Volume 7 No. 2

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return (P) 19**96**

For the year Jan. 1–Dec. 31, 1996, or other tax year beginning , 1996, ending 19 OMB No. 1545-0074

ANTISHYSTER

Label (See page 11)
Use the IRS label. Otherwise, please print or type.
Presidential Election Campaign (See page 11.)

Your first name and initial | Last name | Your social security number

Do you want $3 to go to this fund? Yes No
If a joint return, does your spouse want $3 to go to this fund? Yes No
Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status Check only one box.

1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See instructions.)

Exemptions

6a ☐ Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a
b ☐ Spouse
c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Relationship	(4) No. of months lived in your home in 1996

If more than six dependents, see the instructions for line 6c.

d Total number of exemptions claimed

Income

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see the instructions for line 7.

Enclose, but do not attach, any payment. Also, please use Form 1040-V. (See the instructions for line 62).

7 Wages, salaries, tips, etc. Attach Form(s) W-2
8a Taxable interest. Attach Schedule B if over
b Tax-exempt interest. DO NOT include on line 8a 8b
9 Dividend income. Attach Schedule B if over
10 Taxable refunds, credits, or offsets of state and local income taxes (see instructions)
11 Alimony received
12 Business income or (loss). Attach Schedule C or C-EZ
13 Capital gain or (loss). If required, attach Schedule D
14 Other gains or (losses). Attach Form 4797
15a Total IRA distributions 15a b Taxable amount (see inst.)
16a Total pensions and annuities 16a b Taxable amount (see inst.)
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
18 Farm income or (loss). Attach Schedule F
19 Unemployment compensation
20a Social security benefits 20a b Taxable amount (see inst.)
21 Other income. List type and amount—see instructions
22 Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶

Adjusted Gross Income

If line 31 is under $29,295 (under $9,500 if a child did not live with you), see the instructions for line 54.

23a Your IRA deduction (see instructions) 23a
b Spouse's IRA deduction (see instructions) 23b
24 Moving expenses. Attach Form 3903 or 3903-F 24
25 One-half of self-employment tax. Attach Schedule SE 25
26 Self-employed health insurance deduction (see inst.) 26
27 Keogh & self-employed SEP plans. If SEP, check ▶ ☐ 27
28 Penalty on early withdrawal of savings 28
29 Alimony paid. Recipient's SSN ▶ 29
30 Add lines 23a through 29 30
31 Subtract line 30 from line 22. This is your **adjusted gross income** ▶ 31

Mandatory or Voluntary?

AntiShyster News Magazine

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". . . it does not require a majority to prevail, but rather an irate, tireless minority keen to set brush fires in people's minds."
– Samuel Adams

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Volume 7 Number 2 focuses on the curiousities, ambiguities and mysteries of the IRS, the income tax and money.

Confessions of a Compliant Taxpayer

by Dwight R. Lee

Dr. Lee is Ramsey Professor of Economics at the University of Georgia.

There is a seemingly incredible argument raging between the IRS and members of the "patriot" and "constitutionalist" communities. Although there are scores of variations on that argument, the fundamental controversy boils down to this: is compliance with federal income tax laws "mandatory" or "voluntary" for average Americans?

The patriot community fairly screams that income tax compliance is almost universally voluntary -- and receives little or no media attention for its arguments. The IRS, on the other hand, seems unwilling to dignify (or publicly confront) the patriots' "voluntary" arguments, but implicitly proves the income tax is mandatory by filling the media with stories of folks who are jailed for noncompliance.

The significance of the mandatory/ voluntary argument is enormous. First, if the patriots are correct and income tax is normally "voluntary", then there is no legal requirement to file a 1040 and pay income tax and American "taxpayers" can choose not to "voluntarily" send their earnings to Washington.

Umm. Just imagine being paid your entire paycheck each week, and not having to send all that withholding to Washington, not having to worry about paying more money on April 15th, or worse, being audited. The prospect of keeping all of your money for yourself is enticing, warmly seductive, and . . . nah, it's just not possible! Besides, if the income tax were truly "voluntary", it would mean our government has been intentionally deceiving us, falsely jailing us, terrorizing us with fraudulent IRS laws for half a century and nobody's caught on. It would mean our government's been intentionally robbing us for most of our lives.

From the public's point of view, as attractive as the "voluntary" argument seems, it's just not possible. Surely, the last fifty years of April fear could not be built on pure government fraud. The "voluntary" argument may be clever but --hey, it's just not possible, right?

Of course not.

And so, convinced the income tax is "mandatory", the public has "voluntarily" filed their 1040's and paid their "fair share" for the past fifty years. Just the way government likes it.

Nevertheless, this issue of the AntiShyster will explore the patriots' impossible claim that the income tax is voluntary. As bizarre as their claim may seem, there is supporting evidence and stranger still, the IRS can't quite refute their claims.

More importantly, the IRS admits there are 10 million non-filers and the number is growing by about 1.5 million per year. Other researchers claim the real number of non-filers may be between 30 and 40 million. It's certain that virtually all of these millions of non-filers believe that compliance with income tax laws is "mandatory" -- but nevertheless, they are refusing to "voluntarily" comply.

Which brings us to a central ambiguity in tax law: even the IRS admits in its own documents that our "tax system is based on voluntary compliance." Of course, the IRS hastens to add that the laws are still "mandatory", but essentially unenforceable without the taxpayers' voluntary compliance .

For example, although there were roughly 1.5 million new non-filers last year, the IRS only files about 3,000 criminal charges per year, nationwide. If you divide 3,000 into 1.5 million, you'll see that it will take the IRS approximately 500 years to criminally prosecute last year's new non-filers. Unfortunately, most of those non-filers will be long dead before the IRS gets to 'em. Further, the IRS already has a backlog of at least 10 million non-filers who, at current criminal pros-

ecution rates, should all be indicted, prosecuted, jailed or fined by the year 5,300 A.D. (assuming no more non-filers join the stampede).

Clearly, as a practical and political matter, our tax system is "voluntary". Despite all the hype about IRS terror tactics, government simply lacks the resource to overcome large scale public resistance to income tax compliance.

The patriot argument deals with the law itself -- not the politics. Does the law specifically mandate compliance, or is our compliance truly, legally "voluntary"? In this issue, we'll consider some of the patriots' technical, legalistic arguments. But first let's look at the larger political issues of 1) whether our government deserves our tax money; and 2) deserving or not, whether we can afford to continue paying at current rates.

For example, does our government truly deserve our tax dollars if the fundamental enforcement mechanism is fear?

I'm afraid of the IRS, so I always pay at least as much, and probably more, than I owe in federal taxes. I confess this with apologies to my fellow taxpayers, particularly those who don't do as I do.

You have all heard, and most of you believe, that honest taxpayers are victimized by tax evaders. In an April 1995 *Money* magazine article, for example, Teresa Tritch tells us, "All told, individuals and corporations are expected to shortchange their fellow taxpayers by an estimated $150 billion this filing season. That adds $1,932 to the average tax bill of every honest taxpaying U.S. household." This sounds plausible enough at first glance, but it is based on two naive assumptions about how government operates: first, that the government needs some fixed amount of money and so if it receives less from one taxpayer it compensates by taking more from another; second, that we are better off when the government spends more of our money. Neither assumption is supported by our experience with government, or by the logic of the political process.

If the government required only a fixed amount of money each year, we could hope to reduce the federal deficit by increasing tax revenues. Unfortunately, the federal government spends more than a dollar for every dollar it gets. The budget deficit fluctuates from year to year, but over recent decades it has tended to increase as federal revenues increase. So if some of my fellow taxpayers pay more taxes than required, my taxes are not reduced. Quite the opposite. The government would respond to the additional money by committing to new spending that will grow faster than anticipated, with yet more money and larger deficits being required, and I end up with a larger tax burden. Conversely, if some taxpayers underpay, my taxes will be lower, not higher, than they otherwise would be. And government spending will also be less.

But if I benefit from additional government spending, I might be worse off even if my taxes are lower because others underpay. What I gain in lower taxes might be more than offset in lost government benefits. But do I, or does anyone else, benefit from additional government spending?

This may seem like a silly question. Someone always benefits from a transfer, a subsidy, or a service when the government spends more money. But those benefits always have to be paid for by someone. So the important question is, are the benefits from additional government spending worth the costs? When

the government spends more money, are the additional benefits I receive from expansions in my favorite programs worth as much as I have to pay for expansions in the programs of others? For most Americans the answer is no.

Up to a point, federal spending for defense, law and order, and other necessities is worth more than it costs. But the logic of the political process suggests that we are well beyond that point. Consider that political decisions are far more responsive to relatively small groups, each organized around a common concern, than to the general public. For example, a water diversion project concentrates large benefits on relatively few farmers who are strongly motivated to form a coalition supporting the project. The cost of the project is spread so widely over the general public that few taxpayers know the cost, and almost no taxpayer sees any advantage in organizing opposition to the project. Politicians know that a vote favoring the project will be deeply appreciated by the few getting the benefits and ignored by the many paying the bill. Thus, government projects are funded beyond the point where they are worth what they cost. For example, in California water that costs taxpayers over $200 per acre-foot to provide is sold to farmers for $3.50 per acre-foot so they can grow rice in the desert.

