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littlehammer's
Weekly Tax Exempt Newsletter
with
Questions and Answers
and
Conference Call Reminder

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Tuesday, November 13, 2001

In this section (below), I explain why I use the bracketed phrases [THE COMPANY] and [THE FOUNDER] to refer to the founder and his company, who achieve the 100% effective results of having the IRS change their internal records to reflect the fact that each client is exempt from income taxes on any income, regardless of amount or source, unless the source of the income is the federal government itself or a trade or business under the sovereign jurisdiction of the government. [THE COMPANY] accomplishes this fully (and only) in accord with the Internal Revenue Code, and thus, none of their clients ever experience adverse IRS confrontation or court proceedings. (I also explain how to “unsubscribe” to this newsletter in this section).

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[1] Welcome

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Dear Friends,

We've got some long discussions today, so I won't take a lot of time and space welcoming you to this edition of my newsletter.

So, consider that you welcomed!

Your friend,

Paul Leinthall
661-822-7889, Noon-8pm Mon-Fri EASTERN time
email: littlehammer@primemail.com

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[2] Questions and Answers
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We've had quite bit of discussion in the past several newsletters about how to handle financial institutions and educational organizations when a person, who is a "non taxpayer" and for whom [THE COMPANY] is filing annual statements rather than the "normal 1040 tax return," wants to apply for a loan or mortgage or educational grant, and the company or person with whom he/she is dealing wants copies of past years tax returns.

Maybe we'll be able to put this issue to bed with the following dialogue. I appreciate my client for asking the questions.

> Paul - I thought you might want to be aware of this - XXX
>
> XXXX and I are in the process of trying to refinance our home. I was going to do a "mock-up" 1040 and the broker told me I could not do it - that they would check to make sure the 1040 we gave them had been filed with the IRS. If it had not, then that constituted fraud and the loan would not be accepted and we would be in trouble with the law. The broker went on to tell me that he had a client who did a "mock-up" and got in trouble for doing it so he strongly urged me not to try it because the bank would call the IRS to see if it had been filed.
>
> He said a pro-forma was okay.
>
> As you know we were told at the conference we could do this - I think it needs to be revisited quickly.
>
> XXX

Hi XXX,

If you read LAST week's edition of the newsletter (Oct 30, Section 1), you'll see that I addressed your concerns.

Also, if you go back and read what I had written previously (October 2nd Edition) about what you refer to as a "mock-up" 1040, you will find this statement in the first paragraph on page 5. I emphasize in bold the words that address your second concern:

> ...If the university does not require you to sign a form that allows them to get copies of your actual tax returns from the IRS, you might have your CPA prepare a standard 1040 tax return...

I also wrote further about that concern in the whole context of the Oct 2nd edition.

I probably will address the issue again (in fact I'll use this communication as an excuse to do it), wherein I will include the additional information [THE COMPANY] will be looking for in the event a client wants a pro-forma 1040 prepared.

Sincerely,
Paul Leinthall

> Paul,
>
> Thanks for your response - I did read your comments; they are excellent, but the "key" issue here is that IF the 1040 was NOT FILED with the IRS regardless of WHO prepared it - it is considered fraud (according to the loan officer I'm working with. I know I could have a CPA do it, I could do it myself with all the back-up, or I could have [THE COMPANY] prepare a Pro-forma 1040 - but IT HAS TO BE FILED WITH THE IRS. Am I missing something - I don't see that addressed in either of the issues you sent me back to.
>
> XXX

Hi XXX,

What you're missing is that you have provided the loan officer "too much" information. A pro forma 1040 is a return prepared exactly as it would be IF you actually filed that form of communication with the IRS; but it is NOT actually filed with the IRS, because what [THE COMPANY] has filed with the IRS on your behalf is a "different" form, but STILL 100% in harmony with the law. Think about the implications for clients of [THE COMPANY], who are "non taxpayers", now filing an inappropriate form (the 1040) which got them into trouble (and into the contract) in the first place.

The thing that "works" about a pro forma return, is that it's prepared from the same information that you would have provided to someone like H&R Block to prepare a standard tax return. When the "tax return" preparer prepares it, and you present it to the loan officer - keeping in mind that he didn't ask you for copies of FILED tax returns, only for copies of your tax returns - it satisfies ALL the requirements for the financial institution, because it's prepared (in [THE COMPANY's] case) by your "normal" tax preparer, who is registered and certified with the IRS for handling your tax affairs. The "form" that the financial institution sees is simply different than the "form" that the IRS sees; but BOTH are in accord with the law. You can achieve the same thing with a regular CPA or someone like H&R block, by having them PREPARE (not file) an "as if" return.

But, if you tell the loan officer that the return was FILED (when it was not), then YOU have not spoken the truth, and that's a discussion that never has to occur in the first place and which ends up giving your problems.

Keep in mind, I am NOT suggesting that people not file tax returns; I'm speaking in the context of a client of [THE COMPANY], where a proper form ("return OR statement") HAS BEEN filed, but where, now, a different form is being provided to the financial institution.

