement stated that the management company would provide a host of management services to the operating company, including performing all payroll services, negotiating all leases for the operating company, obtaining insurance policies for the operating company, purchasing for and then leasing to the operating company furniture and other business equipment, and purchasing and then reselling to the operating company supplies. In actuality, the operating company continued to purchase all equipment, supplies, and insurance policies. The operating company also continued to perform all of its own management tasks.

34. The sham management company never performed any of the management services that it agreed to perform in the management agreement. Rather, the income and expenses that were reported on the 1998, 1999, 2000, and 2001 operating company's and sham management company's corporate federal income tax returns came from bogus general ledger entries that Stover and the customer's tax preparer (a Stover associate) generated. During an interview with the IRS, the customer acknowledged that he never knew why his operating company paid any management fees during these years.

35. The sham management company accrued large management fees, which it reported as income, during the 1998, 1999, 2000, and 2001 tax years. At Stover's direction and as part of the scheme, the customer and his tax preparer ( a Stover associate) claimed correspondingly large deductions on the management company's corporate federal income tax returns for these years.

36. For example, in 1999, the customer's operating company claimed a deduction of $825,000 for purported "other contract management costs." This deduction was itemized on the "cost of goods sold" section of the operating company's 1999 corporate federal income tax return. In 1999, the customer's operating company reported a total of $1,893,472 in gross receipts, and claimed $1,547,215 in deductions for "cost of goods sold," including the $825,000 claimed as "other management costs." The operating company claimed an additional $139,246 in deductions, and reported only $207,820 in income. The sham management company's 2000 corporate federal income tax return reported gross receipts of $825,000, claimed $437,192 in purported "costs of goods sold" deductions, and another $344,535 in additional deductions, purportedly related to business expenses. On its 2000 federal income tax return, the sham management company reported only $44,572 in taxable income.

37. In 2003, the customer contacted a new accountant and discontinued his relationship with Stover. At that time, the new accountant recommended that the customer consult an attorney in order to deal with the customer's tax deficiencies for 1997 through 2001, when the customer worked with Stover. The new accountant told the customer that, without any receipts or invoices documenting the management services purportedly performed by the customer's management company, the purported general ledger (generated by Stover and his associate) alone was insufficient substantiation for the management fee deductions the customer had previously claimed on his operating company's corporate federal income tax returns. The customer was told to amend his income tax returns to reflect the actual income received by the operating company. Ultimately, starting in 2003, the customer purportedly assigned specific managerial tasks to his management company, pursuant to a new management agreement, in order to try to substantiate management fees he continued to deduct on ensuing corporate federal income tax returns. The management company never actually performed these specific management tasks either.

38. Through his promotion of the Sham Management Company tax-fraud scheme, Stover makes, furnishes, or causes his customers and their tax preparers to make or furnish material and false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, and the securing of tax benefits derived from participation in a false or fraudulent arrangement. Stover knows and/or has reason to know that these statements are false or fraudulent. Through his promotion of this tax-fraud scheme, Stover also prepares, procures, or advises with respect to the preparation of documents knowing (or having reason to believe) that they will be used in connection with material tax matters, and knowing that if they are so used they will result in understatements of customers' federal tax liabilities.

***Tax-Fraud Scheme No. 2: The Roth IRA-Sham Management Company***

39. Stover also promotes a tax-fraud scheme involving sham management companies as described above (*see* ¶¶18-30), but with the management company's shares being owned entirely by a self-directed Roth IRA (Individual Retirement Account) that is also owned by the Stover customer. The sham management company is an S corporation. Stover began promoting this scheme in or around 1998.

40. In order to elect S corporation status, a company must have no more than 100 shareholders, issue only one class of stock, and have shareholders who are only individuals or certain types of trusts. *See* I.R.C. § 1361(b). An S corporation does not pay any income taxes; rather its income is passed through to the owners of that corporation and reported on their individual tax returns, much as partners receive pass-through income from the partnerships in which they hold an interest.

41. A Roth IRA allows an individual to accrue tax-free income that may be withdrawn without paying any taxes when the taxpayer is 59½ years old. The Internal Revenue Code allows a taxpayer to contribute a maximum amount of after-tax dollars to a Roth IRA. When a taxpayer makes more than the statutorily prescribed maximum contribution, he or she is assessed a 6% excise penalty tax for each year of non-compliance with this statutory limit. Throughout much of the 1990s this amount was $2,000 per year; the maximum contribution was $4,000 in 2007 and is now $5,000 per year for individuals under 50 years of age (and $1,000 more than these amounts for individuals over 50). In addition, the I.R.C. also prescribes income limits at which a taxpayer may no longer contribute to a Roth IRA. *See* I.R.C. § 408A(c)(3).

42. Stover coordinates the establishment of self-directed Roth IRAs for his customers. These self-directed Roth IRAs are housed at trust facilities, which provide only custodial services. Two trust facilities house most of the self-directed Roth IRAs that Stover customers establish. First Trust Company of Onaga in Kansas is a trust facility that calls itself a "custodian for self-directed" IRAs. The George K. Baum Trust Company in Missouri is another trust facility that houses a large number of these self-directed Roth IRAs; it is owned by Marshall & Illsley Trust Company.

43. Most Roth IRAs are not self-directed, as they are maintained with broker dealers, which monitor and direct a taxpayer's annual Roth IRA contribution, usually consisting of cash or certain types of securities.

44. After his customers establish their Roth IRAs, Stover creates sham management companies that are S corporations similar to the scheme described above. (*See* ¶¶18-30). The reported income on an S corporation's federal income tax return passes through as income to the individual (or individuals in pro-rata portion) who owns the S corporation. *See* I.R.C. § 1362; ¶40.

45. Stover then directs his customers to contribute $2,000 (or an amount up to the prescribed statutory contribution limit) to their self-directed Roth IRAs. That contribution, in turn, is used to purchase all purported shares of the sham management company's stock.

46. As described above, Stover directs his customers' businesses to pay management fees to the sham management company. Stover determines the amount of these fees based on the business's income that year, rather than on the amount of management services needed or provided. (*See* ¶28).