Farmers are not alone in using the political process to capture benefits worth less than they cost taxpayers. Indeed, the fiscal relationship between local governments and the federal government causes everyone to support wasteful government spending. About 66 percent of our tax dollars now go to the federal government (up from about 33 percent in 1929), with most of these dollars being returned to states and localities through federal spending on a variety of programs, projects, and transfers. Taxpayers everywhere want their political representatives to retrieve as many of their federal tax dollars as possible, and they are not particular about how those dollars are spent. They will accept almost any project, no matter how little it is worth relative to cost, since the benefits accrue primarily to them and the cost is paid primarily by others. Their tax burden will not be increased noticeably if more federal spending is secured locally, nor will their tax burden be reduced noticeably if it is not. No matter how much the public may oppose wasting tax dollars in general, each local constituency prefers that more be wasted in their district rather than in others.

In essence, taxpayers are caught in a perverse fiscal game in which it is individually beneficial to demand federal spending that is collectively harmful. The only possible winners are federal functionaries to whom taxpayers must pay tribute for the privilege of plundering one another. The government has become, in the words of the nineteenth-century French philosopher Frederic Bastiat, "that great fictitious entity by which everyone seeks to live at the expense of everyone else."

The only way to reduce the waste in this game of fiscal folly is by reducing the tax money pouring into the federal coffers. Except for a few who receive more benefits from their favorite government programs than they pay to support the programs of others, we are better off when the federal government has fewer dollars to spend. So most of us benefit when others don't pay their "fair share."

I want to emphasize that I am not advocating tax evasion. But we would be well served if law-enforcement resources were shifted away from the IRS and directed against those whose criminal behavior victimizes law-abiding citizens. Let's do more to punish those who rob, assault, and murder, and less to punish those who want to keep more of the fruits of their labor.

Perhaps the fundamental question is not whether our income tax is "mandatory" or "voluntary", but whether our income tax is "affordable", "survivable", or "intolerable".

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When the alleged duty to pay income tax is challenged by Christians, IRS agents and even judges will remind the Christian of Mathew 22:21 where Jesus said:

"Render unto Caesar that which is Caesar's, and unto God that which is God's."

Historically, this passage has been used by government to confirm the Christian's duty to pay taxes to a nation's "Caesar" or ruling sovereign -- and rightly so.

However, here in the United States of America, that passage does not apply to private citizens but only to government employees. Why? Because the United States of America is the only country on Earth where the People are sovereign and government employees are public servants. Here, the duty to "render unto Caesar" falls on shoulders of the public servants, not the common people. Here, government is obligated to obey the People's laws and government employees are obligated to pay taxes to the People.

The Moral Case for the Flat Tax

by Steve Forbes

Steve Forbes is president and CEO of Forbes Inc. and editor-in-chief of Forbes magazine, which is the world's largest business journal. His bid for the 1996 Republican presidential nomination on a pro-growth, pro-opportunity platform was one of the top news stories of the election and brought his now-famous "flat tax" proposal to the forefront of the national debate.

However, Mr. Forbes' "tax resistance" signals more than a mere promotion of an alternative taxing system. His criticism of the existing tax system illustrates that the tax resistance movement is not confined to the lower- or middle-class folks who comprise most of the patriot/ constitutionalist movement. As Mr. Forbes demonstrates, the need for radical tax reform is perceived and publicly advocated by wealthy and influential people, too. As a result, it is increasingly difficult to dismiss tax resistors as "kooks" and their arguments as "unbalanced". Although Mr. Forbes might disagree with specific tax resistor arguments presented in the balance of this issue of the AntiShyster, he obviously agrees with the spirit that inspired those arguments and the goals those tax resistors hope to achieve. When upper, middle, and lower classes agree that taxes are so high they are dangerous and corrupting, the IRS' days are numbered.

Capitalism works better than any of us can conceive. It is also the only truly moral system of exchange. It encourages individuals to devote their energies and impulses freely to peaceful pursuits, to the satisfaction of others' wants and needs, and to constructive action for the welfare of all. The basis of capitalism is not greed. You don't see misers creating Wal-Marts and Microsofts.

Capitalism is truly miraculous. What other system enables us to cooperate with millions of other ordinary people — whom we will never meet but to whom we will gladly provide goods and services -- in an incredible, complex web of commercial transactions? And what other system perpetuates itself, working every day, year in, year out, with no single hand guiding it?

Sadly, the vast majority of liberals and even many conservatives-persist in viewing capitalism as merely an "economic" system, forgetting, as Warren Brookes wrote in *The Economy in Mind* (1982), that economics is a metaphysical rather than a mathematical science, "in which intangible spiritual values and attitudes are at least as important as physical assets, and morals more fundamental than the money supply." He concluded that "a national economy, like an individual business or a specific product, is the sum of the spiritual and mental qualities of its people, and its output of value will be only as strong as the values of society."

Flat tax advocates like myself are often criticized for focusing too much on "dollars and cents" issues instead of on moral issues. But as the philosopher and essayist Ralph Waldo Emerson said 150 years ago: "A dollar is not value, but representative of value, and, at last, of moral value." More recently, scholars like former education secretary Bill Bennett and Nobel

Prize winning economist Milton Friedman have pointed out that every time you take a dollar out of one person's pocket and put it into another's, you are making a moral decision.

Taxes are not simply a means of raising revenue; they are also a *price*. The taxes on our income, capital gains, and corporate profits are the price we pay for the "privilege" of working, being productive and successful. If the price becomes too high, we get less of these things. If the price we pay is lowered, we get more. So taxes are a barrier to progress, and they punish rather than reward success. Remember, says investor T. J. Forstmann, "No government has ever borne the cost of anything. Taxes cost people. Tax cuts do not cost government."

The 1981 Kemp-Roth bill and the 1986 tax reform bill reduced individual income tax rates to levels unseen in more than half a century, and helped create an unrivaled period of prosperity. Yet today, many of our policy-makers ignore or deny the positive benefits of those tax cuts.

Families with children are hardest hit by high taxes. According to the Family Research Council, in 1948, a family of four at the median income paid 2 percent of its income in federal taxes; in 1994 the figure was 25 percent. That's why families feel they're on a treadmill and the treadmill's winning.

If we want to help families in this country, I can't think of a better option than the flat tax. True, across-the-board tax cuts proposed by Republican and even some Democratic leaders are an important step in the right direction and will do enormous good, but we should not stop there.

We should scrap our existing, monstrous tax code. The Gettysburg Address runs about 200 words. The Declaration of Independence runs about 1,300 words. The Holy Bible runs about 773,000 words. But our federal income tax code has seven million words and grows longer every year.

How taxes corrupt

Political corruption. Today's tax code is incomprehensible, even to tax collectors. It is the principal source of corruption in our nation's capital. Politicians have been trading favors and loopholes for political contributions and support for so long that they have come to think that this is acceptable, even virtuous, behavior. There are almost 13,000 registered lobbyists and special interest groups which comprise the largest private sector industry in Washington, D.C. Over half of them are there for the precise purpose of manipulating the tax code to their own advantage. As House Majority leader Dick Armey warns, this not only costs our economy billions of dollars but turns the political process into a special interests free-for-all.

Washington attorney Leonard Garment says, '"Whatever corruption may exist here is what happens wherever government is given large amounts of money to dispense, great power over people's lives, and great discretion in using that power; whether it is in a poverty program, or the Small Business Administration, or the Department of Defense. . . . It is a corruption that occurs almost universally when government has too much discretionary power and individuals too little."

Civic corruption. Taxes also have a corrosive impact on our civic life. Our individual sense of responsibility and trust is destroyed — eaten by the acid of big government spending sprees and confiscatory taxes. Today, many of us view taxes as a form of legalized plunder; and we have little faith that the earnings we are forced to surrender to Uncle

Sam will be used wisely or properly. So we look for ways to avoid compliance with the tax code whenever possible. We don't think of ourselves as "tax cheats" but as "tax rebels." But no matter what we call ourselves, we have the uneasy sense that high taxes, like welfare, can steal our sense of self-reliance and integrity.

Cultural corruption. When we look around our nation, we see more illegitimacy more illiteracy, more crime, more drug abuse, more broken families, and more members of a permanent underclass than ever before. In the name of "compassion," we heave spent trillions of tax dollars on all these crises, and all we have done is to make them worse.

If we truly wish to be compassionate, we should adopt a flat tax that exempts the poorest citizens and offers all Americans real and practical ways to climb the ladder of successful living. Moreover, the flat tax allows *us* -- not the federal government -- to decide how best to solve our own problems, increases personal responsibility and sends a powerful moral message to Washington.

What is the flat tax?

The flat tax is a simple, fair, and uniform system with widespread support from Nobel Prize winning economists as well as former cabinet members and other political leaders. It is a moral system because it means more take-home pay for wage earners, more savings and investment, more businesses, more jobs, more efficiency, more products and services, more price cuts, and more personal decisions as opposed to state planning.

When people can keep more of what they earn, they tend to spend it on their children's education, on preparing for careers, on solving social problems, on going to church, and on volunteering instead of working overtime. The flat tax can actually provide a moral imperative to rebuild our lives and our communities.