If you tell a loan officer something that is NONE of his business (which are only your private affairs and relationship with the IRS), he no doubt will have an "opinion"; but you know what they say about opinions (there's like ---holes; everybody has one). HIS business is to decide whether, or not, your income justifies his loan. When you provide a pro forma 1040 return from your tax advisor (in our case, [THE COMPANY]), or from a CPA, it is NOT the loan officer's job to evaluate whether, or not, you have actually filed THAT specific "form" to meet your lawful tax filing requirements. In our case, as clients, [THE COMPANY] has filed an appropriate "statement" which meets ALL the IRS's requirements in YOUR case. And THAT is NONE of a loan officers business. You

can simply disregard his "opinion" about what is, or is not, fraud regarding this matter. If you haven't given him "too much information" up front, he won't even have an adverse opinion, because your not putting yourself in a position where "you're asking for it."

If you believe you have to get his approval on how you handle your tax matters, then you've set out to handle two tasks: the first, which is getting the loan; and the second, which is trying to convince someone of what the law is, and about which (in this case), he is obviously ignorant. If you want to mix those two purposes, then I guess you have to take what you get, and what you may get is a person, in the form of a loan officer, who "thinks" he can't take part in what you're doing because of his lack of understanding of the law and his "opinion" that you're committing fraud.

This is why it is so important to understand what we do here. You are not EVER walking outside the law, or even on the edge of the law. But when you try to MIX what you're doing in your relationship with the IRS, with what you're doing in regards to getting a loan - they don't mix. ALL the loan office has been trained to do is to look at a certain "form" (hence, the "pro forma"); and that is what we give him.

The word, "pro forma" is defined in Black's Law dictionary (6th Ed, page 1212) in this manner:

> "Pro forma - As a matter of form or **for the sake of form**. Used to describe **accounting**, **financial**, and other **statements** or conclusions **based upon assumed** or anticipated **facts**." [Bold emphasis mine]

Did you not say in your first message: "He said a pro-forma was okay."?

Sincerely,
Paul Leinthall

> Paul - Thanks, I appreciate your carefully though out remarks about this. The pro-forma form is perfectly alright and acceptable with the loan officer - the "unfiled 1040 is not. The loan officer knew I hadn't filed a 1040 for 2000 and that I was going to "prepare" one myself to submit to them for proof of income." Therefore he knew it wouldn't be one that had actually been filed and he was emphatic about it having been filed. He told me I couldn't do that - because they would CALL the IRS and find out if every 1040 I gave them had been filed and filed with the with the same figures and when they discovered that the 2000 1040 hadn't been filed I would be in trouble.
>
> As you've stated before - this is against the law as I wouldn't give them my written permission to get this kind of information - but he scared me with the threat. I don't now if ALL loan underwriters actually do call the IRS and check out every clients 1040s or not - but I'm very concerned when we say to a client they can do a 'mock' 1040 that they never filed and don't intend to for proof of income in order to obtain a loan. You're right it's none of their business, but I don't want people to get in trouble either. The loan office told me he already had a client do that and got caught and was denied the loan and charged with fraud - so for myself, I'm not going to even suggest people try this - it could come back to bite me and or [THE COMPANY]. One of those "better safe than sorry" things.
>
> Thanks again, XXX

Hi XXX,

You said that a pro forma 1040 would be "perfectly alright and acceptable"; isn't it interesting that the finance officer will accept a pro forma 1040 (which really has not been filed with the IRS - IN THAT FORM), whereas, when you tell him "you" will prepare one yourself, he think's you're about to commit fraud.

I think you can begin to understand why a person might think you're "up to something fraudulent" when you say to him, "I'll go prepare a 1040 JUST FOR YOU". (Even though you may not have used those words, that's what he hears). What do you expect him to think, given his (and most people's) understanding which believes that a tax return can only be filed according to a certain "form" (the 1040, with which everyone is accustomed to believing is the only valid form in which to file a "return or statement")?

That's why is much simpler to first realize that your tax matters are none of his business, and second, to realize that if he simply will not accept any other kind of "proof" of your income than a 1040, you simply agree to provide him that FORM which will satisfy him. Whether you're actually doing something fraudulent, or not, is totally a separate issue; but with a "pro forma 1040" prepared by an "official" tax preparer, who will NOT be party to any fraud, but will be using the actual information that would have been filed with the IRS, as IF THAT HAD BEEN THE FORM which you filed with the IRS, the banker gets what he wants, and you have not committed fraud.

As long as you don't think your job is to educate your banker in these finer distinctions of law, particularly when there are two separate issues involved, you will find the banker has no problem. He was expecting a 1040; you provide him an accurate 1040; he is satisfied; and if you qualify income wise, according to his standards, you get your loan. In the meanwhile, your true relationship with the IRS doesn't come in to "befuddle" him. In all of that process, you have done nothing fraudulent.

Now, on the other hand - can a person take the information I've just talked about and prepare an INACCURATE 1040 to show a banker? Of course. Would that be fraud? Probably would, and certainly would, if it's not according to the facts. In THAT case, the person deserves what he gets if he is committing fraud.

