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IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
v.)
)
SHARON DIANE KUKHAHN, individually)
)
and d/b/a IMF DECODER,)
PARALEGAL RESEARCH)
ADVOCATES, and ADVOCATES)
FOR JUSTICE, LIBERTY, AND)
FREEDOM,)
)
Defendant.)

Case No.

**COMPLAINT FOR
PERMANENT INJUNCTION**

Plaintiff, United States of America, for its complaint against Sharon Diane Kukhahn,
individually and doing business as IMF Decoder, Paralegal Research Advocates, and Advocates
for Justice, Liberty, and Freedom states as follows:

1. Jurisdiction is conferred on this Court by 28 U.S.C. § 1340 and 1345 and 26 U.S.C.

Complaint for Permanent Injunction
Case No.

U.S. Department of Justice
Tax Division
John Monroe
P.O. Box 7238
Washington, D.C. 20044
202-307-0638

1 §§ 7402(a) and 7408.

2 2. This suit is brought under §§ 7402 and 7408 of the Internal Revenue Code (26 U.S.C.)
3 (I.R.C.) to enjoin Sharon Diane Kukhahn, individually and doing business as IMF Decoder,
4 Paralegal Research Advocates, and Advocates for Justice, Liberty, and Freedom, as follows:
5

- 6 (a) Organizing, promoting, or selling the schemes described herein, as well as any
7 other tax shelters, plans, or arrangements that advise or encourage others to
8 attempt to evade the assessment or collection of federal taxes;
- 9 (b) Engaging in any other activity subject to penalty under 26 U.S.C. § 6700,
10 including organizing or selling a plan or arrangement and making a statement
11 regarding the excludability of income or the securing of any other tax benefit by
12 reason of participating in the plan that she knows or has reason to know is false or
13 fraudulent as to any material matter;
- 14 (c) Filing, providing forms for, or otherwise aiding and abetting the filing of frivolous
15 FOIA requests on behalf of herself and others;
- 16 (d) Preparing or assisting in the preparation of documents purporting to “decode” IRS
17 files;
- 18 (e) Falsely advising customers and others that they are not required to file federal
19 income tax returns or pay federal income taxes;
- 20 (f) Giving tax advice to anyone or representing or assisting anyone in connection
21 with any matter pertaining to federal taxes;
- 22 (g) Engaging in conduct subject to any penalty under the Internal Revenue Code;
- 23 (h) Engaging in any other conduct that substantially interferes with the proper
24 administration and enforcement of the internal revenue laws.

25 3. This action has been requested by the Chief Counsel of the Internal Revenue Service, a
26 delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the
27

1 Attorney General under 26 U.S.C. §§ 7402 and 7408.

2 4. Kukhahn resides and does business in Tacoma, Washington. Venue is thus proper in
3 this Court under 28 U.S.C. §§ 1391 and 1396.
4

5 **Kukhahn's Tax-Fraud Schemes**

6 5. Kukhahn promotes tax-fraud schemes using the business names IMF Decoder,
7 Paralegal Research Advocates, and Advocates for Justice, Liberty, and Freedom.

8 6. Kukhahn promotes her business on her websites www.ajlf.com (Advocates for Justice,
9 Liberty, and Freedom) and www.paralegalresearchadvocates.com (Paralegal Research
10 Advocates).
11

12 7. Kukhahn is the president and chief executive officer of both Paralegal Research
13 Advocates and IMF Decoder.

14 8. She formerly promoted her business on the website www.imfdecoder.com, but as of
15 March 20, 2008 still promotes her fraudulent tax scheme at www.ajlf.com and imfdecoder.ath.cx
16 (IMF Decoder).
17

18 9. Kukhahn, through the Paralegal Research Advocates' website, refers potential
19 customers to IMF Decoder.

20 10. Kukhahn purportedly purchased several trusts and corporations from David
21 Stephenson, including IRS Code Busters, IMF Decoder, and Paralegal Research Advocates.
22

23 11. In 2006, David Stephenson was convicted in this Court of conspiracy to defraud the
24 United States in violation of 18 U.S.C. § 371 for selling sham trusts that were used to hide
25

1 income and assets from the IRS.

2 12. In July 2004, this Court enjoined Stephenson from promoting, organizing, or
3 marketing a fraudulent tax scheme that helped his customers to hide their assets.
4

5 13. Kukhahn also markets her “decoding” scheme at seminars, either personally or in
6 association with other promoters of frivolous tax schemes, in Honolulu; Cancun, Mexico; and
7 Los Cabos, Mexico.