47. As part of the scheme, the management company reports these management fees as income on its federal income tax returns. This income (usually in multiples of $20,000 or more) then passes through as income to the owner of the S corporation, which is the customer' s Roth IRA. In this way, the customer's Roth IRA accrues tax-free income.

48. In sum, Stover directs and coordinates all aspects of the Roth IRA-Sham Management Company Scheme for his customers. One internal document, a "Sample Engagement Letter," dated 2002, describes the steps that Stover and his associates, who work at his direction, take in executing this tax-fraud scheme for customers:

> ***First, we will perform any and all technical tax research and consulting associated with the development and implementation of an administrative services corporation domiciled in Nevada and, a Roth Individual Retirement Account (the "Roth IRA"), related to the same***. . . . Second, we will review the corporate and individual income tax returns for the 2002 taxable period with respect to the operating company and the shareholders for purposes of confirming compliance with the proposed corporate structure. . . . Third, we will perform any and all technical research and consulting associated with the preparation of the corporate income tax returns for the 2002 taxable period with respect to the above Taxpayers. . . . ***Fourth, in the event of any audit or examination of your individual or related partnership income tax return by either the Internal Revenue Service or any State taxing jurisdiction, which relates to our technical advice, Kruse Mennillo LLP will represent and defend you and the corporations at no additional cost or expense***. . . . Our professional fees related to the above services rendered during the 2002 taxable year are set forth as follows: Engagement Flat-Fee Component: Administrative Service Corporation Roth IRA: $65,000; Quarterly Planning Conferences: no charge; Total professional fees: $65,000. Please note that we will be working with Nevada Corporation Associates, Inc., and other law firms and accounting firms as may be required in conjunction with this project, and, that they will be compensated for their professional services in conjunction with this engagement. In accordance, separate invoices may be transmitted directly to you by them.

49. Thus, at Stover's direction and as part of the tax-fraud scheme, the customer's Roth IRA receives contributions well above the statutory limits.

50. Stover's customers are liable for excise tax penalties for each year that their Roth IRAs receive or retain excessive contributions – in other words, for each year that their Roth IRA-sham management companies receive income.

51. On information and belief, Stover advises his customers and their tax return preparers, who are Stover associates, not to pay these penalties, not to disclose the contributions accrued by the Roth IRA, and not to disclose the Roth IRA-sham management company arrangement on their tax returns.

52. On December 31, 2003, the IRS issued Notice 2004-8, which states that Roth IRA-sham management company arrangements like the ones that Stover promotes are "listed transactions." This means that the Roth IRA-sham management company schemes are the "same or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction," and thus unlawful. *See* 26 CFR § 1.6011-4 (Treasury Regulations).

53. Specifically, Notice 2004-8 states that listed transactions include situations when "substantially all the shares" of a corporation are owned by a Roth IRA and when the "Roth IRA Corporation acquires property . . . from the Business for less than fair market value . . . or any other arrangement between the Roth IRA and the Taxpayer, a related party . . . or the business that has the effect of transferring value to the Roth IRA Corporation comparable to a contribution to the Roth IRA."

54. Treasury Regulations require that taxpayers who participate in listed transactions disclose their participation by filing certain forms with their federal income tax returns.

55. Stover has not instructed his customers to file these disclosure forms. Indeed, on information and belief, Stover has knowingly and falsely and fraudulently instructed his

customers that they need not disclose their Roth IRA-management company arrangements, because they are not considered to be listed transactions, notwithstanding the specific language in Notice 2004-8 which states a contrary conclusion.

56. The I.R.C. also requires that a promoter of listed transactions, such as Stover, file a report with the IRS identifying and describing the listed transaction and the potential tax benefits expected to result from the transaction. A promoter must furnish the IRS with this information as to each occurrence of each listed transaction that he promotes. If a promoter fails to provide the IRS with this information, he is subject to penalties. *See* I.R.C. § 6707(a).

57. Stover has failed to file any such reports with the IRS for any of the Roth IRA-sham management company tax-fraud schemes that he has promoted. All of the Roth IRA-sham management company arrangements that he has executed for his customers are listed transactions within the meaning of Notice 2004-8 and I.R.C. § 6707(a).

58. During 2004 and in prior years, the federal tax laws required promoters of tax shelters, such as Stover, to register their tax shelters with the IRS, and also to provide the IRS with a description of the potential tax benefits expected to result from these tax shelters. Promoters were required to provide the IRS with all of this information no later than the day on which the promoter first offered the tax shelter (or an interest in the tax shelter) for sale to customers. If a promoter failed to provide the IRS with this information by the date on which it was due, he was subject to penalties. *See* I.R.C. § 6707 (prior version; effective for tax returns due before October 22, 2004).

59. Stover failed to register any such tax shelters with the IRS. He also failed to provide the IRS with any information describing the tax shelters' tax benefits. All of the Roth IRA-sham

management company arrangements that he executed for his customers were tax shelters within the meaning of the prior version of I.R.C. § 6707.

60. One internal Kruse Mennillo document, the "Roth IRA Owned S Corporation Presentation Binder," which was created at Stover's direction, falsely informs Stover's associates and his customers that "[a] Roth IRA could be used to hold the stock of a newly formed company," and that the corporation's distribution of its profits to the Roth IRA are not subject to tax. This binder is a multi-page document that purports to answer "the ten most commonly asked Roth IRA questions" relating to the Roth IRA-sham management company S corporation arrangement.

61. Internal correspondence among Stover associates, including one email exchanged between two Stover associates in April of 2002, indicates that Stover and his associates knew that neither an IRA nor a Roth IRA can be an "eligible S corporation shareholder" even before the IRS issued Notice 2004-8 in late 2003. In November of 2002, Stover and his associates received a copy of a legal opinion letter. On information and belief, this opinion letter was solicited by a Stover customer, who was based in California and who sought a second opinion on Stover's Roth IRA-sham management S corporation arrangement. The legal opinion explained that:

> [t]he proposed structures appear to have only one purpose [which is] the avoidance or evasion of income tax liability. ***The structures are a blatant abuse of the tax laws, and the odds of succeeding under the IRS or FTB [California Franchise Tax Board] are negligible***. In contrast, the potential costs of the structures are enormous. Use of the structures could result in double, if not triple, levels of tax with higher effective tax rates, substantial penalties and interest, disclosure as a potentially abusive tax shelter, public disclosure for a high profile taxpayer, and even criminal liability. (emphasis added).