But don't confuse an accurately prepared 1040 with a fraudulent one. They are two separate things.

Sincerely,
Paul Leinthall
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I promised to supply the information that [THE COMPANY] needs when a client requests that a "Pro forma" 1040 return be prepared:

> A client must allow AT LEAST two weeks for the preparation of the pro forma 1040, AFTER the following questions have been asked and answered, and supplied to [THE COMPANY] along with the supporting documentation:
>
> - What is the 1040 for? Is it for a loan or mortgage, or is it for financial aid, etc.?
> - Who is it for? Himself, his spouse or both "spice" (filed jointly)?

- What deductions besides what [THE COMPANY] has on file? (Mileage, mortgage interest, property taxes, medical, etc.)

As you can see, [THE COMPANY] needs the same type of information a regular accountant or other tax preparer might need to prepare a standard 1040 tax return, IN ADDITION, to knowing it's intended use.

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This dialogue runs along similar lines, but it brings up another area where clients begin to experience some uncomfortableness when it comes to whether, or not, they should discuss their current "tax status" with professionals with whom they choose to deal.

From: Paul Leinthall
Hi XXXX,

I answer in my usual manner:

> Paul,
>
> I was quite interested in your description during our phone conversation of the dilemmas facing CPAs who might want to go through the revocation process.
>
> Did I understand you to say that tax-exempt CPAs would have a difficult time getting their licenses renewed, or passing whatever periodical exam they are required to take? Would this difficulty apply to other licensed professionals, like attorneys and doctors? I'd like to clarify my understanding of this point, for reasons which will become obvious below.

I don't believe that CPA's and attorneys jeopardize their actual professional licenses, only their ability to represent people to the IRS. It is the "enrolled agents," who have to complete regular exams, who may jeopardize their entire position, particularly if "enrolled agent" is their only source of income.

Attorneys are likely to get in trouble doing what we do, particularly if they advocate it openly. [THE FOUNDER] has several attorney friends and acquaintances who are sympathetic with what we do, but who do not do it themselves because it could cause them problems. Attorneys are servants of the court, NOT servants of whoever hires them. Of course, it's also true that many attorneys are grossly ignorant of the actual laws regarding income taxes, although they may be expert in playing the normal "tax game" to whatever degree.

People only know what they know; they don't know what they don't know. For most folks, it's a chore to even know THAT they don't know. Many people like to be safe and secure (and content) in thinking the information they already have is sufficient into the future. Life gets a lot more exciting when we allow ourselves to open up to new knowledge and new experiences, but that adventure is scary for some.

> As you know, I have been in the process of refinancing my house, and have needed to provide evidence of income to lenders. This is particularly true for self-employed individuals, as we are. We quickly discovered that any CPA who is unaware of our true tax status will try to minimize our taxable income on a 1040,

> not knowing that we have no intention of filing this document. Obviously, since we are tax exempt as well as self-employed, we want to demonstrate as much income as possible, even on a pro forma 1040. Our CPA, unaware of our tax status, was working at cross-purposes to our real goals of demonstrating as much income as possible.
>
> When it came to providing our lenders with a year-to-date Profit and Loss statement, we had similar difficulties, since there is a natural tie-in with the previous year's 1040 depreciation and other information.
>
> Fortunately, [THE COMPANY] was willing to provide us with a proforma 1040 that met our needs, and we were eventually able to find a CPA who was willing to provide the P&L we needed without referring to the previous year's 1040. We did not disclose our tax status.
>
> This experience raises a number of issues for me, since I plan to make more use of the services of both financial and legal professionals in the future. I am very interested in learning to invest in both real estate and the stock market, and may even eventually form a small company to facilitate these activities. Naturally, I will want to rely on the advice of financial, tax, and legal professionals in my activities.
>
> However, the way one sets up and runs a company when the owners are liable for income and capital gains taxes is probably quite different from the set-up for tax-exempt individuals. A tax-exempt person would probably want to pull as much income out of the company as possible, to avoid corporate income taxes, for example. However, how would I explain this intention to my financial and legal advisors, since it would fly in the face of all conventional business wisdom they know? It seems to me that it will be necessary to inform my future advisors of my true tax status in order to take best advantage of their expertise in business matters.

While any professional can hardly escape his own predisposition or perspective, is it really any of his/her business what your tax status is? Why do they even have to know about that, in order for you to reap the knowledge they can provide. Admittedly, you'll have to "filter" it through the realization that you will not have to engage in many of the "antics" they have to go through in order to minimize their tax burden; but any principles of actually making the money in the first place should still be valuable - and all of that without your tax business becoming any of their business. As I say, you'll just have to filter out any "unnecessary" tactics that operate on the premise of having to shield money from taxes, unless those same tactics provide you with greater and actual money-making capability. There is no danger in using techniques that might shield you from income taxes in the normal way of playing the IRS "game"; it's just that you silently realize that the tax-shielding aspects have nothing to do with you for those purposes; you're going after the money-gaining aspects.