Under my flat tax proposal, every individual would have a tax exemption of $13,000; every child, $5,000. For a family of four, the first $36,000 of income would be free. (There would be generous exemptions for smaller and larger families and for single individuals, too.) Currently, a family of four typically owes over $3,000 in taxes for the first $36,000 in income. With the flat tax, they would owe nothing, and their income over $36,000 would be taxed at a flat 17 percent rate. There would be no tax on personal savings, pensions, Social Security benefits, capital gains, or inheritances. For businesses, the 17 percent rate on net profits would also apply, and investments would be written off in the first year. Constantly changing and complicated depreciation schedules would be eliminated. The IRS would no longer be able to define arbitrarily the life of an asset.

The flat tax would stimulate America's economy, but it has been attacked through a nationwide campaign of misinformation based mainly on six myths:

Myth 1: The fiat tax would raise taxes on the middle class.

How many families of four do you know that have $36,000 of exemptions under the current tax code? The flat tax will actually lower taxes on the middle class. Yet one New Hampshire state official ran ads during the last presidential primary saying the flat tax would hike taxes on families of four in his state by $2,000-$3,000. How did he come up with these numbers? He ignored the $36,000 tax exemption and applied the 17 percent to their entire income.

Myth 2: The flat tax would hurt the housing industry and property owners.

Even President Clinton's Treasury Department acknowledges that the flat tax would lower interest rates by one-fourth to one-third. Lower interest rates mean lower down payments and monthly mortgage payments. More people can become homeowners for the first time, and current homeowners can save more of their earnings for other expenses. The need for mortgage deductions (which would be phased out gradually rather than all at once) would end because the flat tax would bring far greater savings and superior benefits.

Myth 3: The flat tax would destroy municipal bonds.

Lower interest rates introduced by the flat tax would not hurt existing or future municipal bonds. New purchasers would be more concerned with where their money was going than how their taxes were affected. This would lead to greater accountability in public finance, and bond prices might even rise a little as general interest rates came down.

Myth 4: The flat tax would hurt charitable giving.

The American people don't need to be bribed by the tax code to give when they live under a fair and equitable system. We were a generous and giving nation long before the federal income tax was instituted. And the tax cuts in the 1980s actually resulted in a huge, historic increase in charitable giving. In short, when the American people have more, they give more.

Myth 5: The flat tax is a giveaway because investment income (or what liberal economists love to call "unearned income") would not be taxed.

Wrong: Under the flat tax, all income would be taxed. But investment income would be taxed only once instead of two or three times as the current code mandates. When a company makes a profit, it would pay a 17 percent rate tax.

Myth 6: The flat tax would increase the budget deficit.

The only way we are going to cure the budget deficit is by cutting government spending and cutting taxes. This will lead to an economic boom. In the 1960s and 1980s, tax cuts increased rather than decreased government revenues. Why? Because, as I mentioned earlier; taxes are a price. When the American people can keep more of the resources they create, they create more resources. And whenever tax rates are reduced, compliance goes up because people find it easier to work productively than to figure out how to get around the shoals of the tax code.

The flat tax would mean more than just a financial savings — it would save time, too. Right now; individuals and businesses spend more than five billion hours a year filling out tax forms. The flat tax form would be the size of a postcard and would take almost no time to fill out. Imagine what we could achieve with all the time we would save. Imagine the benefits for our families, our schools, our churches, our charities, our communities, and our businesses.

Let individuals choose

There is a moral case for the flat tax because the flat tax is fundamentally about freedom. I am not talking about the freedom that the great free market economist Ludwig von Mises condemned as the freedom to "let soulless forces operate." That is not freedom at all; that is just tyranny in another guise. Rather, I am talking about the freedom to "let individuals choose."

Time and time again, evidence has shown government cannot preserve our families, reawaken our faith, restore our values, solve our social problems, or create prosperity. Only free individuals can.

Inside the Federal Hurting Machine

by James L. Payne

Dr. Payne is director of Lytton Research and Analysis in Sandpoint, Idaho. His latest book is *Costly Returns: The Burdens of the U.S. Tax System*, published by ICS Press.

If politicians give someone $1,000, press reports emphasize the wonder of the gift and explain how it has eased suffering and restored hope. But when politicians take away $1,000 in taxes — even from the same person! — it is a nonevent. The prevailing assumption is that when government is handing out money, its subsidies and payments are desperately needed, and serve a vital national purpose. When government is taking in money, even from the same people it has just subsidized, the cash being collected is seen as limp and lifeless, a surplus wealth of taxpayers who have no good use for it.

The underlying cause of this remarkable lapse in reasoning is the popular urge for wishful thinking. With the exception of a few crusty reactionaries, people want to believe in government. They want to see it as a source of hope and help, an agency that can give them college educations, art museums, pensions, and free medical care more or less out of thin air. To remind them that they will be forced to pay every single penny these things cost, and much, more, is a cruel party pooper. So when it comes time to examine the injuries of taxation, people stick cotton in their ears and turn the TV to full volume.

But no government spending program can be justified unless its benefits exceed the costs of taxing people to pay for it. Policy makers who approve spending programs without knowing about the costs of taxation behave irrationally and may well be doing enormous harm to the country.

Compliance costs

To begin our exploration, we need to distinguish between two types of costs: the cost of taxes, and the cost of the tax system. The taxes are the monies taken from the public, to be spent by government. While politicians make great efforts to hide, distort, or forget about this figure, at least it is known and documented. Anyone can look it up in a standard reference book. For this reason, we shall not dwell upon it here.

The burdens of the tax system, on the other hand, are almost entirely unnoticed and unreported. These are the direct and indirect costs of operating the system that forces people to pay taxes. After all, the money that government collects and spends does not fly into the Treasury on wings of its own. Citizens have to be prodded, and all this prodding, and dealing with the prodding, costs the American people more dearly than anyone has realized.

One of the main burdens of the tax system is the compliance cost: the time and energy people spend keeping records, studying tax instructions, making calculations, and filling out forms and schedules. The most complete study we have of this burden was carried out by the Arthur D. Little Company at the behest of the IRS itself (which had been forced to commission the study by the 1980 Paperwork Reduction Act). The Little study found that, in 1985, businesses and individuals were spending 5.4 *billion* hours on federal tax compliance activities. This corresponds to 2,900,000 people — the entire

work force of the state of Indiana — working *all year* long on federal tax compliance activities. The cost of this work amounts to 24% of all federal taxes collected.

This carefully documented figure (which is supported by several other academic studies) has been ignored in Washington. Instead of working to reduce the paperwork burden, tax administrators and Congressmen keep adding to it with a steady flow of laws and regulations. Economist Joel Slemrod found that in the 1980s, especially as a result of the 1986 tax act, tax compliance burdens for individuals increased 26%; the increase for businesses was undoubtedly even greater.

A number of scholars have tried to tell congressional tax managers they are sowing disaster. Economist Richard Vedder put it this way, to a Congressional committee in 1984: "If an enemy power bent on destroying our nation were somehow given the opportunity to devise our tax code with a goal of sapping the nation of its economic vitality . . . it could do little better than adopt our current Internal Revenue Code." Law professor Richard Doernberg flatly declares, "The United States now has the most complex tax laws in the history of civilization."

Forgone production costs

The high cost of compliance is not the greatest burden of the tax system. An even larger drain is the economic disincentive cost. Ever since Adam Smith, scholars have known that taxation hurts the economy. It denies workers, entrepreneurs, and investors some of the fruits of their creative activity and therefore discourages their contributions. Recently, economists have begun making calculations about the size of the economic loss caused by the tax system. One estimate for the entire tax system, by Charles L. Ballard of Michigan State and his colleagues, published in the *American Economic Review* in 1985, put the disincentive effect at 33.2%. That is, to raise an additional $100 in taxes causes a loss of $33.20 in lost production-on top of the $100 in taxes paid. Another study, reported in 1990 by Harvard economists Dale W. Jorgenson and Kun-Young Yun, put the disincentive cost for the tax system even higher, at 38.3% of tax revenues raised.

America saw a small illustration of how the disincentive effect operates when Congress put a tax on pleasure boats in 1990: A strong export industry was almost destroyed and thousands of workers lost their jobs. In 1993, Congress recognized its error and repealed the tax. Unfortunately, Congress hasn't gone further and recognized that all its taxes go on destroying jobs day after day. They add to the cost of doing business and therefore cause scores of thousands of businesses to fail and discourage scores of thousands of other possible businesses from ever being started.

Noncompliance costs

Another burden of the tax system is enforcement — the cost of dealing with those who don't comply with the tax code. Taxation, we need to remind ourselves, is based on force and the threat of force. At first glance, this makes it seem an efficient way of raising money. Generations of eager spenders have embraced it with just this hope in mind: the threat of force should make the money flow in automatically.

What they overlook is that human beings resent being forced to do things against their will. This contrary streak leads them to resist tax collectors. The result is that instead of a smooth hum of money pouring effortlessly into the Treasury, taxation turns into a costly, and often tragic, guerrilla war. To compel the population to conform to its demands, the government has to operate a burdensome enforcement program.