8 14. Kukhahn’s IMF Decoder scheme is one of many fraudulent tax schemes that were
9 promoted in 2004 and 2005 through Pinnacle Quest International (“PQI”). During that time, the
10 IMF Decoder scheme was only sold to PQI members.
11

12 15. PQI is a multilevel marketing organization for several tax-fraud schemes and other
13 fraudulent schemes. For a fee, a person may join PQI and become eligible to purchase the many
14 schemes PQI promotes.
15

16 16. Through the seminars, promotional materials, and websites referred to above,
17 Kukhahn sells a multi-phase program that falsely advises customers that: (1) they are not
18 required to pay federal income taxes unless they are living in a United States territory; and (2)
19 United States residents can only be taxed via a federal excise tax if they are involved in an excise
20 taxable enterprise. Kukhahn further falsely advises customers that the IRS, in order to subject
21 people to federal taxes, fraudulently misidentifies citizens as residents of a U.S. territory such as
22 the U.S. Virgin Islands, and/or misidentifies their occupations as an enterprise subject to an
23 excise tax, such as firearms manufacturing.
24

1 17. Kukhahn charges single taxpayers between \$1,750 and \$1,900 and charges married
2 taxpayers between \$2,450 and \$3,195 for her bogus “decoding” service, which is described
3 below.
4

5 18. The first phase of the program provides the customer a Freedom of Information Act
6 (“FOIA”) form that requests the IRS to produce a transcript of the customer’s IMF (individual
7 master file).
8

9 19. Once the customer receives a copy of his or her IMF transcript, under the second
10 phase of the program Kukhahn/IMF Decoder purportedly “decodes” it to determine whether the
11 IRS has fraudulently converted the customer’s residence to a territory and/or occupation to an
12 excise taxable enterprise. Invariably, Kukhahn falsely determines that the IRS has fraudulently
13 misidentified the customer’s residence and/or occupation in the customer’s IMF.
14

15 20. Thus, in the third phase Kukhahn/IMF Decoder prepares a “rebuttal letter” to the IRS
16 demanding that the IRS correct “false and unlawful entries” and produce “lawful documentation
17 evidencing” that the customer is subject to internal revenue laws and is required to pay income
18 taxes. The letter demands that the IRS cease and desist all actions against the customer.
19

20 21. In the fourth phase of the “decoding” process, after the submission of a follow-up
21 FOIA request, Kukhahn/IMF Decoder purportedly checks for any additional “false postings” by
22 the IRS and purportedly confirms that past “false postings” that were previously “rebutted” were
23 removed.
24

25 22. The final phase of the “decoding” process, consists of obtaining certified copies of

1 the documents obtained through the FOIA process that purportedly demonstrate that the customer
2 is not required to file a federal tax return. These documents are then ostensibly available for use
3 as evidence in the purportedly “unlikely” event the customer’s claim that he/she is not required to
4 file tax returns is challenged in court.
5

6 23. From January 2002 through September 2006, at least 1,100 persons have filed this
7 type of nonsensical “rebuttal letter” (titled “Reports of Fraudulent and Misleading Postings on
8 the Individual Master File”) with the IRS. More than two dozen of the rebuttal letters have used
9 Kukhahn/IMF Decoder’s post office box address as the return address.
10

11 24. Of a sample of eleven known Kukhahn/IMF Decoder customers, all but one has not
12 filed tax returns for several years. Of the non-filers, one customer alone owes more than \$1
13 million in tax and penalties and many others owe more than \$100,000.
14

15 25. In 2004 and 2005, an IRS undercover agent posed as an IMF Decoder customer and
16 paid the \$1,750 fee to become “decoded.”
17

18 26. Kukhahn/IMF Decoder falsely determined that the IRS had fraudulently coded the
19 undercover agent’s IMF as a “Virgin Islands filer.”
20

21 27. The undercover agent then received the “Phase 3 rebuttal package” from
22 Kukhahn/IMF Decoder. The rebuttal package, which included a false disclaimer that IMF
23 Decoder is not offering tax advice, falsely states that the IRS is not an agency of the federal
24 government and demands “lawful documentation evidencing” that the undercover agent’s
25 assumed identity is subject to internal revenue laws and required to file and pay income taxes.
26

1 28. As part of promoting her scheme, Kukhahn falsely tells customers that paying
2 income taxes and filing federal income tax returns are voluntary, unless a person is engaged in an
3 excise taxable activity such as manufacturing firearms.
4

5 29. As part of the “decoding” process, Kukhahn falsely informs her customers that the
6 IRS has fraudulently coded them as either residents of U.S. territories or persons engaged in
7 businesses subject to an excise tax.
8

9 30. As a result, Kukhahn falsely tells her customers that they can rely on her “decoding”
10 to prove that they are not legally obligated to file federal income tax returns or pay federal
11 income taxes.