Of course, if you think you need to justify your position regarding your tax status - that is a separate issue, and one that does not have to mix with the desire for increased financial gain via propitious money-making techniques.

> I'm sure you can appreciate what a Pandora's box this issue represents. If my advisor's don't believe me, I risk losing their respect, and possibly their services.

If it were I, and if I thought it was my advisor's business, or if I thought it was necessary to provide him with certain information, and my advisor didn't believe me or respect me in my free choice to order my own life and affairs, I'd find another advisor. Any advisor should be satisfied if you're paying for the advice, unless he has a condition that you must actually follow the advice he gives you. When you interview an advisor for his job (you do interview THEM, do you not?), make certain, up front, that your intention is to pay them for advice, but you want to make certain that it is okay with them if you don't follow all of it (or any of it).

You're the best advisor in your life. Don't you think?

> If they do believe me, they will also want to become tax-exempt if they can. Thus my initial questions. This also raises the issue of attorneys and CPAs using their knowledge of [THE COMPANY's] existence for personal profit, perhaps charging their clients a fee for [THE COMPANY's] contact information. Who knows what could happen?

Well, that's true. Who knows? But, then, so what? Isn't that THEIR business, how they conduct THEIR business?

> I imagine that the Founder's wealthy clients had to grapple with these same issues: How to make best use of legal and financial professionals once they are tax-exempt, and whether or not to disclose their true tax status to these same professionals in order to explain why their goals and methods may vary from the norm?

Here, again, I'm failing to see any need to explain my choices of action to anyone, unless I choose and unless it is advantageous to me to do so. Obviously, if I have some question or doubt about my own actions or my reasons for engaging in such, that's MY problem, not anyone else's. And if I don't have any question or doubt about my own actions, then it's really none of my business if someone else has a problem with my actions.

Terry Cole Whitaker wrote a book once, entitled: "What You Think of Me is None of My Business". Great title - and a good book, as well.

Obviously, what we do in not having to be entangled in the typical "tax game" leaves us with a great deal of freedom regarding what we do our money; and once a person realizes he no longer has to mix BOTH money-gaining enterprises AND tax consequence avoidances, he finally realizes the tremendous freedom and flexibility that comes with this "new territory," although at first it may take a little getting used to.

Of course, if other people really want to know, I would tell them that we "onl appear to vary from the [so-called] norm," because we follow the law as it actually is. Then I'd ask them why they think following the law is a variance from the norm, and why THEY don't understand the law AS IT IS. If I were you, I'd let them worry about loosing credibility in MY eyes, rather than the other way around. Let's get the horse heading in the right direction, at least.

I'd be very interested in any light you or your colleagues could shed on this issue.

> Regards,
> XXXX

It's been a pleasure, as usual.

> Paul,
>
> Thanks for your usual incisive response. I guess I've been operating on the assumption that my future advisors will know far more than I do about the ins and outs of investing and managing money, and that it would be easier to work with them if they understand my position with regard to the issue of income and capital gains taxes. In other words, it would seem easier for me to say "How can I best leverage my tax-exempt status in managing my company and it's investment transactions?" than to ask more general questions and then filter out the tax advice that doesn't apply.
>
> However, I'm anticipating, extrapolating from my recent experiences with loan officers and a CPA. By the time I'm in a position to invest, I should be more experienced, and it might not seem like much of an issue.
>
> Regards,
>
> XXXX

Yes, the greatest distinction or difference all this makes after eliminating the consideration of "tax consequences" from our decisions, is that the only question that needs to be addressed, speaking to a prospective advisor, is:

> "Totally apart from ANY income tax ramifications, what choice of action (via investing or trading) provides me the greatest amount of return or gain (gross income)? If you'll provide me the best advise on how to maximize my gross income, without concern for what happens when you factor in the income tax ramifications, I'll take care of the tax concerns. I'm not wanting to pay you for advice or suggestions that address that issue. If you want to know why I approach you in this manner, however unusual you may consider it to be, I'll be happy to have a conversation with you about it; but it is a separate conversation."

If you want to get into explaining WHY you're not concerned about tax ramifications, that's up to you of course; but I would expect that to be a totally separate conversation, which they might DESIRE to know about, once they simply understand that you truly are not having to be concerned about income tax ramifications of what you do in following their advice about how to realize the greatest amount of gross income (income, before any taxes would have to be considered in "their" paradigm).

Sincerely,
Paul Leinthall

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> Paul - sorry to bother, but, I have an urgent question that needs answering and since you're "my" agent I'm asking you! I'm sure YOU can answer for me - I'm having a "senior" monent!
>
> If a married person wants to join [THE COMPANY] but his sponse doesn't want to:
>
> 1. Will we take him on as a client?

2. If yes, will his cost be $2,500 or $3,100
3. Can we do the 10 year request for him since he has been filing jointly?

This is still a "confusing" area for me I haven't nailed down. I called another "agent" and they didn't know either - they are under the impression [THE COMPANY] may not take them on.