The reader might find it instructive to try to guess how many levies the IRS issues each year. A levy is an order directed to entities like banks and employers forcing them to send the taxpayer's money to the government-a routine IRS seizure of property without due process of law. For the individuals involved, a levy is a personal catastrophe. Funds have been seized, credit destroyed, financial plans and dreams wrecked, and businesses shuttered. How many of these devastating enforcement episodes are necessary to make the tax system work?

Raised in a culture of spending that fosters the illusion of government as a beneficent cornucopia, Americans suppose this

number is trivially small. In fact, it is a national scandal. For 1992, the IRS reports issuing 3,253,000 levies. Because of double-counting and IRS clerical errors, this figure overstates the number of human beings affected; a correction for these distortions reduces this figure by half, to about 1.6 million people affected. This is still a sizeable chunk of humanity, more than the entire population of Nebraska.

This avalanche of levies constitutes only a small fraction of all enforcement actions. To keep the money flowing into the Treasury, the IRS also issues liens, which freeze taxpayer assets (1.5 million); sends out under-reporter notices, which allege taxpayer underpayment of taxes (3.8 million), and non-filing notices, which allege a taxpayer failure to file a tax return (1.5 million); conducts personal audits of taxpayers (1.0 million), and mail audits and service center corrections (0.5 million); and imposes some nine million filing and payment penalties. In addition, it pursues about 6,000 criminal prosecutions, trying to jail people for failing to adhere to the tax code.

Naturally, the human beings caught in these snares struggle, expending enormous time and energy trying to keep their funds and prove the IRS wrong. In the under-reporter program, for example (where over *half* of the IRS accusations turn out to be wrong), I have estimated that Americans spend 30 million hours yearly reacting to the worrisome brown envelopes: studying the notices, examining tax law, reviewing tax data, discussing their cases with friends and advisors, and composing letters of protest. The level of tax litigation — the audit appeals, court cases, and tax rulings — is running at 195,000 cases a year.

According to my calculations, the monetary cost to the American public of dealing with

edy or divorce. That the money is being raised in a good cause does not lessen the human pain. Consider the 1988 suicide of Alex Council. The victim of an erroneous IRS lien that ruined him financially, he shot himself and left a suicide note instructing his wife to use his insurance money to pursue the legal case against the IRS — which she eventually won.

Tax avoidance and evasion costs

To function efficiently, a tax system needs citizen cooperation. Unfortunately, by relying on force, the tax system undermines its claim to taxpayer goodwill. Instead of happily cooperating with tax collectors, citizens scheme to confound them.

In the United States, high tax rates and the impossibly complex tax code have made tax evasion and avoidance a major industry. Unfortunately, it is a completely unproductive industry, feeding and housing no one. It is merely the wasteful struggling of human beings trying to avoid the exactions of government.

Some citizens avoid taxes by taking their economic activity underground. I estimate there are at least 2 million people with significant potential tax liabilities who are driven underground by the tax system (another 2 million have gone underground as a result of immigration and drug laws). In attempting to avoid taxation, they have reduced their own productivity and therefore that of the

vice. To avoid estate taxes, millions of people hire lawyers to devise and administer estate tax shelters. Highly skilled legal professionals work week in and week out drawing up grantor retained income trusts, generation-skipping trusts, and so on. Another class of skilled professionals is busy exploiting the tax avoidance potential of foreign tax havens, while yet another group manages the massive paperwork that makes possible retirement tax shelters. All told, by my estimate, the nation wasted some $19 billion in tax avoidance and evasion activities in 1985 — a figure that has probably about doubled since then.

Adding up the costs

When all the burdens are added together, what is the monetary cost of the U.S. federal tax system? According to my calculations, in 1985, the burden was $363 billion. In dynamic terms, the burden is *65% of the taxes collected*. This figure represents the only attempt anyone has made to estimate the cost of the tax system. Studies have been made of some of the sub-costs, but no one else has been prompted to add the numbers together to calculate a total cost.

The absence of other estimates is remarkable because, as we noted at the beginning, it is impossible to make rational decisions about government spending programs unless the costs of raising the money are factored in.

Economists should have noticed, for example, that their theories about the social benefit of government subsidies are meaningless unless tax system costs are known. It's like trying to calculate whether a plane can fly without knowing its weight.

One excuse that policy makers might give for not considering the costs of taxation is the assumption that these costs are fixed. In order to raise the first dollar of taxes, this argument would go, the entire $363 billion burden noted above is incurred. Therefore additional tax dollars raised for additional spending programs entail no further costs. However, the costs in the tax system don't work this way. The majority of the costs not only increase with the tax rate, but they do so *exponentially*.

The disincentive cost, as it is calculated by economists, is tied to the square of the tax rate: *double* the money you try to raise and you *quadruple* the cost in lost production, people thrown out of work, and so on. Most of the costs associated with enforcement, evasion, and avoidance also go up exponentially with the tax rate. As more money is at stake, it pays taxpayers to work harder to keep tax collectors from getting it. Even compliance costs are variable. When taxes are raised to pay for more spending programs, tax avoidance goes up, which in turn prompts the tax authority to issue more regulations to prevent it. The result is a more complex tax system and higher compliance costs.

The overall picture, then, is that tax system costs increase along with the level of taxes. The 65% figure noted above is a marginal cost figure: if taxes are raised another $100 million to pay for another spending program, an additional $65 million cost will be imposed on the economy.

We return to our point: *why have policy makers ignored these costs?* The answer appears to be the powerful social convention against weighing the *costs* of taxation. Legislators and their publics want to believe in government as a helping machine, and it spoils the illusion to be told that it is, at the same time, a hurting machine.

Consider how programs to create jobs are discussed in Washington. Common sense tells us that any government spending program designed to create jobs must also cause unemployment. After all, the taxes imposed to pay for it drain money away from investors who would have opened new businesses, and from consumers who would have employed workers through their purchases. When we add to this common sense analysis our knowledge of the costs of the tax system, it becomes clear that *a jobs-creation program could well destroy more jobs than it creates*. Therefore, anyone proposing a jobs-creation program ought to give Congress two figures: the number of jobs the program hopes to create, and the number of jobs the taxation to pay for the program is expected to destroy.

This, of course, is never done, because telling the whole truth would make the project look foolish. Journalists would question the sanity of a President who proposed to create jobs by destroying them.

Affordable health care?

Take another issue: government provision of medical care. The responsible policy maker would have to point out that government is not a something-for-nothing machine. It cannot pay for health care unless it first takes money away from the citizens it wants to help. Furthermore, it can never return to them the full value of their contributions. The administrative overhead — the bureaucracy, the pa-

perwork, the overcharging, the fraud, the disputes over benefits — are bound to consume a large fraction of resources devoted to the spending program, probably around half of the funds. In addition to this waste, there is the 65% cost of raising the money through the tax system.

Hence, the overall arithmetic for a government health care system would look something like this: To raise $100 in taxes to fund the system costs an additional $65, and then government administration and waste consume about half of that $100, or $50. So for an initial $165 total burden, the citizen will get $50 worth of medical care out of the system. This is the bedrock statistic that Washington's health care analysts should be telling the American people: A government health care system is going to cost the average person *three times as much as paying medical bills out of his own pocket.*

Alas, no one mentions any such figure. Legislators, eager to appear well-intentioned, ignore the down side of their proposals. That makes as much sense as counting benefits but never costs. Less excuse can be found for the silence of the technical specialists, the thousands of experts working for Washington's alphabet soup of research agencies, the 0MB, the GAO, the CBO, and so on. These professionals are paid huge sums of taxpayer money to find out about policies and inform the country about their true costs. Yet no one in any of these agencies has compiled any estimate of the overhead cost of tax-and-spend programs.

Ignoring the costs of taxation has gone on long enough. It's time to put aside our childish faith in government and take a frank, careful look at the human costs of its optimistic endeavors.

What Does a $1 Billion Federal Program Cost?

The budgeted price tag: **$1,000,000,000**

Plus, additional tax system costs:

Compliance (24.4%): **244,300,000**

Forgone production (35%): **350,400,000**

Enforcement (1.97%): **19,700,000**

Avoidance/ evasion (2.9%) **29,600,000**

IRS budget (0.61%) **6,100,000**

True Total Cost to Fund a $1 Billion Federal Program: $1.65 Billion.

Source: adapted from Costly Returns; The Burdens of the U.S. Tax System, by James L. Payne (ICS Press, 1993)

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Waco: The Rules of Engagement

by Dick Reavis

Mr. Reavis, author of The Ashes of Waco (Simon & Schuster, 1995) was the lead witness before the House Hearings on Waco. He was interviewed for the documentary, "WACO: The Rules of Engagement," and his review of this film follows.

This is the AntiShyster's first "film review". I include it not only because the Internet buzz indicates this movie presents powerful evidence that government intentionally caused the fiery deaths of the Branch Davidians, but also as an example of your tax dollars in action. Our "voluntary" income tax contributions paid for the armed BATF troopers who first stormed the Davidian's home. Our income tax contributions paid for the psy-ops personnel and loudspeaker system that assaulted the Davidians at night with the recorded screams of dying rabbits and Tibetan death chants. Our income tax dollars funded the tanks and government personnel that trapped, terrorized, and eventually killed the Branch Davidians.