62. Stover has made false statements and directed his associates to make false statements to his customers regarding the lawfulness of the Roth IRA-sham management company arrangement that he promotes. For example, Stover wrote one customer a letter, dated September 2004, in which Stover states that the customer's Roth IRA-sham management company is not a listed transaction (under IRS Notice 2004-8) and adds that, in any event, Kruse Mennillo is willing to defend that customer should the IRS audit his federal income tax returns. Although Stover wrote the letter (in response to a meeting and follow-up letter the customer had sent to him a few weeks earlier), Stover never signed this letter. In nearly all written correspondence to customers (especially correspondence in which he purports to offer tax advice or describes the contours of a tax-fraud scheme), Stover signs only "Kruse Mennillo LLP," not mentioning his own name in writing.

63. Stover has falsely told his customers that they will prevail during any IRS audit or before any United States Tax Court proceeding relating to the customer's Roth IRA-sham management company. Stover has promised to provide legal representation to customers in the event their Roth IRA-sham management company is the subject of an IRS audit. To this end, Stover has attempted to hire attorneys at Kruse Mennillo to represent Stover customers whose Roth IRA-sham management companies are the subject of audits. On information and belief, a number of these attorneys, whom Stover has employed at Kruse Mennillo, have refused to provide customers with these assurances, on grounds that such assurances are false statements.

64. This tax-fraud scheme is widespread, and Stover has repeatedly misled customers. For example, in December of 2001, Stover helped one Missouri-based customer who owns and operates a lumber company establish a sham management company that was registered in

Nevada. Stover charged the customer $50,000 for this service, calling it an "executive fee," and requesting that the customer pay him directly (as opposed to Kruse Mennillo or NCA). Stover told the customer that if he did not enlist Stover to execute this tax-fraud scheme (and pay the $50,000 "executive fee"), the customer would inevitably end up paying the Government $300,000 in taxes. Ultimately, the customer paid Stover more than $200,000 in fees (mainly paying Stover through checks to Kruse Mennillo) for the various tax-fraud schemes Stover executed for the customer.

65. Stover never provided this customer with any engagement letter, and did not communicate with this customer about the tax-fraud schemes in writing. Rather, Stover conducted all of his business with this customer through oral communications, and through his associates, whom Stover directed to execute all aspects of the tax-fraud schemes for the customer. The customer also paid NCA (Nevada Corporate Associates) a yearly fee that the customer believed was either for rent or maintenance of the sham management company. At Stover's direction, NCA, through its owner, James Hoeppner, also established a Nevada bank account for the customer; Stover and Hoeppner then directed the customer to sign the bank card for this account. The customer never used the Nevada bank account for any purpose.

66. In December of 2002, the customer signed a bogus management agreement that Stover drafted that stated that the sham management company would purchase all supplies, stock, furniture, and insurance for the customer's operating company, and that the sham management company would perform all bookkeeping services for the operating company, which was an S corporation that the customer and his father co-owned. In actuality, the sham management company never performed any of these services for the customer's operating company.

67. Stover also provided the customer with bogus articles of incorporation that stated that the sham management company had a total of 75,000 authorized shares of stock. The sham management company hired the customer as its only employee, and once a year the customer would sign a bogus agreement reaffirming that he was a director of the company. Stover sent the customer a bogus employment agreement, and instructed him to sign the document; Stover never explained to the customer the document's purported purpose. The bogus employment agreement stated that the customer was employed to be the sham management company's "operations manager," for a period of five years and that he would receive a salary of $40,000 a year for this role. In actuality, the customer had no idea that he was purportedly employed in this manner, never knowingly agreed to these terms of employment, never performed any operations or management services, and never received any payment from the operating company.

68. In February of 2002, at Stover's direction, James Hoeppner filed a form with the IRS electing S corporation status for the customer's sham management company, as described above. The S corporation election form that Hoeppner filed with the IRS for the customer stated that the sham management company had issued a total of 1,000 shares of authorized stock, all of which were owned by James B. Hoeppner.

69. In March of 2002, at Stover's direction, 75,000 shares of the sham management company's stock (the number of stock shares provided for by the company's purported articles of incorporation) were issued to the customer's Roth IRA for $2,000. The customer wrote his self-directed Roth IRA a check for $2,000, which was then used to purchase these shares of stock. At Stover's direction, the customer's form electing S corporation status was never amended to reflect the fact that the Roth IRA was the sole shareholder of the sham management company and

that there were actually 75,000 shares of stock purportedly issued, not the 1,000 shares of stock James Hoeppner attested to when he filed the original S corporation election form.

70. In August of 2002 – more than six months after the sham management company purported to sell its stock to the customer's self-directed Roth IRA – Stover actually established a Roth IRA for the customer at First Trust Company of Onaga. In actuality, the customer had no familiarity with First Trust Company of Onaga, did not understand the purpose of a Roth IRA, never thought that he contributed more than $2,000 to his Roth IRA, and never understood the distinction between a self-directed Roth IRA and a non-self-directed Roth IRA.

71. The customer's operating company allocated management fees to the sham management company for purported management services. The sham management company reported these fees as income on its federal income tax returns: $122,000 in 2001, $299,902 in 2002, and $698,000 in 2003. The sham management company then offset some of this reported income on its 2002 and 2003 federal income tax returns by claiming deductions of $64,581 and $396,566, respectively, for purported business expenses incurred by the sham management company. The sham management company never performed any management services, or served any business function, but, nevertheless, it claimed non-allowable deductions for purported business expenses.