XXXXX

Hi XXXXX,

The answers to this have been going through some changes with [THE COMPANY] recently, but here's the brunt of it as it stands today:

1. Will we take him on as a client?

A qualified "Yes". WITH the spouses approval, and with the CLIENT'S and the spouse's understanding that for ANY years (in the past) for which they filed JOINT returns, [THE COMPANY] will NOT go back to handle ANYTHING, including refunds; AND, if the IRS ever comes against the client for any of those past (jointly-filed) years, [THE COMPANY] will NOT represent either the client or the spouse for those "past" years.

WHY? Because they can't represent one of the clients pertaining to a joint return, without automatically "having" to represent the other (non-client) spouse, and they have no "authority" (power of attorney) regarding the non-client spouse. (Nor have they been paid to do so).

So, with that understanding on the part of the client, and the client's "okay" from the spouse, the one spouse can probably become a client. Hence, if a couple had only filed joint returns in the past, [THE COMPANY] would effectively be representing the client ONLY for the years from the present into the future.

Best, of course, if the "spice" both become clients. The financial difference for their first year fee is only $600.

2. If yes, will his cost be $2,500 or $3,100

$2500

3. Can we do the 10 year request for him since he has been filing jointly?

Not without BOTH "spice" participating as clients. (See my answer to #1)

Sincerely,
Paul Leinthall

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Hi XXXX,

You wrote (in part):

> Hi Paul,
>
> ...Couple of quick questions that I was a little vague on, Even though you have tax exempt status, you still must report your income every year? Is this like filing a return but with no tax liability? If so does this mean you have to file for tax exempt status every year or just the declaration?
> Thanks, XXXXX

All clients "report" their income to [THE COMPANY] each year, including any copies of W-2's, 1099's, K-1's, etc. For "business" income, they simply report the AMOUNT of their business income; and if they had offshore income, they simply report the total AMOUNT (not the sources). The reason for this "reporting" to [THE COMPANY] is so [THE COMPANY] can "do their thing," while knowing the details about the client, so they do not, in any way, misrepresent the client with the IRS.

Yes, this is like filing a return, but with no tax liability - UNLESS some of the income is actually "taxable" income, which would be the case if the client had any income from one of the "taxable income sources" as listed in Section 861 of the Internal Revenue Code. Most clients do NOT have income from one of those sources, since they are virtually all FEDERAL sources. (Social Security and other retirement plans are NOT considered federally sources income, even if prior to retirement, the income was coming from a federal source, for example, a person in the active military).

With EACH and EVERY annual filing that [THE COMPANY] makes on behalf of a client, they reiterate the actual "non taxpayer" status of the client. We don't have to file FOR tax exempt status, as if that status is something the IRS grants; [THE COMPANY] files every filing ON THE BASIS of a person's ALREADY "non-taxpayer" status, which status is true of ANY "Private (STATE) Citizen" residing in any of the 50 States of the United States of America. When [THE COMPANY] handles that filing and their process in that manner, the IRS simply recognizes the person's TRUE (already true) Status, and eventually the IRS changes their records accordingly, since they are required by law to keep accurate records.

What [THE COMPANY] does is simply to get the IRS to realize that you "mistakenly" filed a "Form 1040," which did not actually belong to you and which is not in accord with your TRUE status. The revocation of election process CORRECTS that mistake; then we file an annual "statement" which meets the IRS filing requirement, but which does not incur any income tax liability on the part of the client, except, perhaps, in the rare instance of the client's having "federally sourced" income, which is taxable income in any event.

Sincerely,
Paul Leinthall

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[3] News Briefs & Comments
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I received this email from one of the other representatives of [THE COMPANY]. While this is not technically a news brief, I decided to put it in this section and address it here.

> Paul,
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> You're probably already aware of this, but if not, you might find it interesting. This was sent to me by a client.
>
> XXX,
>
> > This is a good indicator of what might be in the wings for [THE COMPANY]. What do you think? The full transcript can be read at:
> >
> > <http://www.taxableincome.net/thugs/transcript.html>
> >
> > Transcript of Meeting Regarding
> > "Abusive Tax Shelter" Accusation
> >
> > Introduction
> >
> > The following is a transcript of a meeting between Larken Rose and the IRS which occurred on 10/18/01, concerning the IRS' allegation that Mr. Rose was involved in promoting an "abusive tax shelter...."

...Then there are five (long) pages at the site, which make up the transcript. I read the entire transcript in preparation for what I'm about to say.

For some time now, Larken Rose, a gentleman from my "home" State of Pennsylvania, has made available his document on "Taxable Income", which presents the basis for his beliefs and interpretation of the law upon which most of the information at his web site is based, and regarding which the IRS was attempting to gather further information, with the "hopes" they might be able to charge him with promoting an "Abusive Tax Shelter", and get a federal judge to issue an injunction against his website continuing. You can get the most recent version of his "taxable income" document via free download from his website address:
http://www.taxableincome.net/docrequest.html>.

The main question we have in front of us is this:

> Is this (that happened to Larken Rose) any indicator of what MIGHT be in the wings for [THE COMPANY]?