It's bad enough that government wastes the majority of the tax revenue it collects. But it's at least criminal, and probably treasonous, that some of that tax revenue should be used to make overt war on the American people.

Did the Waco holocaust increase the rate of "voluntary" income tax compliance? I think not. And rightly so. A government that has enough money to murder its own people has too much money.

A new film about the 1993 events at Mt. Carmel in Waco, Texas, is making its way onto the film festival circuit. The 2-hr-44-minute documentary, *Waco: The Rules of Engagement*, opened at Utah's Sundance Festival in January, played at Texas A&M's Film Festival in February, a San Francisco art theater in March, and is scheduled for the Houston Film Festival in April and New York's Human Rights Film Festival in June. It's an unusual production, playing to unexpectedly large audiences, and its appeal has something to say about the shifting lines — or groundlessness — of traditional political labels.

Rules of Engagement is not the child of a garage or attic studio: it has cost nearly a million dollars, and as documentaries go, it has the feel of a real flick; dramatic structure, soundtrack, tear-jerk ending, the works. If its visual compositors, director William Gazeki and TVdocu-dramatist Dan Gifford are not Hollywood big names, that's the point of film festivals, after all.

The film couldn't have a more dubious lineage. It most prominent predecessors are a made-for-television movie and a home video that, journalistically speaking, were dismally alike. *In the Line of Duty: Ambush in Waco*, a 1993 NBC television special, gave the world its first dramatic treatment of the subject. It was a pro-government hatchet job, admits veteran TV writer Phil Penningroth — who scripted the piece but now has pangs of conscience. On the other side of the fence, *Waco: The Big Lie,* an anti-government home video by Indianapolis lawyer Linda Thompson, told a whopper of its own, that the FBI set Mt. Carmel ablaze with flame-throwing tanks.

The film summarizes the issues in the Waco affair, showing newsman Gifford's touch for "balanced reporting." The documentary includes Congressional testimony by Kiri Jewell, the teen-ager who claims that she was sexually molested by David Koresh, and it relays the stinging critiques of New York

Congressman and gun foe Charles Schumer, charging bull of the 1995 Congressional hearings on Waco. Even Janet Reno mutters her story, saying, among other things, that the tanks at Mt. Carmel were deployed by the FBI, "like a good rent-a-car."

Although the Justice Department admitted more than a year ago that its troops had been trigger-happy at Ruby Ridge, the last word on Waco hasn't changed. Janet Reno maintains, "We looked at the entire situation and we made the best judgment we could."

Today's "best judgment," however, doesn't call for assault on civilians by tanks. Using radically different tactics, the FBI patiently resolved the Freeman standoff in Montana last year, and now, even Peruvian cops are showing the world that macho military options are bush league solutions to standoffs.

Rules of Engagement presents a half-dozen sources that print media journalists — me included — couldn't tap in the years immediately following the events. Its prize catch, brought in by researcher Mike McNulty — a Colorado insurance man turned Waco sleuth — is the leathery McClennan county sheriff, Jack Harwell, who was mum during the 51-day 1993 siege. Harwell doesn't exactly call federal lawmen flatfeet or murderers, but what he says, in several sound-bite segments, gives serious reason for pause. "We had a bunch of women, children, elderly people, they were all good, good people," he says. "I was around them quite a lot. They were always nice, married, they minded their own business, they were never overbearing."

While there were plenty of rumors, Harwell says, "To this day we don't have a case that we can make against Vernon Howell or anyone else for child abuse, even though the news media and other people were saying this is what happened." Dallas Cowboy Michael Irvin's recent remarks about the intensity of false sexual abuse accusations are on point here, and the Olympic-bombing suspect Richard Jewell might see in the film the mirror of his vindication.

One feature that distinguishes *Rules of Engagement* is that it is not, like too many documentaries, simply words on film. Its most strident propositions are based on visual, if unfortunately technical evidence, aerial infrared footage of Mt. Carmel's final hour. The film's makers hired Edward Allard, a physics Ph.D. and former Defense Department night vision expert, to examine Forward Looking Infrared Radar (FLIR) tapes of the events of April 19. These are the same tapes that government examiners, in a rather suspect and cursory review, cited when arguing that the residents of Mt. Carmel set their home on fire.

In scenes that look like they came from a futurist Pentagon flick, Allard sits beside a cool blue-and-white screen, pointing out oddities in the FLIR footage that he thinks have ominous implications. One of his conclusions is that there *is* an answer to the inevitable question, "why didn't the Davidians come out once they saw that the place was on fire?" It wasn't, Allard indicates, because they were sworn to suicide.

Three points, hot flashes in the FLIR images, convince Allard that federal agents fired guns into Mt. Carmel on April 19, most importantly, during the first minutes of the blaze in its cafeteria area, where the charred remains of women and children were found. Two distinct flashes, including one in the gymnasium where some survivors believe the inferno began, are likely to have

been caused, the film says, by incendiary devices, ostensibly fired from hand-held grenade launchers — equipment that the FBI issued to its tank drivers on the final morning.

Millions of television viewers think that they know what happened at Mt. Carmel because they saw it, live and in color. But they saw only Mt. Carmel's front side. The cafeteria and gymnasium were out of camera view. Only the FLIR tapes and a half-dozen FBI still photos show what happened on Mt. Carmel's back side. *Rules of Engagement* challenges widely-held suppositions because it provides, quite literally, a new view of the fire.

Allard's observations might be easily dismissed if they didn't jibe with a similar report that *Rules of Engagement* brings to light. In early 1996, the CBS series *60 Minutes* hired a Vermont infrared firm, The Infraspection Institute, to analyze the Waco FLIR tapes. A report from its staff engineer says that, "It was obvious to me on several occasions that there was gunfire or automatic weapons discharge, seemingly fired towards the buildings from the outer perimeter . . . . A portion of the video later in the viewing showed a 'flash', or a pyrotechnic explosion in one portion of one of the buildings . . . I also observed firing discharges from the armored vehicle."

If the film's story line is anything but speculation, not only did rogue FBI agents spark Mt. Carmel's mysterious blaze, but *they also fired upon residents who were attempting to escape certain death*.

What's missing from the film, I believe, is more "balance," a rebuttal or explanation of its charges from Infraspection and *60 Minutes*, whose joint project was apparently aborted, and most of all, from the FBI—whose stonewalling has persisted for four years. Bureau spokesmen continue to say that because civil suits are pending over the Mt. Carmel deaths, they are not at liberty to discuss the affair. Had the owners of the Watergate Building sued Richard Nixon, impeachment and the press might be still be on hold.

As a journalist who turned the traditional skills of the craft to an investigation of the Waco scandal, I cannot rule out the allegations presented in *The Rules of Engagement*. I can't accept them, either. The plain facts are that until our government comes clean — until it produces all of its records for examination, and all of the involved agents for interview — we cannot know precisely what happened. *Rules of Engagement* presents a new and serious demand for an unfettered re-examination of the Mt. Carmel events.

As Austin film critic Ann Hornaday noted, despite the film's length, nobody walked out of its premier, "an almost unheard-of phenomenon at a Sundance showing, let alone one where everybody knows the ending." Viewers didn't even yawn even during the film's lengthy reruns of C-Span Congressional testimony.

The ski- and film-buffs who attended the Sundance showing of *Rules of Engagement* were overwhelmingly persuaded that whatever happened at Mt. Carmel, the government's hands are not clean. Even liberals as confirmed as Carol Gnade, director of the Utah chapter of the American Civil Liberties Union, came away perturbed. "My gut feeling when I was watching," she says, "was that there was so much that as a citizen I didn't know about what happened at Waco. Organizations like the ACLU and NRA have to keep a closer eye on events like that."

The linkage of usually hostile interests, like those of the ACLU and National Rifle Association, is one of the oddities that keeps the Waco controversy alive. *Waco: The Rules of Engagement* buttresses widespread doubt about the official story, and with any luck, will elicit fresh responses to a mystery that refuses to die.

An IRS Twilight Zone

by Frank Moorman

We regularly hear "horror stories" about the IRS routinely barging in, often unlawfully, and seizing the bank accounts and personal property of the alleged income tax violators. They are sad, often tragic stories, but at least we understand what's going on: the IRS wants money and is not too particular how they get it.

But consider the bizarre plight of Frank Moorman who had a Dallas, Texas radio business called First Class Communications. Note that Mr. Moorman is not a "tax protester". He is simply a small business owner in the radio communications industry trying his best to stay legal with the IRS. However, in 1991, the IRS informed Mr. Moorman that he was delinquent with regard to paying his taxes.

The resulting story seems incomprehensible and tragic, is often incoherent and at times almost hilarious because, according to Mr. Moorman, he's tried to pay his taxes, cooperate with the IRS in every way possible, and even pay more than he believes he owes -- but the IRS has refused to take his money and instead continued harassing him.