12 31. In promoting her scheme, Kukhahn falsely claims that the government is forbidden
13 from taxing “natural born citizens.”
14

15 32. In promoting her scheme, Kukhahn falsely states that if an individual signs an IRS
16 tax form, particularly IRS Form 1040, than the individual has “declared under penalty of perjury
17 [he/she] executed the [Form] 1040 in Washington, D.C., or a Territory or Commonwealth or
18 possession of the government of the United States” and that an individual who “executed the
19 [Form] 1040 while . . . in one of the states of the Union, [he/she] would have committed
20 perjury.”
21

22 33. In promoting her scheme, Kukhahn falsely states that if an individual signs any IRS
23 form, especially an IRS Form 1040, that person is declaring under penalty of perjury that he/she
24 is a resident of and engaged in a taxable business activity in the Virgin Islands.
25

1 34. In meetings in June and August 2005 with IRS undercover agents posing as potential
2 customers of IMF Decoders, Kukhahn made the following statements:

- 3 a. that the IRS had coded Kukhahn's IMF to indicate that she is a pistol and
4 revolver manufacturer living in the Virgin Islands;
5
6 b. that Kukhahn has studied in-depth IRS Forms W-2, W-4, and 1099;
7
8 c. that Kukhahn has thousands of customers;
9
10 d. that one purpose of the decoding process is to create more work for the
11 IRS to discourage the IRS from investigating the customer;
12
13 e. that Paralegal Research Advocates charges \$125 per rebuttal letter.

14 35. In correspondence with customers, Kukhahn/IMF Decoder falsely states that only
15 citizens with qualified foreign sources of income are required to file a federal income tax return.

16 36. In correspondence with customers, Kukhahn/IMF Decoder falsely states that no tax is
17 imposed on earnings of U.S. citizens living and working within the 50 states who make an equal
18 exchange for their labor for wages since no gain results from the transaction.

19 37. Kukhahn claims to be a certified paralegal and claims to have done in-depth research
20 on "rebutting" Forms 1040, W-2, W-4, and 1099.

21 38. Kukhahn also advises her customers on methods to fraudulently hide assets and
22 income from the IRS.

23 39. Kukhahn, through Paralegal Research Advocates, charges \$125 per letter to respond
24 to IRS collection notices. She stated to IRS undercover agents that the IRS has no authority to
25

1 issue summonses and thus said that customers can put summonses in a shredder.

2 40. In October 2005, Richard Standing was enjoined for promoting a scheme similar to
3 Kukhahn's. See *United States v. Standing*, 2005 U.S. Dist. LEXIS 41330, 97 A.F.T.R.2d 1773
4 (S.D. Ohio 2005).
5

6 41. Kukhahn knows or has reason to know that her statements to customers are false and
7 that customers are legally obligated to file federal income tax returns and to pay federal income
8 tax.
9

10 **Harm to the Government**

11 42. The government has thus far identified 315 customers from 43 different states who
12 have participated in Kukhahn's scheme. Kukhahn claims to have one thousand customers.
13

14 43. The IRS has determined from initial examinations of Kukhahn's customers a total
15 loss of revenue of approximately \$4.9 million caused by her customers' failure to file tax returns
16 and pay income taxes.
17

18 44. Because Kukhahn's customers filed numerous frivolous and irrelevant FOIA
19 requests, the IRS has also had to devote substantial resources to processing these requests.
20

21 **Count I: Injunction Under 26 U.S.C. § 7408 for Violation of 26 U.S.C. § 6700**

22 45. The United States incorporates by reference the allegations contained in paragraphs 1
23 through 44.
24

25 46. I.R.C. § 7408 authorizes a district court to enjoin any person from engaging in
26

1 conduct subject to penalty under I.R.C. § 6700 if injunctive relief is appropriate to prevent
2 recurrence of that conduct.

3
4 47. Section 6700 imposes a penalty on any person who organizes or participates in the
5 sale of a plan or arrangement and in so doing makes or furnishes a statement with respect to the
6 allowability of any deduction or credit, the excludability of any income, or the securing of any
7 tax benefit by participating in the plan or arrangement which that person knows or has reason to
8 know is false or fraudulent as to any material matter.

9
10 48. Kukhahn, individually and through IMF Decoder, Paralegal Research Advocates, and
11 Advocates for Justice, Liberty, and Freedom organizes, sells, and operates tax-fraud schemes that
12 falsely promise tax benefits to customers.

