



Click here to visit other RealCities sites

DAN GILLMOR'S EJOURNAL Daily on SiliconValley.com



Find a home



Help | Contact Us | Site Index | Archives | Place an Ad | Newspaper Subscriptions | News by

Back to Home > News >

Tuesday, Jan 21, 2003

Shopping & Servi

Search



Search the Archives

Bay & State

Posted on Tue, Jan. 21, 2003

9th Circuit finds fraud in IRS case

By Rhea Davis
ASSOCIATED PRESS

SAN FRANCISCO - A federal appeals court has ruled that the Internal Revenue Service committed fraud and acted deceptively after giving secret deals to two pilots in return for their testimony against 1,300 other pilots who had bought into the same tax shelters.

The 9th U.S. Circuit Court of Appeals on Friday overturned a previous ruling against the pilots, who were found guilty of tax evasion and were ordered to pay more than \$2 billion in penalties.

To remedy the IRS misconduct, the court ordered that all the pilots should receive the same deal that one of the pilots received.

As part of the secret deal, pilot John Thompson escaped paying the taxes he owed and received a \$60,000 refund through falsified tax returns prepared with help from the IRS. Thompson used the refund to pay his legal fees. He collected \$20,000 in interest, according to the ruling.

The second pilot, John Cravens, received a secret deal as well.

IRS lawyers Kenneth McWade and William Sims, who prosecuted the case, never revealed to the tax court that the two pilots' cases had been settled, much less revealed the conditions of the settlement.

The appeals court said that the lawyers' silence turned into outright misconduct when, during a trial, it became apparent that Thompson was going to testify about his settlement and McWade quickly shifted his question to unrelated topics.

The ruling requires the IRS to pay tens of millions of dollars in tax refunds, interest and legal fees to the pilots who paid the disputed taxes more than 20 years ago.

The court criticized the IRS for not taking serious action against the lawyers who tried the case. McWade and Sims were suspended for two weeks without pay. They both insisted in testimony that they had behaved properly.

- [Find a Job](#)
- [Find a Car](#)
- [Find a Home](#)
- [Find an Apartm](#)
- [Classifieds Ads](#)
- [Shop Nearby](#)



Incoming Message



One of the girls could waiting for date with y

Click Here!

- NEWS**
- >> [Breaking news](#)
 - >> [Columnists](#)
 - >> [Contra Costa County](#)
 - >> [Alameda County](#)
 - >> [Bay & State](#)
 - >> [Crime & Courts](#)
 - >> [Education](#)
 - >> [Health](#)
 - >> [Nation & World](#)
 - >> [Science & Environment](#)
 - >> [Transportation & Growth](#)
 - >> [Commuter Page](#)
 - >> [Where We Live](#)
 - >> [News home](#)

- [News](#)
- [Breaking News](#)
- [Sports](#)
- [TimeOut](#)
- [Business](#)
- [Weather](#)
- [Opinion](#)
- [Columnists](#)
- [Weekly sections](#)
 - >> [Arts & Entertainment](#)
 - >> [Home & Garden](#)
 - >> [Food](#)
 - >> [Money Matters](#)
 - >> [Perspective](#)
 - >> [Travel](#)
 - >> [Auto Plus](#)
- [Topics](#)
 - >> [Education](#)
 - >> [Health](#)
 - >> [Obituaries](#)

[Special Reports](#)

[Other editions](#)

[Hills Newspapers](#)

[Classifieds](#)

[CareerBuilder](#)

[Personals](#)

[Real Estate / New](#)

[Homes](#)

[Frequently asked](#)

[questions](#)

[Site index](#)

The IRS office in Northern California did not respond to requests for comment.

The group of pilots participated in an investment program and tax shelter designed by now-deceased Honolulu businessman Henry Kersting, who claimed the shelter was a legitimate investment.

The program allowed the pilots to purchase stock with loans from Kersting-controlled entities that were financed with promissory notes.

The investment enabled participants to claim interest deductions on their individual tax returns, according to the court.

The IRS discovered the scheme in 1981 and did not allow the deductions and sent bills to the pilots for additional taxes and penalties.



Good Morn
Silicon Val

SO
YOU THINK
YOU'RE A BIG
EATER?

Stocks

Enter symbol/compan



[email this](#)



[print this](#)