I seriously, seriously doubt it. If the IRS follows there own law, it simply will NOT happen. Here's why. IN ADDITION TO all the reasons Mr. Rose himself gives as to why he's fairly sure the IRS will be unable to charge him with promoting an abusive tax shelter (which anyone going to the site can read), I'm going to offer some additional - and important - distinctions which support my conviction that the IRS has no ground,

and that their investigation into the affairs of Larken Rose are not in any way an indicator of what might happen to [THE COMPANY].

As I've mentioned before, [THE COMPANY] does NOT authorize any representative to have a website. Also, I, as this newsletter writer, have taken fairly clear steps to "insulate" [THE COMPANY] from whatever I write. Frankly, I think I, personally, might be more in a position for the IRS to attempt to find some reason to "charge" me, because, although this newsletter is not a website, it is, nonetheless, "getting out there". But, in addition to the same reasoning Mr. Rose uses, i.e., that he does not "sell" information, I don't even accept "donations", as he apparently does. If you actually read the transcript at his site, I think you'll see that it's clear that the IRS really has no grounds to charge him with promoting an "Abusive Tax Shelter"; and they have even less grounds to attempt that in my case, and certainly not in [THE COMPANY's] case.

While I agree with much of what Larken Rose has written, there is at least one key distinction which makes a big, BIG difference in our various approaches. I've written about these distinctions in the past, but we haven't visited them for some time; and frankly, [THE COMPANY] is specifically NOT emphasizing some of the words I'm about to use, simply because some people have used them incorrectly (not understanding the actual distinctions) and have got themselves in trouble, and [THE FOUNDER] likes to distance himself from anything that reeks of inaccuracy in the law. However, these words (and their distinct meanings in law in the Internal Revenue Code) have a great impact on what the law is actually saying. What [THE COMPANY] does STILL has the correct understanding of these words as an important part of the work they do. even though they have eliminated the actual "use" of the specific words to a great degree.

Anyone who reads Mr. Rose's document on "taxable income" will recognize a similarity in the words we use, if only for the fact that he bases his "argument" and his beliefs regarding "taxable income" on Sections 61 and 861 of the Internal Revenue Code, which sections talk about TAXABLE SOURCES of income. [THE COMPANY] also utilizes these sections; but, when you understand the distinctions I'm about to make, you'll see that we arrive at a more powerful understanding - one which provides the very basis of what [THE COMPANY] does.

As you know, WE ([THE COMPANY] and I) say that, according to the law, the ONLY sources of taxable income (meaning income for which a person might be liable for paying income taxes), are primarily "federal" sources. In the past, I've given many examples of what these might be, so I won't repeat that here.

Please keep in mind that these distinctions are actually only effective for someone who either has NEVER filed his first 1040 tax return, or for someone who has gone through the proper revocation of election process, which remedied the mistake he made when he first voluntarily elected to file a 1040 form, which adhered him to a contract, the terms and conditions of which obligated him to further filing and paying of income taxes on most of his income, regardless of source.

I'm going to talk about the distinctions in various words and their meanings, because they are used DIFFERENTLY in the Internal Revenue Code than they are elsewhere (in common language, for instance). And this DISTINCTION is perhaps the PRIMARY distinction which Mr. Rose seems to "miss," i.e., the FACT that certain words and phrases in the Internal Revenue Code do NOT mean what they mean in ordinary street

language, or in a regular dictionary. For example, the words "United States", "Nonresident Alien", "domestic" and "foreign".

So, for Mr. Rose (and the numerous folks who subscribe to his interpretation, including people like Thurston Bell), there is only ONE kind of "U.S. citizen", rather than at least TWO (actually three), as defined law. Since there is no admission of the fact that the words "U.S.citizen" can refer to at least TWO types of individuals, each of whom has different characteristics and a different status under the law, they have little choice but to try to make the law conform to their limited definition. From my perspective, THAT is where they first get into trouble.

If you read either the transcript of his interview with the IRS or his downloadable document (Taxable Income) wherein he explains the basis of his beliefs, you will see that Mr. Rose believes (and rightly so) that only "foreigners" should be taxed on their "U.S" income. However, he believes that "foreigners" are the same as "nonresident aliens" and that "nonresident aliens" are from a "foreign" COUNTRY. That's only PARTLY correct.

WE know that the Internal Revenue Code contains different meanings of these words, so that the "U.S.citizen", spoken of in the Internal Revenue Code, for tax purposes, means a "federal citizen"; that is, one who either RESIDES in a federal district or territory, OR one who IS from a foreign country, but who is living in this country and is NOT a Citizen of The United States of America (in other words, who is), OR (and this is key to what we do) a person who has voluntarily elected to be TREATED AS that kind of citizen, which was chosen when he signed and filed his FIRST "1040 Form U.S. Individual Tax Return".