72. The customer's bookkeeper maintained the operating company's books using a software program. At Stover's direction, these records were then given to the customer's tax preparer, who was a Stover associate. The customer never reviewed these bookkeeping entries and had no knowledge of the nature or amount of expenses that his operating company claimed on its corporate tax returns each tax year. The customer never knew the amount of management

fees purportedly accrued by his sham management company; he also had no idea as to how those management fees might have been determined. The customer deferred to Stover for these decisions. Stover also received a copy of the operating company's monthly bank statements. In this way, Stover was able to monitor the company's profits and allocate bogus management fees to the sham management company as needed in order to offset the operating company's income.

73. Because the sham management company had elected S corporation status, the $230,558 in purported management fees it reported on its 2002 return, and the $301,434 in fees it reported on its 2003 return, as well as the $122,000 in fees it reported on its 2001 return, passed through as income to the Roth IRA, which was sole shareholder of the customer's sham management company, and thus no tax was reported or paid on these amounts.

74. The IRS audited the customer's tax returns for 2001-2003, as well as for 2000 in which the customer had used another sham management company. During that audit, the IRS interviewed the customer, who admitted that he had no knowledge that his operating company paid management fees to his S corporation, which the customer admitted had never performed any management services.

75. The customer explained that he trusted Stover completely because his father had originally established the relationship with Stover; because the customer believed that the high fees that Stover charged were an indication of Stover's knowledge and value; and because Stover falsely told the customer that it was lawful for a Roth IRA to own all shares of stock of an S corporation.

76. During a subsequent audit of the customer's federal income tax returns, the IRS disallowed the sham management company's S election, and the bogus business expenses the

sham management company claimed on its tax returns to offset the fees it received as income from the operating company. The IRS also disallowed the bogus management fees (accrued by the sham management company) that the customer's operating company had claimed as a deduction. As a result the customer owed $171,914 in total taxes and penalties for 2001; $125,028 in total taxes and penalties for 2002; and $127,266 in total taxes and penalties for 2003. He has agreed to pay these back taxes.

77. In November of 2002, Stover established a sham management S corporation for a California-based customer whose business builds modular homes. The sham management company was incorporated in Nevada. Stover also established a Roth IRA for the customer. According to a purported management agreement that Stover drafted, the sham management company provides management services to the customer's operating company. In actuality, the sham management company has never provided any management services to the customer's operating company.

78. During an interview with the IRS in connection with an audit of his individual and corporate tax returns for 2003, 2004, and 2005, the customer admitted that he agreed to have Stover establish the sham management company, only for purposes of deferring taxes on his income, and not with the expectation that the management company would perform certain management services. The customer also explained that there is no fixed amount that the management company purportedly charges the operating company for the rendering of management services. Rather, the amount of management fees that the sham management company receives from the customer's operating company depends on the operating company's cash flow. In addition, at Stover's direction and as part of the tax-fraud scheme, the customer's

tax preparer (a Stover associate) allocated the business expenses purportedly incurred by the sham management company and the customer's operating company between these two entities, without any apparent regard for what expenses each company actually incurred.

79. When the customer initially met with Stover and his associates in early 2002, Stover gave him promotional materials that promised that the arrangement would afford the customer tax savings and that it was lawful. Stover continues to reassure the customer that his Roth IRA-sham management S corporation is lawful. In actuality, Stover never told the customer about Notice 2004-8 which states that the Roth IRA sham management S corporation is a listed transaction, as discussed above. *See* ¶¶52-55.

80. Stover's execution of this tax-fraud scheme became increasingly complex in an effort to disguise the scheme's true operation to thwart IRS efforts to detect it. For example, in or around December of 2003, Stover established three related sham management S corporations that were each owned entirely by a separate Roth IRA. Three Stover customers owned each of these three Roth IRAs. These three customers are business associates based in Arizona. These customers own and operate numerous automobile and motorcycle dealerships and real estate partnerships located throughout the Southwest. All of their operating businesses are either S corporations or partnerships. The three customers do not each have an ownership interest in every S corporation and partnership; nor is their ownership interest in the various entities the same.

81. One of the sham management companies received bogus management fees from three separate operating companies that are S corporations. The other two sham management

companies received bogus management fees from the same three S corporations, and also from additional operating companies: another S corporation and eight partnerships.

82. All of these operating companies claimed deductions for the bogus management fees on their corporate or partnership federal income tax returns for 2003 and 2004. Because these operating companies were either S corporations or partnerships, their claimed deductions passed through to the customers, who claimed them on their individual federal income tax returns in amounts apportioned to each customer's ownership interest in the S corporation or partnership.

83. The three sham management companies reported the bogus management fees as income and because the sham management companies are S corporations, that income was passed through as income to the owners of the sham management companies. Each customer's Roth IRA is sole owner of one sham management company. The bogus management fees thus ended up in each customer's Roth IRA with no tax being reported or paid.

84. For example, one of these three Arizona Stover customers had a Roth IRA that was the sole owner of sham management company No. 1. That sham company received at least $31,169,343 in bogus management fees in 2003 and at least $30,078,915 in bogus management fees in 2004. Those bogus fees ended up in the customer's Roth IRA during each of those tax years with no federal income tax liability being reported or paid.

85. In addition, the customer's individual income tax return claimed pass-through deductions from all of the operating companies in which the customer has an ownership interest. These pass-through deductions were in apportioned amounts based on the customer's ownership interest in each operating company. For example, the customer owns the following: a 100% interest in one S corporation, 47.4% interest in two S corporations, a 99% interest in one

partnership, an 80% interest in one partnership, a 60% interest in one partnership, a 51% interest in one partnership, a 50% interest in three partnerships, and a 49% interest in one partnership. Thus, the customer's individual federal income tax returns for 2003 and 2004 claimed deductions from pass-through deductions claimed by the operating companies, in amounts correlated to the customer's ownership interest in each operating company.

86. For this customer, the IRS's detection and unraveling of Stover's mutli-entity, multi-tiered Roth IRA/sham management S corporation arrangement resulted in the determination of staggering amounts of tax, penalties, and interest due. As a result of his use of Stover's sham Roth IRA scheme for tax years 2002 through 2005, this Stover customer evaded reporting and paying federal income tax on more than $57.6 million in income, obtaining an improper tax savings of more than $20 million, assuming a 35% tax rate.