I've met Mr. Moorman on several occasions and talked to him on the phone several times over the past five years. He hyperventilates; he can't stop talking; his adrenal glands must be supercharged with anxiety. He is bewildered and emotionally destabilized by the IRS's persistent, seemingly incomprehensible behavior. What follows are a few letters from Mr. Moorman to judges and/or politicians asking their help to escape this governmental "twilight zone" and force the IRS to accept his money.

What does the IRS want? Moorman suspects the real motive behind his IRS problems was to eliminate his business from the radio-communications industry. But also, in another curious twist, Mr. Moorman had a girlfriend who worked for the IRS. She allegedly shared IRS secrets with Mr. Moorman that not only revealed some startling insights into IRS operations, but also inspired Mr. Moorman to initiate a "politically incorrect" investigation of government corruption involving drug dealing, bankruptcy courts, the CIA, and murder. Whatever the reason, it appears the IRS is more interested in Mr. Moorman's silence than his money.

November 11, 1994
IRS Appeals
1331 Airprt Fwy. Suite 410
Euless, Texas 76040 4151
Attention: Mr. Steve Howard

Dear Mr. Howard:

Pursuant to our phone conversation, about Nov. 4th, I have enclosed my 1984 "1040" and attachments. Please return this to me after you have finished. Thank you.

As an affirmation of our conversation regarding the $30k dollars now in the custody of attorney Phillippe, I have no problem with directing the withdrawal of the Chapter 11 bankruptcy and having the full $30K going to IRS. Time is of the essence here because each day this attorney produces superfluous documents and is allowed to charge, from this $30K, unscrupulous fees. Of course the judge approves and allows this.

Concurrent with the $30K I will also pay my 1993 Tax Bill of about $8K and $1000.00/ month for 14 months. THIS IS MY OFFER IN COMPROMISE (OIC). I have received the forms (433 A&B and 656). Should you and the rest of IRS accept this, I will (it will take me two working days) complete the required (433 A&B and 656)

forms. I HEREBY STATE that I do not owe this additional tax. I am trying to implement a resolution and clear this matter (1984 thru 1990 tax audits). I have demonstrated previously where much assessed was in error and I am frustrated at not being able to disprove all. Please recall NO TWO WAY RADIO BUSINESSES HAVE EVER SURVIVED TAX AUDITS — AND IT'S NOT BECAUSE THEY WERE CHEATING. ALL CASES I STUDIED WERE CLOSED WITH SOME SORT OF AGREEMENT. LET'S AGREE.

Sincerely
Frank Moorman

Mr. Moorman's Office In Compromise (OIC) was refused. According to Mr. Moorman, rather than accept $30,000 up front, plus $8,000, plus another $1,000 a month for 14 months, the IRS instead continued to issue threats.

February 6, 1995

Honorable Phil Gramm
United States Senator
2323 Bryan Street Suite 1500
Dallas, Texas 75201

Dear Senator Gramm:

This inquiry is a continuation of the previous inquiry dated January 31, 1995. Please examine the enclosed TRW report. As you can see, IRS filed a Tax Lien in Erath County. Since I have no property, real or otherwise, in Erath County I asked the Director why this Spurious Lien was filed. "You're goin' down, m. . . f . . . r", was the only response I got!

You can also see, liens were filed in Bosque County; I have NO equity in my Veterans land in Bosque. IRS rules specify that no liens will be filed on property that has no equity. My response from IRS was the same as above. I am asking that you inquire on my behalf.

On July 26, 1990, at 3:15 PM on a Thursday afternoon, five carloads of agents stormed my business in Irving , Texas. They kicked in my door, shot my dog (a pregnant Terrier), terrorized my secretary, and seized my bank account. I filed a Problem Resolution Officer (PRO) "911" to allow my employees to be paid. We received the same reply. PRO denied. These agents stated they were dispatched to "teach me a lesson". This was a Jeopardy Assessment for the reasons stated: "Taxpayer cashes checks at the bank" and "taxpayer is a pilot". This matter was taken to Federal Court where IRS attorneys opened with, "Since this is an informal hearing, we want the Court to know that Mr. Moorman is an escaped convict, his father is a gambler and his mother was a whore." OK, now, the judge addresses me as "defendant" (I was the plaintiff) and I have a substitute attorney (in order to throw the case) given me by Johnson and Gibbs at the last moment.

Senator, would you like these transcripts ? I have them and they support the above! On a timely basis, the Director sent big 300 pound dudes out to my business to see if I had learned my lesson yet. These guys always came when there were customers present and the customers were literally horrified.

Regarding my 1988 thru 1990 audits, IRS threatened jail if they did not get the record ASAP. It cost me about a grand to get them the records (five boxes). They never even once looked at the records and made their "assessment" without looking at the records! Incredible! I appealed the assessment and the appeal was denied! Incredible! Oliver Stone's assessment, "we live in a Fascist Police State" understates the reality.

Hardly anyone knows what an IRS "enrolled agent" is. They are, for the most part, "rerolled" IRS agents. In theory, rerolled agents are one of three "professionals" who may assist a taxpayer. The other two are CPA's and attorneys. Rerolled agents are supposedly regulated by the Director of Practices – US Treasury.

Now for the rest of the story. These enrolled agents are the scum of the scum. They were terminated by IRS for REPEATED AND REPEATED Misconduct. When tax liens are filed and an unreal assessment is made, the rerolled agents get a copy and a phone number. The taxpayer is contacted and told that he pissed the IRS off and for a few thousand dollars — out front — all the wrong will be righted. The rerolled agents abscond with the money and if a complaint is filed with the Director of Practices, the result is that "You're going down, M.F." again.

What a racket. I asked enrolled agent W.T. Kendrick , who stole my $6,000, how he could sleep at night knowing he was a thief. His reply was that attorneys and Bankruptcy Trustees stole more that he did (I have this on tape). Rerolled agents in Dallas County have the local DA taken care of so his office won't hear a complaint. Rerolled agents also have "funny" phone numbers. A "funny" phone number is an unlisted number that is not an unlisted number. IRS agents all have "funny" phone numbers. I am sure you are confused, so I will began a simpler paragraph.

During one of the visits by IRS agent Bob Davis, the following occurred: "Wild Bill" Dodd, maker of Wild Bill's Hot Sauce (not available in stores), was working for me in sales and was present and spoke about something Agent Davis was doing as being unfair. At this point, Davis threatened him with, "If you don't shut up, I'll audit *you* and take *you* down too."

I had read in tax newsletters where it was considered good practice to use a cassette tape and record an audit. One day the

IRS arrived and I showed them the recorder, told them where I had read this practice. They threatened me, left immediately and reported that I had been uncooperative!

I have, in my closet, over *one thousand pounds* of records the IRS generated in reference to my small business. IRS also directed the Irving Police department to "get me". They did. IRS made repeated Criminal referrals to their CID. Since I did not know these were in the works, my efforts to "settle" were torpedoed. You can't "settle" when your file is in CID.

Would you like the file sent UPS Brown? You can read instructions from CID to Exams on how to trap me. This is *your* IRS, it needs to go. It is beyond mere corruption! I will send another inquiry as to why more of IRS's own rules and policy were ignored and abrogated.

August 4, 1995
United States Tax Court
Washington , D.C. 20217

Re: Docket No 30715-91, 28721-92
Attention: Hon. Judge L.W. Hamblen, Jr

Honorable Judge Hamblen:

Regarding your order dated July, 31, 1995, I am hereby inquiring to you as to the feasibility of withdrawing the bankruptcy proceedings and bringing the Tax Litigation to your Court. I can assure you that the bankruptcy proceedings will *never, ever conclude*. These are only an aegis to line the attorneys' pockets with my money and IRS's money. I have been f . . . ed a thousand ways and a thousand times, and all the time only trying to resolve any tax debt. There are no other creditors. I had 30 thousand dollars on account with the Chapter l3 Trustee. The case was dismissed and IRS seized the money. However, alas, the attorney I now have had the judge turn the $30 K over to *him*!!! Now, on a daily basis, he files frivolous motions and makes thousands of copies of TOLSTOY'S ,WAR AND PEACE, and has the Judge approve payment from the 30K of *mine* and *your* (IRS's) money. Another and another case was filed. I am sure you don't know (and don't want to know) just how crooked the system is in South Texas.

Should you agree to resolve the debt I may owe IRS, you must agree to hear Tax Years's 1984 thru 1990. I have had my case prepared for years, but have been denied the forum. IRS, in Dallas, claims you will not hear the case and that I am stuck with what they say I owe. I have filed numerous Offers In Compromise (OIC's). I offered to pay them the $30K that was on account with the Trustee. Their standard reply followed: "You're goin' down , m . . . . . f. . . . r". IRS, in Dallas, has a tremendous animus toward me because I had a social relationship with an IRS agent in Dallas. She spilled the beans and aired the dirty laundry to me. I wish I had never met her. IRS , in Dallas, made several CID referrals. I was harassed so bad I had to move.

Should I receive a docket date, I will withdraw the sham bankruptcy.