IF a person is born and residing in one of the 50 States of the USA and has NEVER filed a 1040 tax return, or if he has filed a 1040 return and has gone through a proper revocation process, that person is no longer (and is no longer seen as) a "taxpayer" or "resident alien" - but is standing in his true status of being both "nonresident" to federal territory AND alien (foreign) to federal jurisdiction. THAT person stands as a Private State Citizen. Is that person a "U.S. Citizen"? Yes, he is a Citizen of the United States, where "United States" is understood to be a country made up of 50 States of the Union. But he is NOT, as defined in the Internal Revenue Code, a "U.S.citizen" for tax purposes.

So, while Mr. Rose believes (accurately) that the Internal Revenue Code declares that only nonresident aliens are to be taxed on their income "connected with a trade or business in the United States", he simultaneously believes that nonresident aliens are people who live in a foreign country, and since he believes that "United States" means everywhere in the United States OF AMERICA, he argues that only foreigners from other countries should be taxed, and he believes that a "U.S.Citizen" (which includes him, living in Pennsylvania State) is liable only for income taxes on "foreign earned" income. Since "foreign" means some other country, in his understanding, he arrives at the conclusion that only foreigners should be taxed on income earned in THIS country, and "U.S.Citizens" should only be taxed on their "foreign" income (from "abroad).

But, if you stand where [THE COMPANY] stands, you understand that, from the point of view of the Internal Revenue Code, "foreign" means "other than "domestic", and "domestic" means "federal territory, district, enclaves, reservations, etc., in other words, anything under the sovereign jurisdiction of the federal government.

Therefore, a "U.S. citizen" in the Internal Revenue Code (for tax purposes) is a "federal citizen", by virtue of either residing IN federal territory or by being under the jurisdiction of the federal government by green card, and THAT federal "U.S. citizen" IS liable for taxes on ANY of his worldwide income, INCLUDING income from any of the 50 States, because each of the 50 States is "foreign" to the federal government's districts and territories and jurisdiction. For THAT "U.S.citizen", ALL income from anywhere except federal territory is "foreign earned" income; and all income from WITHIN federal territory is "domestic" income.

On the OTHER side of the fence, that is, from across the Potomac River, a Citizen of Virginia State, who has income from Virginia State or any of the other 50 States, simply has money coming in. It is NOT from one of the federal (taxable) sources listed in the Internal Revenue Code, and is, therefore, NOT taxable income. On the other hand, were he to have income from a "federal" source, meaning WITHIN federal jurisdiction, or from a "trade or business connected within the United States' (federal United States), THEN he would have taxable income. For instance, let's say the Virginia Citizen is ACTIVE in the U.S. Military, or he works for a company whose "home office" is in Washington, D.C. (or some other federal district or territory, like Puerto Rico, American Virgin Islands, Guam, American Samoa, etc.). THEN, that Private Virginia State Citizen would have "taxable income" because his income was coming from "within the United States" (federal government's jurisdiction).

According to the Internal Revenue Code, the Citizens of the 50 States are properly, by birth and residence, "nonresident aliens", since they are "nonresident" to federal districts or territories and "alien" (foreign) to federal jurisdiction.

The only thing which gives the government jurisdiction and authority over your life pertaining to income taxes is your own election to volunteer to be treated as a "resident alien taxpayer", rather than the natural, free-born "non taxpayer" you have always been; and you made that election when you filed your first 1040 tax return. When the revocation of that election is completed, you are effectively removed from the jurisdiction of the federal "United States" in regards to income taxes - UNLESS, of course, you chose to receive income from a federal source. (And then, you'd be liable for income taxes ONLY on the income that was sourced in that manner).

> Let me give you an example, where Larken Rose reveals his lack of awareness of these distinctions:
>
> > On page 4 of the transcript of his interview with the IRS, the IRS agent says, "...taxable income from sources within the United States. Is that the same as taxable income?"
> >
> > Mr. Rose answers: "Where do you think I got my income from? All my income is from within the United States."

Now, I just finished saying that the only income for which a State Citizen would normally be liable for income taxes would be income from "within the United States". But we know that the words "United States," in that sentence in the Internal Revenue Code, mean "federal districts or territories" - NOT the 50 States, even though the 50 States can also be referred to as "the United States", for example, in the question, "In what Country do you live?"

So, from [THE COMPANY's] understanding and point of view, is the statement that Mr. Rose made to the IRS a correct statement? NO, it is not.

(Of course, if Mr. Rose has NOT completed a proper revocation of election process, then, regardless of his statement, he is, nonetheless, liable for income taxes by virtue of the adhesion contract which he voluntarily elected to enter).

Mr. Rose believes that his income is from "within the United States" because he does not see a distinction between "United States" meaning "ONLY federal districts or territories or enclaves, etc.", from an other meaning of "United States", which would more correctly apply in the case of his statement. But, if he had understood this distinction, he WOULD NOT have said, "All my income is from within the United States."