87. On information and belief, in an effort to obstruct the IRS's investigation of his activities, Stover has advised these Arizona customers that they should not cooperate with the IRS.

88. Stover offers customers a number of additional options for executing the Roth IRA-sham management company tax-fraud scheme. According to one internal document, Stover has meticulously documented the various options his associates should offer to customers when establishing Roth IRA-sham management company arrangements. Stover's document outlines specific steps for establishing Roth IRA-sham management companies when a customer does not yet have a Roth IRA, when a customer has a Roth IRA, and when a customer is not yet eligible to contribute to a Roth IRA, presumably because the customer's reported income from the previous year exceeded the adjusted gross income limits for Roth IRA ownership.

89. Under one additional option that Stover offers customers for the execution of his tax-fraud scheme, a customer's Roth IRA sham management company merges with the customer's operating company. In this scenario, the Roth IRA also becomes the sole shareholder of the customer's operating company. All of the operating company's income may then pass through to the Roth IRA where it accumulates tax-free.

90. In another option that is part of the tax-fraud scheme, Stover directs his customers to start a regular Individual Retirement Account, which has no maximum adjusted gross income limit for contributions. In this scenario, the customer's IRA becomes the sole shareholder of the customer's sham management company. At Stover's direction and as part of the scheme, the customer's operating company, which is an S corporation, then reduces its reported income through large management fees purportedly paid to the sham management company. Stover directs the allocation of these management fees to ensure that the customer's reported income falls to an amount that is below the adjusted gross income limit over which the customer could not contribute to a Roth IRA. The S corporation's sharp reduction in reported income, coupled with the high deductions it has claimed, are passed through to the customer and reported on his individual tax return. The customer's adjusted gross income then renders him "eligible" to establish a Roth IRA for the following tax year. Stover then establishes a Roth IRA for the customer, and he establishes a second sham management S corporation for that same customer. At Stover's direction and as part of the scheme, the customer's Roth IRA then becomes the sole shareholder of the second sham management company. The two sham management companies – one owned by the customer's IRA and one owned by the customer's Roth IRA – form a partnership. On information and belief, this partnership provides purported management services

to the customer's operating company. The partnership's income passes through to its owners, the two sham management S corporations, which in turn pass the income through to their sole shareholders – an IRA and a Roth IRA – where the income is apportioned between the two accounts and accumulates tax-free.

91. Through his promotion of this tax-fraud scheme, Stover makes, furnishes, and causes others to make or furnish material false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, or the securing of tax benefits derived from participation in the scheme. Stover knows and/or has reason to know that these statements are false or fraudulent. Through his promotion of this tax-fraud scheme, Stover also prepares, procures, or advises with respect to the preparation of documents knowing (or having reason to believe) that they will be used in connection with material tax matters, and knowing that if they are so used they will result in understatements of customers' federal tax liabilities.

***Tax-Fraud Scheme No. 3: Roth IRAs Owning Property***

92. Stover also promotes a tax-fraud scheme in which a sham company that is owned by a Roth IRA also owns real property or other property that is then transferred to the Roth IRA.

93. Initially, Stover establishes a sham company, that is either an S corporation or a C corporation. He also establishes a Roth IRA for his customers. The sham company's sole asset is an interest in property.

94. At Stover's direction, the customer purchases all shares of stock issued by the customer's sham company. As sole owner of the sham company, the Roth IRA also becomes sole owner of the real property interest, which is that company's only asset. Any proceeds from sale of the property or other income generated by the property pass through from the sham S

corporation to the Roth IRA where they accumulate tax-free or if the sham company is a C corporation, the stock in the sham company could be sold by the Roth IRA tax-free.

95. The sale of the real property is not reported on the federal income tax return of the operating company.

96. The I.R.C. does not permit a Roth IRA to own real property or an interest in real property. *See* I.R.C. §§ 4975(c)(e).

97. Specifically, IRS Notice 2004-8 states that listed transactions include situations when "substantially all the shares" of a corporation are owned by a Roth IRA and when the "Roth IRA Corporation acquires property . . . from the Business for less than fair market value . . . or any other arrangement between the Roth IRA and the Taxpayer, a related party . . . or the business that has the effect of transferring value to the Roth IRA Corporation comparable to a contribution to the Roth IRA." This means that Stover's Roth IRA property scheme is the "same or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction," and thus unlawful. *See* 26 CFR § 1.6011-4 (Treasury Regulations).

98. Treasury Regulations require that taxpayers who participate in listed transactions disclose their participation by filing certain forms with their federal income tax returns.

99. Stover has not instructed his customers to file these disclosure forms. Indeed, on information and belief, Stover has knowingly and falsely and fraudulently instructed his customers that they need not disclose the fact that their Roth IRAs own property.

100. The I.R.C. also requires that a promoter of listed transactions, such as Stover, file a report with the IRS identifying and describing the listed transaction and the potential tax benefits expected to result from the transaction. A promoter must furnish the IRS with this information

as to each occurrence of each listed transaction that he promotes. If a promoter fails to provide the IRS with this information, he is subject to penalties. *See* I.R.C. § 6707(a).

101. Stover has failed to file any such reports with the IRS for any of these Roth IRA tax-fraud schemes he has promoted. All of these arrangements that he has executed for his customers are listed transactions within the meaning of Notice 2004-8 and I.R.C. § 6707(a).

102. During 2004 and in prior years, the federal tax laws required promoters of tax shelters, such as Stover, to register their tax shelters with the IRS, and also to provide the IRS with a description of the potential tax benefits expected to result from these tax shelters. Promoters were required to provide the IRS with all of this information no later than the day on which the promoter first offered the tax shelter (or an interest in the tax shelter) for sale to customers. If a promoter failed to provide the IRS with this information by the date on which it was due, he was subject to penalties. *See* I.R.C. § 6707 (prior version; effective for tax returns due before October 22, 2004).

103. Stover failed to register any such tax shelters with the IRS. He also failed to provide the IRS with any information describing the tax shelters' tax benefits. All of the sham Roth IRA arrangements that he executed for his customers were tax shelters within the meaning of the prior version of I.R.C. § 6707.