Sincerely,
Frank Moorman

January 4, 1996
Honorable Phil Gramm
United States Senator
2323 Bryan Street, Ste. 1500
Dallas, Texas 75201

Dear Senator Gramm:

Since you were negligent in responding to my inquiry of Feb. 6, 1995, the issues have only gone from bad to worse. Accordingly, I must make yet another inquiry, and inquire as to why the previous inquiries were ignored. When a Democrat held your office, I always received a prompt response. The "Republican Revolution", as seen by a vast majority, is graded as a dismal failure, so far. My Repub. Congressman, Dick (the Nazi) Armey, *refuses this constituent's mail!*

This inquiry is as to why my petitions to the Tax Court, have gone, like inquiries to your office, unanswered. Please just inform me that I don't have the right to have my tax issues heard in the tax court, and I will cease contact with your office. The tax court even has me on their docket! Yet they *won't respond*. Also, I still have those fraudulent liens that I asked you to investigate. The IRS has filed both *fraudulent* Liens and *fraudulent* Proofs of Claims. These are supposedly *criminal* acts. But, like the Federal murders of women and children, they go unchecked.

Senator Gramm, speaking of murder, I feel I must come forward with information provided

me by IRS Agent Julie Bridgewater. According to her, Charles Ted Beckwith was murdered on October 18, 1982, as part of an IRS bribe cover up. Yes, I have the details, and forgive me, please, for not having the compassion to understand how cheap life is — to the Federal Government.

The *Wall Street Journal*, *New York Times*, and numerous other publications have branded Federal Bankruptcy Judge Richard Schmidt as a crooked Judge. Their analysis is on target. I spent four years and mucho dinero preparing my case (showing that I don't owe IRS $500K) to be heard in his court. He has now, again, dismissed the case because my second set of interrogatories were four days late. This, of course, is incredible. However, this judge, according to the press, is a puppet for Justice and CIA. My right to due process was abrogated by an Ex Parte order from " Tax Justice". As you are aware, I can prove that I don't owe these taxes — therefore I am denied my day in Court — Bankruptcy Court and Tax Court. Senator Gramm, do you own up to this system?

Before I close, let's examine a couple of Judge Schmidt's cases, as were delineated in the press. He gave the Radison Hotel , here on South Padre Island, to a cocaine-using CIA attorney as part of a Bankruptcy. He gave several thousand acres of John Hamilton's land in Quero, Texas to his other buddies. There has been over a dozen unsolved murders — all having the commonality of his operation. Now, Senator Gram, why is he still on the bench? You will, I am sure, ignore this. But, it won't go away.

In closing, I will again ask why the IRS refuses to *take my money* and *settle*. I thought taxes was their mission. As has been shown so clearly, taxes aren't their mission. Leona Helmsley also offered to pay, and they responded by jailing her.

Please send me my slave papers.

Frank Moorman

Again, Mr. Moorman is not a "tax protestor". He hasn't argued jurisdiction, unalienable constitutional rights, or gold-fringed flag issues. He may have mishandled things and even caused some of his own aggravation by antagonizing the IRS, but clearly, he's just trying to pay his taxes, and the IRS won't take his money! His Congressman and U.S. Senator offer little or no help. The bankruptcy court refuses to both hear or dismiss his case.

And if you talked to Frank, you might dismiss his allegation because he's beginning to act, write, and talk like a nut. He hyperventilates, exaggerates, leaps from one point to another without obvious logical connection, and looks at you with a wide-eyed, disoriented stare. His conversation becomes a kind of bizarre "stream of consciousness" concerning IRS, drugs, CIA, murder, and bankruptcy courts. And he won't shut up. But after five years of persistent, incomprehensible government harassment, you and I would probably start acting nuts too.

Regardless of how much taxes Frank Moorman does or does not owe, it's clear that government is causing not only financial ruin but even a degree of mental illness. And it's not just the IRS that drives us nuts; so the probate, bankruptcy, and divorce courts. We are being psychologically maimed by our own government.

And it's not just the alleged taxpayers, heirs, creditors, husbands, wives and similar common citizens who are being destabilized by government. Even government employees are starting to crack. Postal employees are shooting each other on fairly regular basis. Policemen have unusually high suicide rates; a third of all policemen killed on the job are killed by fellow officers. The American Medical Association estimates that 30% of all lawyers have a substance abuse problem. Dead bodies are piling up around the White House as if it were the set for the last act of Hamlet. Moorman's not alone.

So what should expect? What should government expect? Should we be surprised if we first see more suicides and later more insane attacks on government facilities and personnel?

First, for their own reasons, government made us fearful, intentionally terrorized the American people with tax audits, threats, and ruined lives (Leona Helmsley, Willie Nelson). But you can only stay scared for so long, and then you get mad, and later, some folks get even. ■

Ancient Lessons

by James A. Maccaro

In a Nov. 14, 1996, article entitled "Study to Probe American Anger", the Washington Post announced that, "Twenty-five prominent citizens are going to try to find out why Americans distrust the government and each other and what can be done about it. Retiring Sen. Sam Nunn, D-Ga., and former Education Secretary William Bennett have created a National Commission on Civic Renewal to conduct a yearlong study. Bennett noted polls pointing to a decline in trust among Americans and toward government and explained that the Commission's purpose will be to discover why Americans are "so cynical, so distressed, so angry, so ticked off about so many things."

The Commission will conduct hearings in Washington, collect studies on the breakdown in civic trust, and issue a report on what government and civic organizations can do.

Sen. Nunn cited turnout in the presidential election, the lowest in 72 years, as an indication of a decline in "the quality of public and civic life. . . . We as Americans cannot remain cheerfully neutral on fundamental questions of right and wrong."

Um-hmm.

I can't wait to see the results of their survey. Given that it will all take place in Washington D.C., I wonder if the results can be anything other than "politically correct".

In truth, you don't need another commission or another study to discover why Americans are angry and what this anger may precipitate. All you need are a few facts and a little ancient -- and persistent -- history

Fact 1: Government now consumes about 55% of every worker's income. We pay over half our earnings to support local, state, and federal governments that produce nothing -- not one grain of wheat, not one shingle for home, not one wiper blade for a car -- in return.

Fact 2: A government study indicates that 75% of all divorces are caused by financial stress.

Since government consumes more of our income than all our other costs combined, it's obvious that government is the single biggest cause of financial stress, and therefore divorce and all its social consequences – fatherless homes and the associated problems of teenage violence, gangs, drugs, promiscuity and suicide.

Fact 3: A Rand Corporation study indicates that out of every $100 we send to Washington as taxes to help a particular caused (women, minorities, children, foreign aid, the elderly), only $25 reaches the intended beneficiaries; $75 is consumed by government and government-approved middlemen. It's not enough that government takes over half our money, they waste nearly three-quarters of what they take supporting themselves and their friends in the style to which they've become accustomed.

We are being systematically impoverished, our families fragmented, our children crippled, and our future condemned to peonage -- all by a government that is at best overly large, inefficient, unaccountable, and insatiable. Do we need another commission, another study, to tell us our government is a primary cause for our collective anger and not merely infuriating, but dangerous?

What happens when government takes too much . . . when government serves its own welfare rather than the welfare of the people? History offers a clue:

The history of ancient Rome repeatedly demonstrates the connection between low taxes and prosperity. It also shows the connection between confiscatory taxes and political and social unrest.

As the Roman empire expanded, so did the emperors' appetites for revenue. Taxes reached the point that most people could not meet their tax burdens out of their incomes and had to liquidate capital assets. They consequently became less productive, which reduced their

income and caused them to fall further and further behind.[1]

Government confiscation of property to pay taxes was common. In Egypt during the reign of Nero, some farmers found the burden of taxation so great that they abandoned their farms.[2] Entire villages were depopulated. Abandonment and confiscation became so widespread that one of the most frequently asked questions of temple oracles about a perspective groom was whether he would eventually run away or have the State take all of his property. The middle class was systematically destroyed as commerce ground to a halt and small landowners gave up their property to work under the protection of the politically connected owners of great estates.[3]

To relieve the economic pressures, successive emperors debased the currency, which made matters worse because it caused inflation.[4] Diocletian, emperor from 284 to 305 A.D., attempted to counter the economic instability caused by his policies of high taxation by the unprecedented act of setting fixed prices for all goods and wages. Wheat, barley, rye, pheasant, and even sparrows and mice were among the goods under price control. The penalty for producers who disobeyed the price edict was death. The resulting damage to the economy was disastrous. In the words of Lactantius, a historian who lived during the era of Diocletian, "nothing appeared on the market because of fear, and prices soared much higher."5

Diocletian's ruthless policies were continued and even expanded upon by his successor, Constantine. According to Libanius of Antioch, a writer contemporary to the time, "those for whom the work of their hands scarcely furnishes a livelihood are crushed beneath the burden." He continued:

"The lowest cobbler cannot escape from it. I have seen some who, raising their hands to heaven . . . swore that they would pay nothing more. But their protests did not abate the greed of their cruel oppressors, who pursued them with their threatening shouts and seemed quite ready to devour them. It is the time when slavery is multiplied, when fathers barter away the liberty of their children, not in order to enrich themselves with the price of the sale, but in order to hand it over to their prosecutors."[6]

To extract money, the authorities routinely tortured and beat taxpayers. Constantine eventually addressed this abuse by issuing an edict banning the use of the rack and scourges to "persuade" reluctant taxpayers to provide additional money; he also reduced some taxes. However, the tax system continued to routinely employ such punishments as beatings and imprisonment, and rates were much higher than most people could afford.