13
14 49. In organizing and selling these schemes, Kukhahn makes or furnishes false or
15 fraudulent statements regarding the tax consequences of the scheme.

16 50. Kukhahn knew or had reason to know that these statements were false or fraudulent.

17 51. If not enjoined, Kukhahn is likely to continue to organize and sell-tax fraud schemes.

18 52. Injunctive relief is appropriate to prevent recurrence of this conduct.

19 **Count II: Injunction Under 26 U.S.C. § 7402**

20
21 53. The United States incorporates by reference the allegations contained in paragraphs 1
22 through 52.

23
24 54. I.R.C. § 7402(a) authorizes a court to issue injunctions as may be necessary or
25 appropriate for the enforcement of the internal revenue laws, even if the United States has other

1 remedies available for enforcing those laws.

2 55. Kukhahn substantially interfered with the enforcement of the internal revenue laws
3 by promoting her tax-fraud schemes. Customers who participate in Kukhahn’s scheme fail to file
4 returns and have filed many frivolous and irrelevant FOIA requests.
5

6 56. Kukhahn’s conduct resulted in irreparable harm to the United States for which the
7 United States has no adequate remedy at law.

8 57. Unless enjoined by this Court, Kukhahn is likely to continue to promote her tax-fraud
9 scheme. The United States is entitled to injunctive relief under I.R.C. § 7402(a) to prevent the
10 recurrence of this misconduct.
11

12 WHEREFORE, Plaintiff, the United States of America, prays for the following relief:

13 A. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter a permanent injunction
14 prohibiting Kukhahn and her representatives, agents, servants, employees, and
15 anyone in active concert or participation with her, from directly or indirectly by
16 means of false, deceptive, or misleading commercial speech:
17

18 (1) Organizing or selling the IMF Decoder scheme or any other tax shelters,
19 plans or arrangements that advise or encourage others to attempt to evade
20 the assessment or collection of correct federal tax;

21 (2) Engaging in any other activity subject to penalty under 26 U.S.C. § 6700,
22 including organizing or selling a plan or arrangement and in connection
23 therewith making or furnishing a statement regarding the excludability of
24 income or securing of any other tax benefit by participating in the plan that
25 she knows or has reason to know is false or fraudulent as to any material
26 matter;

- 1 (3) Filing, providing forms for, or otherwise aiding and abetting the
- 2 preparation or filing of frivolous FOIA requests with the IRS on behalf of
- 3 herself and others;
- 4 (4) Preparing or assisting in the preparation of documents purporting to
- 5 “decode” IRS files;
- 6 (5) Giving advice to anyone about the federal tax laws or federal tax matters,
- 7 or representing anyone in connection with any matter before the IRS;
- 8 (6) Engaging in conduct subject to any penalty under the Internal Revenue
- 9 Code;
- 10 (7) Engaging in conduct that substantially interferes with the proper
- 11 administration and enforcement of the internal revenue laws.

12 B. That this Court under 26 U.S.C. § 7402 enter an injunction requiring Kukhahn to

13 contact by mail (and also by e-mail, if an address is known) all persons who have

14 purchased any products, services or advice associated with the false or fraudulent

15 tax scheme described in this complaint and inform those individuals of the

16 Court’s findings concerning the falsity of Kukhahn’s prior representations and

17 attach a copy of the permanent injunction against Kukhahn and her related

18 entities;

19 C. That this Court, under 26 U.S.C. § 7402 enter an injunction requiring Kukhahn

20 and her representatives, agents, servants, employees, attorneys, and those persons

21 in active concert or participation with her, to remove from her websites all abusive

22 tax scheme promotional materials and false commercial speech and to display

23 prominently on the first page of those websites a complete copy of the Court’s

24 U.S. Department of Justice

25 Tax Division

26 John Monroe

27 P.O. Box 7238

28 Washington, D.C. 20044

202-307-0638

1 permanent injunction for one year;

2 D. That this Court, under 26 U.S.C. § 7402 require Kukhahn to provide to the Justice
3 Department a list of all persons who have purchased any products, services or
4 advice from her in the past five years;

5
6 E. That this Court allow the government full post-judgment discovery to monitor the
7 Defendant's compliance with the injunction; and

8 F. That this Court grant the United States such other and further relief as the Court
9 deems just and appropriate.
10

11 Date: April 7, 2008

12 Respectfully submitted,

13 JEFFREY C. SULLIVAN
14 United States Attorney

15 /s/ John Monroe
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