104. The "Roth IRA Owned S Corporation Presentation Binder," (referenced above ¶60), that was assembled at Stover's direction explains in its "most asked questions" section that "sale or exchange, or leasing, of any property" is a limitation on the "type of investment that a Roth IRA owned S corporation [may] make."

105. Stover executed this tax-fraud scheme for two Missouri-based customers who co-own a land development company (each with a 50% interest) that is an S corporation. Stover charged the customers approximately $30,000 in fees for execution of this tax-fraud scheme. When Stover proposed this tax-fraud scheme to the two customers, he offered no written description of how the transaction would work; Stover only communicated verbally with the two customers.

106. Specifically, the transaction would give the appearance that each Roth IRA owns shares of stock and not real property.

107. In 1997, the land development company (the operating company), purchased a plot of land in Missouri for $900,000.

108. In July of 1998, Stover established a C corporation for each customer. Each of these companies was incorporated in Nevada and issued 1,000 shares of stock. These companies conducted no actual business, had no business purpose, generated no income, and accrued no expenses. These sham companies existed only for the purpose of giving the appearance that the customers' land was owned by the companies and not really by each of their Roth IRAs. Stover also helped each customer convert their Individual Retirement Accounts to self-directed Roth IRAs.

109. In January of 1999, each customer's sham company contracted to purchase a 50% interest in the land from the operating company. Each sham company, pursuant to a bogus agreement entered into with the operating company, paid $450,000 for the land (50% of its total sale price of $900,000). As part of the tax-fraud scheme and at Stover's direction, each sham company was to pay the operating company $50,000, and then each sham company was to

execute a promissory note for $400,000 to be paid at a later date for a total of $450,000 for each purchasing sham company. Both property sales were scheduled to close on February 12, 1999. On February 12, 1999, the operating company signed Corporate Warranty Deeds, conveying a 50% interest in the land to each sham company.

110. Also on February 12, 1999, as part of the tax-fraud scheme and at Stover's direction, each customer (by letter) directed the custodian for his Roth IRA to purchase all 1,000 shares of stock owned by the *other customer's* company. Each sham company share of stock was worth $50; thus, all 1,000 shares of stock issued by each management company were worth a total of $50,000. The purchase of these shares of stock by each customer's Roth IRA was effective as of February 12, 1999.

111. Each customer's Roth IRA issued a $50,000 check to the other customer's sham company to purchase these shares of stock. These two $50,000 checks, however, were deposited into the *operating company's bank account*. The operating company recorded the $50,000 checks as notes payable to the sham companies, as if the $50,000 from each sham company was a loan to the operating company. The operating company never received the $400,000 promissory notes purportedly executed for the land that was purchased.

112. The operating company never reported the sale of the land to the sham companies on its books or federal income tax returns. In short, the customers sold a $450,000 asset to each of their Roth IRAs for $50,000 resulting in each Roth IRA receiving a $400,000 contribution, well in excess of statutory limits on Roth IRA contributions; in 1999 that statutory contribution limit was $2,000.

113. Because each Roth IRA-sham company had a 50% interest in the purchased land, by purchasing all shares of stock in each other's sham company, each customer did nothing more than switch two identical buckets of assets. Switching these buckets, as such, did not alter either customer's ownership interests in the land; this switch only added another layer of complexity to each customer's Roth IRA-sham arrangement, making it harder to detect the fraudulent nature of the arrangement.

114. Each customer's Roth IRA owned a 50% interest in the land; that interest had a value of at least $450,000 ($900,000 was the original purchase price, split 50/50 between each customer's Roth IRA-sham company). Each sham company, at Stover's direction, reported only $2,000 worth of common stock on the liabilities and shareholders equity section of each of the sham management company's corporate federal income tax returns filed for tax years 2000 through 2004. Thus, as part of the scheme and at Stover's direction, neither the customers nor their tax preparer (a Stover associate) included the real property as an asset of either sham company. In this way, the true ownership of the real property was disguised. As part of the tax-fraud scheme's design and at Stover's direction, the appreciation in the value of the land would accumulate tax-free. In addition ,when the sham company's stock (consisting of the land) would be sold, all sale proceeds would distribute to the Roth IRA as tax-free income.

115. In September of 2006, in response to an IRS audit of their individual and corporate tax returns for tax years 1999 through 2004, the customers retained a tax preparer who is not associated with Stover. In May of 2007, that tax preparer divested each customer's Roth IRA of the land and deeded a 50% interest to each customer. The customers have since cooperated with

the IRS and reversed their Roth IRA-sham company arrangement. The real property has not yet been sold.

116. In another example, in December of 2001, Stover established a Roth IRA sham company for a California dentist who owns a lucrative patent that was transferred to the dentist's Roth IRA. In this way, the customer's Roth IRA would have received future patent royalties as income without reporting or paying federal income tax.

117. Stover and his associate, James Hoeppner, charged the customer at least $60,000 for setting up this arrangement. Stover explained in an engagement letter, dated October 31, 2001, that he and his associates "will coordinate and assist in the establishment of a Roth self-directed Individual Retirement Account, and in the assignment of certain qualifying assets into the Roth self-directed Individual Retirement Account." Stover never informed the customer that this arrangement is unlawful, because, among other things, it would result in the customer making contributions to his Roth IRA well above the statutory limit.

118. The sham company was incorporated in Nevada, and issued a total of 2,000 shares of common stock. Stover provided the customer with bogus incorporation documents. In December of 2001, Stover also established a self-directed Roth IRA for the customer at First Trust Company of Onaga.

119. On December 26, 2001 at Stover's direction and as part of the scheme, the customer entered into a bogus "Patent Sales and Assignment Agreement," in which he agreed to assign the patent to his sham company in exchange for $8,000 that the sham company would purportedly pay to the customer, as assignor/seller of his patent. To this end and at Stover's direction, the customer's sham company purportedly agreed to pay the customer $2,000 for his patent at the

outset of the sale, and the sham company also signed a bogus promissory note in which it promised to pay the customer an additional $6,000, plus interest to be paid at a later date.