In other words, if Mr. Rose's income does not come from (is not sourced IN) a federal district or territory, does he have "income from within the United States"? NO. Does he then have "taxable income"? No. And THAT is why, by law, Mr. Rose is truly a "non taxpayer" and is not liable for paying income taxes on his income - EXCEPT for the likely fact that he voluntarily elected to be treated by the IRS - AS IF he were a federal citizen - the same way as we all did, i.e., by filing our first 1040 tax return, where we said we agreed with all the "statements" on that return, one of which said we were "U.S.Individuals" (giving the government the ground to consider us, and treat us as, "taxpayers"). As I've said before, this carries the same weight of "contract law" as in the case of one who voluntarily elects to sign the contract to join the military; and once we're in it, we can't just simply walk away.

That's why [THE COMPANY's] services are so valuable, because they straighten out that mess into which most of us got ourselves; and they do it according to THE LAW. We call the process they use, "The revocation of election process."

And THAT's why I seriously doubt the IRS will ever attempt such a move in [THE COMPANY's] case as they made on Larken Rose; and they certainly will not as long as they continue to follow their own law and rules and regulations. As long as the law stays pretty much the same as it's always been - nothing much will change in that regard; and [THE COMPANY] will go on being successful, in addition to the nearly 30 years we already know the revocation process has never failed.

Is this any guarantee for the future? No - I'm not going there. All this is based on the premise that the law doesn't change much from the way it is now. It hasn't changed much in over 90 years; I don't have a lot of reason to suspect it will change drastically anytime soon. But, then again; who knows? I know some people who firmly believe the IRS will soon be done away with.

In the meantime, [THE COMPANY] already has what works and which never fails to achieve the results where each client reduces her income tax to ZERO in almost every case, and where she no long has to look over her shoulder for fear of breaking the law.

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[4] Call Reminder

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The TAX EXEMPT Conference Call, takes place Wednesday night, November 14, 2001, (and every Wednesday) at 9 PM EASTERN time. The number is: 305-503-1874, pin code 940 (No # required).

I want to mention something to new readers and to folks who have never been on THIS conference call. This call is NOT what you may be expecting when I talk about a "conference call". A lot of people today are used to big sales-hype conference calls, with a lot of "Rah-Rah-Rah". This conference call is NOT a "sales" call. No one is trying to get you to enroll in something, or asking or suggesting that you try to get your friends to enroll. This is a TEACHING call. It consists almost entirely of questions and answers. It's a great place to hear other folks ask all sorts of questions, and get any questions of your own answered, and it provides you the opportunity to get a pretty well-rounded understanding of what this is all about in 45 to 90 minutes. I think you'll find it's one of the best $3 to $5 values you can find today. (The telephone long distance charges for most people).

May I ask, that when you call, you use a regular "connected-to-the-wall telephone", not an internet phone, a cellular phone, or even a cordless phone. Also, please, not a speaker phone, either, because often speaker phones seem to disrupt the quality of the call. Pressing the number 5 on your phone will mute your end of the line, so everyone can hear better; then, when you want to ask a question, you can press the number 4 to go off mute. If you can hear the noises, conversations, kids-playing, dishes clanging, and phones & faxes ringing where you are, we can hear it, too, and it makes it much more difficult to hear whoever is speaking at the moment. Thanks for your consideration.

If you like what you hear on the call, and you want to talk further to someone (including the call presenter) or ask more "personal" questions, remember how you heard about the call. No contact numbers are given out on the call, not because anyone is trying to hide anything, but because various representatives of [THE COMPANY] bring folks to the call. The call itself is not a "sales" forum and doesn't get involved in the sales "hierarchy".

See you on the call. Tell your friends about it, too.

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[5] Contact Information

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You may notice that I refer to [THE COMPANY} or to the founder of the company [THE FOUNDER] in various places throughout the Newsletter. I choose those expressions, instead of providing the actual names of the company or it's founder, for a couple of reasons...reasons which you'll also find reflected in my explanation of the copyright notice (below). I want to insulate [THE COMPANY] and [THE FOUNDER] from undue and unwarranted attention (especially negative attention or reaction), whether from a casual reader or from any taxing agency or authority, their attorneys, or representatives. Therefore, it is my desire that the reader be absolutely clear who is responsible for what appears in this newsletter. This newsletter is NOT sponsored directly by [THE COMPANY] or [THE FOUNDER], and while I believe I am being representative of [THE COMPANY's] and [THE FOUNDER's] philosophy, goals, ideals and the truth in law and in fact on which [THE COMPANY] stands to perform its valuable service for its clients (of which I am one), and while I may quote [THE FOUNDER], or someone else, I always seek to maintain each person's privacy, unless their words are already in the public (published) domain; thus I will take the heat for any negative attention, response or reaction.

Also, this allows anyone, including other representatives of [THE COMPANY], who find this information valuable, and who want to share it with others, to substitute their name and contact information for mine, and not have to worry about potential clients of the company going over their heads and bypassing them. Since [THE COMPANY] sponsored conference call and Joe Lansing, the conference call presenter, follow this same philosophy of client protection for their representatives, the information in this newsletter can, then, be more widely disseminated for the value and education of others. In the newsletter, I may occasionally use the name of the conference call presenter, Joe Lansing; but that's because he is also out in the public forum with his conference call.

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