120. Also, on December 26, 2001 at Stover's direction and as part of the scheme, the customer transferred $2,000 to his sham company in exchange for the total 2,000 shares of stock that the company issued, priced at $1 per share.

121. On January 15, 2002, as part of the tax-fraud scheme and at Stover's direction, the customer established a Roth IRA at First Trust Company of Onaga and contributed $2,000 to his Roth IRA, which he claimed as a contribution on his 2001 individual federal income tax return.

122. On or around, February 22, 2002, at Stover's direction and as part of the scheme, the customer sold all 2,000 shares of the stock he owned in his sham company to his Roth IRA, for $2,000, priced at $1 per share. In order to give the appearance that this transaction was lawful, Stover drafted a bogus "Section 351 Plan and Agreement to Transfer Assets to the Corporation," purportedly between the customer (as trustee for his Roth IRA) and the customer's sham company.

123. In order to disguise the fact that the customer's Roth IRA now owned not only all shares of his sham company but also his patent, Stover drafted a bogus corporate "Minutes of Special meeting of Board of Directors," which showed that the company's purported director had agreed to transfer the patent, owned by the company, to the Roth IRA as sole shareholder, as a purported dividend in property.

124. On May 10, 2002, the customer entered into an exclusive licensing agreement with a biomedical company for use of his patent. In 2003, the patent licensing agreement began to generate income. Pursuant to the terms of the licensing agreement that the customer had with the

biomedical company, the customer received the patent royalties directly from that company. On information and belief, Stover and the customer did not amend that licensing agreement to provide that patent royalties should be paid directly to the Roth IRA, because they wanted to conceal the fact that the patent's owner was a Roth IRA. Thus, royalties were paid directly to the customer, who then transferred the funds to his Roth IRA.

125. The customer's patent generated $50,000 in royalties in 2003 and approximately $300,000 in royalties in 2004. Under Stover's scheme, the customer's Roth IRA received these royalties with no federal income tax being reported or paid on them by the customer or his Roth IRA.

126. The customer repeatedly sought assurances from Stover that this arrangement was lawful. For example, shortly after entering into the engagement with the customer, Stover sent an addendum to the original terms of engagement in which he promised that Kruse Mennillo would "represent and defend" the customer and any of his "related entities" should the IRS or State of California conduct an audit of the customer's tax returns.

127. In a letter, dated September 8, 2004, the customer once again requested assurances from Stover that Kruse Mennillo was willing to "defend the structure." In his letter, the customer noted that Stover had told him that the specific Roth IRA-sham management company arrangement in which the customer's Roth IRA received patent royalties was supported by Kruse Mennillo's research and two outside legal opinions. The customer requested, but never received, the two purported legal opinions. Instead, Stover told the customer that he could have these two legal opinions for a $15,000 fee. On information and belief, these legal opinions do not exist.

128. In a follow-up letter to the customer, dated September 28, 2004, Stover falsely reassured the customer that his arrangement was not considered a "listed transaction" within the meaning of Notice 2004-8, because that notice addresses instances "where 'appreciated' corporate stock is conveyed into a Roth IRA," and the customer's Roth IRA received stock of "initial issuance," that could not have appreciated. Stover's letter also falsely reiterated to the customer that the patent royalty income received by the customer's Roth IRA was not subject to income tax, because it was received by the Roth IRA where income accrues tax-free.

129. In actuality, as described above, Notice 2004-8 states that transactions in which a Roth IRA is a corporate shareholder are considered "listed transactions," and they must be disclosed to the IRS on the customer's tax return. The Notice also considers transactions that have the effect of "transferring value to the Roth IRA" comparable to a contribution to be listed transactions. *See* ¶97. Furthermore, because the customer's Roth IRA repeatedly received yearly contributions that more than exceeded the statutory contribution limit, the customer was required to pay excise penalty taxes on that income, as well as income tax on the patent royalty income.

130. Toward the end of 2004, the customer retained independent counsel, began to unwind his Stover-promoted transactions, and transferred his patent back to his own name and the patent royalties to his bank account. The customer has since paid his outstanding income tax liabilities for 2003 and 2004, but has refused to pay the excise tax penalty attributable to Roth IRA contributions exceeding statutory contribution limits. Among other things, the customer maintains in contesting that liability that he relied on Stover's advice and assurances when he agreed to the transaction.

131. Through his promotion of this tax-fraud scheme, Stover makes, furnishes, and causes others to make or furnish material false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, or the securing of tax benefits derived from participation in the scheme. Stover knows and/or has reason to know that these statements are false or fraudulent. Through his promotion of this tax-fraud scheme, Stover also prepares, procures, or advises with respect to the preparation of documents knowing (or having reason to believe) that they will be used in connection with material tax matters, and knowing that if they are so used they will result in understatements of customers' federal tax liabilities.

***Harm to the United States***

132. Since at least the mid-1990s, Stover has promoted and continues to promote numerous tax-fraud schemes, including but not limited to the schemes described above.

133. These schemes have caused substantial harm to the Government by helping taxpayers evade taxes and obstructing the IRS's efforts to administer the federal tax laws.

134. The United States is harmed because the IRS must continually devote limited resources to detecting and examining inaccurate returns filed by Stover customers, and to attempting to assess and collect unpaid taxes.

135. The amount of tax loss resulting from Stover's promotion of numerous tax-fraud schemes is incalculable but well into the hundreds of millions of dollars.

**COUNT I: Injunction Under I.R.C. § 7408 For Violation Of I.R.C. §§ 6700, 6701, and 6707**

136. The United States incorporates by reference the allegations in paragraphs 1 through 135.

137. Section 7408 of the I.R.C. authorizes a court to enjoin persons who have engaged in any conduct subject to penalty under I.R.C §§ 6700, 6701, or 6707 if the Court finds that injunctive relief is appropriate to prevent recurrence of such conduct.

138. Section 6700 of the I.R.C. penalizes any person who organizes or sells a plan or arrangement and in connection therewith makes or furnishes or causes another person to make or furnish a statement regarding the securing of a tax benefit that the person knows or has reason to know is false or fraudulent as to any material matter.

139. Through his promotion of the tax-fraud schemes described above, Stover makes and furnishes material false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, and the securing of tax benefits derived from participation in the schemes. Stover knows and/or has reason to know that these statements are false or fraudulent within the meaning of I.R.C. § 6700.

140. Section 6701 of the I.R.C. penalizes any person who prepares or aids, assists, or advises with respect to the preparation of a document that he has reason to believe will be used in connection with any material matter arising under the internal revenue laws and who knows that the document, if so used, would result in an understatement of another person's tax liability.

141. Stover prepares, aids, assists and advises with respect to the preparation of his customers' tax returns and other related documents that he knows would, if used, result in understatements of his customers' tax liability.

142. Section 6707 of the I.R.C. penalizes any person who fails to file with the IRS a return or statement that identifies and describes any reportable or listed transaction, any potential benefits expected to result from that transaction, and any other information required by statute if

that person is required to file this information with the IRS. During and before 2004, section 6707 of the I.R.C. penalized any person who failed to register a tax shelter with the IRS no later than the first day on which that person offered that tax shelter (or an interest in that tax shelter) for sale to any customer, if that person was required by statute to provide this information to the IRS.

143. Stover has failed to file with the IRS a return or statement that identifies or describes any of the reportable or listed transactions that he has continued to promote to customers. He is required by statue to file this information with the IRS. In addition, during and before 2004, Stover also failed to register with the IRS the tax shelters that he promoted to his customers. At all relevant times, Stover was required to provide this tax shelter information to the IRS.

144. If Stover is not enjoined, he is likely to continue to promote tax-fraud schemes.

**COUNT II: Injunction Under I.R.C. § 7402 For Unlawful Interference With Enforcement Of The Internal Revenue Laws And The Appropriateness Of Injunctive Relief**

145. The United States incorporates by reference the allegations in paragraphs 1 through 144.

146. Section 7402(a) of the I.R.C. authorizes a court to issue orders of injunction as may be necessary or appropriate for the enforcement of the internal revenue laws.

147. Stover, through the actions described above, has engaged in conduct that interferes substantially with the administration and enforcement of the internal revenue laws.

148. Stover's conduct results in irreparable harm to the United States. Stover's conduct is causing and will continue to cause substantial revenue loss to the United States Treasury, much of which may be unrecoverable.

149. Unless Stover is enjoined, the IRS will have to continue devoting substantial time and resources auditing each of Stover's customers individually and assessing their tax penalties, some portion of which may be impossible to recover. The burden of pursuing Stover's customers may be an insurmountable obstacle given the IRS's limited resources.

150. If Stover is not enjoined, he is likely to continue to engage in conduct subject to penalty under I.R.C. §§ 6700, 6701, and 6707 and in conduct that interferes with the enforcement of the internal revenue laws.

WHEREFORE, plaintiff, the United States of America, respectfully prays for the following:

A. That the Court find that defendant has engaged in conduct subject to penalty under I.R.C. §§ 6700, 6701, and 6707 and that injunctive relief under I.R.C. § 7408 is appropriate to prevent a recurrence of that conduct;

B. That the Court find that defendant has engaged in conduct interfering with the enforcement of the internal revenue laws, and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers and under I.R.C. § 7402(a);

C. That pursuant to I.R.C. §§ 7402 and 7408, Stover and anyone acting in concert with him be permanently enjoined and restrained from, directly or indirectly, by use of any means or instrumentalities:

a. Organizing, promoting, marketing, or selling any plan or arrangement – including but not limited to the tax schemes described in this complaint and any other tax scheme identified through further discovery in this case – that advises or assists others in violating or attempting to violate the internal revenue laws or unlawfully evading the assessment or collection of their federal tax liabilities;

b. Engaging in conduct subject to penalty under I.R.C. § 6700, *i.e.*, prohibiting the making, furnishing, or causing another to make or furnish material and false or fraudulent statements regarding the allowability of certain deductions, the excludability of income, and the securing of tax benefits derived from participation in a false or fraudulent arrangement, when he knows and/or has reason to know that these statements are false or fraudulent;

c. Engaging in conduct subject to penalty under I.R.C. §6701, *i.e.*, preparing or assisting in the preparation of, or advising with respect to a document related to a matter material to the internal revenue laws that includes a position that he knows will, if used, result in an understatement of tax liability;

d. Engaging in conduct subject to penalty under I.R.C. § 6707(a), *i.e*., failing to file a return or statement with the IRS that identifies and describes any reportable or listed transaction, any potential tax benefits expected to result from that transaction, as well as other information required by statute;

e. Engaging in any other conduct that interferes with the administration or enforcement of the internal revenue laws;

f. Providing any individual or entity with any advice relating to federal taxes; and

g. Aiding, assisting, and/or advising with respect to the preparation of any federal tax return or representing customers before the IRS.

D. That this Court, pursuant to I.R.C. §§ 7402 and 7408, enter an injunction requiring Stover to contact, within thirty days of the Court's order, all persons whom he has assisted or advised with respect to any tax-fraud scheme, including but not limited to those schemes described in this complaint or identified through further discovery, and inform these persons of the Court's findings and the fact that an injunction has been entered against him;

E. That this Court, pursuant to I.R.C. §§ 7402 and 7408, enter an injunction requiring Stover to produce to the United States, within thirty days of the Court's order, any records in his possession, custody or control, identifying the names, addresses, telephone numbers, e-mail addresses, and Social Security and federal tax identification numbers of all persons and entities who have participated in any tax scheme that Stover has promoted;

F. That the Court order that the United States is permitted to engage in post-injunction discovery to ensure compliance with the permanent injunction.

G. That this Court retain jurisdiction over this action for purposes of implementing and enforcing this Final Judgment of Permanent Injunction.

H. That this Court grant the United States such other and further relief, including costs, as is just and reasonable.

Date: February 21, 2008

Respectfully submitted,

John F. Wood
United States Attorney

By: ***/s/ Charles M. Thomas***

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