Historians agree that these foolish fiscal policies greatly contributed to the collapse of the Roman empire. Indeed, some historians consider it to be the primary factor for the fall of Rome. In the words of Michael Grant, "it was a crushing tax system, which ultimately defeated its own purpose, because it destroyed the very people (farmers and merchants) who had to pay the taxes."[7]

[1] Arthur E.R. Boak and William G. Sinnigen, *A History of Rome to A.D. 565* (New York: Macmillian, 1965), p.371.
[2] Ibid., p.373.
[3] Michael Grant, *Constantine the Great* (New York: Charles Scribner's Sons, 1994), p.90.
[4] Boak and Sinnigen, p.372.
[5] Moses Hadas, *Imperial Rome* (New York: Time-Life Books, 1965), p.145.
[6] Grant, pp.11, 88.
[7] Grant, p.93.

Withholding Agents & W-4's

by Americans For Freedom

Whenever government ignores the welfare of its citizens, it's inevitable that its citizens will stop ignoring – and start studying – their government. As a result, government will serve the people or reap the whirlwind of its indifference and arrogance. Here's some research from one group of citizens motivated to study government that could potentially destroy the current tax system.

Could the average American pay his income and social security taxes in one payment every April 15th? Of course not. Most of us live a hand-to-mouth existence with small savings, large credit card debts, and little to sustain us beyond our faith in God and the hope of next week's paycheck. If we didn't pre-pay our taxes on a weekly "layaway plan" (withholding), most of us would be too broke to pay a single annual tax bill every April 15th.

More importantly, Americans would probably riot if they were collectively faced with personal bankruptcy, fines and even incarceration based on exorbitant taxes every April 15th. In other words, so long as government takes "little bites" of $100 a week out of our paychecks (total $5,200 per year), we don't notice or complain too much. But if we had to cough up a single tax payment of $5,200 on April 15th we would 1) realize how much government takes, and 2) fill the Potomac with a mixture of high-nitrate fertilizer and diesel fuel.

Point: Withholding (pre-paying your potential income taxes each week) is our tax system's foundation. Without withholding, the current tax system would collapse.

As most employers and employees know, the W-4 form that's signed when a new employee is hired is a withholding *agreement* which allows employers to withhold part of each employee's income from each paycheck and forward that withholding to the government. Historically, those American employees who object to having some of their money withheld and sent to Washington before the legitimate tax liability is even determined, have challenged the validity of the W-4 agreement with arguments based on 26 USC 3402(p) – Internal Revenue Code (IRC), Income Tax Collected At Source, Voluntary Withholding Agreements (see, *Reisman v. Caplin*, etc.). Generally, these challenges fail. However, there may be another basis for challenging the W-4 withholding agreements.

When we go to work, the first thing the company wants is a W-4. Over the years, companies have become convinced that they are a "withholding agent". *But are companies truly "withholding agents"?*

Here's what our study group learned about withholding agents from the IRC: "withholding agent" applies to four and *only* four, IRC sections:

"26 USC 7701(a)(16) Withholding agent — The term 'withholding agent' means any person required to deduct and withhold any tax under the provisions of sections 1441, 1442, 1443, or 1461."

Those four sections are found in Title 26 - Subtitle A. - Income tax, Chapter 3. - Withholding of Tax on Nonresident Aliens

and Foreign Corporations:

"**Subchapter A.** - Nonresident aliens and Foreign Corporation

"**1441.** Withholding of tax on *nonresident aliens*.

"**1442.** Withholding of tax on *foreign* corporations.

"**1443.** *Foreign* tax-exempt organizations

"Subchapter B.- Application of Withholding Provisions

"**1461.** Liability for withheld tax." (This section does not define additional "withholding agents"; it merely establishes liability for withheld money.)

Note that there is no "withholding agent" for *domestic Citizens* living and working domestically unless they have income from a *foreign* source or from within a U.S. possession (Guam, Puerto Rico, etc.), or engaged in an excise taxable activity (alcohol, tobacco, firearms, etc.). Even if a domestic Citizen did have income from a foreign source or from a U.S. possession or was engaged in excise taxable activity, there is still be no legally defined "withholding agent".

Check the IRC or any law book and you will not find a definition for a "withholding agent" for *domestic* Citizens. Why? Because it would be unconstitutional for public servants (elected and hired government employees) to enact a law (or definition) that would "mandate" (force, compel, command) an American Citizen to turn over (extract, conversion) their private property (labor, wages) without a court order. (Of course, they could "voluntarily" pre-pay their taxes.)

Therefore, judging by the IRC, it appears that the W-4 is mandatory for nonresident aliens, foreign corporations, trusts, partnerships, etc., and foreign tax exempt organizations -- but not for domestic citizens. Because most challenges to W-4 withholding have been unsuccessfully based on 26 USC 3402(p), if your argument is based on the definitions in 26 USC 7701(a)(16), you might create a case of first impression in which the courts had no ready precedent for ruling against you.

GO GET'EM

Whether the Income Tax is itself mandatory or voluntary may be debatable, but this article's research suggests that W-4 "agreements" and employees' propensity to "pre-pay" their taxes through withholding is voluntary. If the average American refused to voluntarily pre-pay his taxes, our current tax system would collapse.

For more information, contact Americans For Freedom at 2740 Marconi Ave. #167, Sacramento, Cal., 95821.

The Nexus

What's a "nexus"? Some sort of demon like a "succubus"? A Korean knockoff of the Japanese Lexus automobile? No.

"Nexus" is a term popular within elements of the constitutionalist community. Unfortunately, "nexus" is not defined in Black's Law Dictionary (Rev. 4th), but the similar terms "nexi" and "nexum" are:

"**Nexi.** In Roman law, bound; bound persons. . . . insolvent debtors as were delivered up to their creditors, by whom they might be held in bondage until their debts were discharged."

"**Nexum.** In Roman law, . . . a formal contract, involving a loan of money, and attended by peculiar consequences . . . to have included the special form of conveyance called "mancipatio."

"**Mancipatio.** In Roman law, . . . a formal process . . . to perfect the sale or conveyance of res mancipi, (land, houses, slaves, horses, or cattle.)" [Emph. add.]

And "mancipate" (not "emancipate") is defined as "To enslave; to bind; to tie."

Suffice to say that a "nexus" is intended to indicate the law, contract, or presumption that binds (even enslaves) one person to do the will of another. If a nexus exists, you are bound. Absent a nexus, you are free.

The following are a collection of various proposed "nexi" which are believed by some to bind free Americans to the will of the federal government in ways that are allowed by -- but contrary to the spirit of -- the Constitution. Here's a sample of opinions on what the nexus is.

For example, Kenneth Creamer bumped heads with the IRS in court and lost. With the benefit of hindsight, he believes he's seen the error of his ways as well as the nexus which enables the IRS to collect and enforce the income tax on average people. Mr. Creamer believes that key centers on understanding on how the IRS manages to "convert" our "wages" (which should be tax free) into "income" which can be taxed. Once again, another student/victim of the IRS concludes that Social Security is the mysterious nexus that makes us liable to pay income taxes.

This is a good news bad news story. The good news is that the Silver Bullet has finally been found. The bad news is that it is aimed at us. To make matters worse, it was fired at the general public in 1935 and there was not one indication or fanfare that a war on productivity had been declared. In fact, it was publicized as a "free lunch," "old age insurance," etc. The gun that fired the silver bullet was the Federal Insurance Contributions Act (FICA).

The Supreme Court has ruled several times that Social Security (FICA) is not an insurance program but simply another income tax that finds its way into the general fund. It has been well documented that SS is really an income tax and should be no surprise to most people. In fact, recently many researchers have declared that the SS program has a link into the 1040 form because a person requesting a benefit from the government has qualified himself to pay an excise tax on wages for the privilege. Although this argument has some merit, it is not the core of the Silver Bullet congress fired at us. The essence of the bullet is that it comes to us in the form of a trap. A trap that we "volunteered" ourselves into just as neatly as the rats that followed the Pied Piper into the river.

The jaws and powerful

spring in this trap can be found today in the Internal Revenue Code (IRC) Section 3101. The bait is our own faith and trust in our government that we are "contributing" to an "insurance" program. The nibble that springs the trap is the FICA *payment* itself.

Congress knows the difference between "wages" and "income" from the wording of IRC sect. 3101, which reads in pertinent part:

"In addition to other taxes, there is hereby imposed on the INCOME of every individual a tax *equal to* the following percentages of *wages* (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b))." [emphasis added]

In other words, in addition to other taxes, there is hereby imposed a tax on the *income* of every individual *as measured by his wages*. I'd been writing for over a year that Congress knew the difference between wages and income, when it finally dawned on me that, "Yes, Congress *does know* the difference — and that's exactly why they had to find a way to get each of us to voluntarily make the declaration (nexus) that our wages were income." By contributing to FICA, we voluntarily declared our wages to be income and therefore taxable.

As a result, although most Patriots have argued that their wages were not taxable as income, the clever judges took judicial notice (in a trial for "willful failure to file," for example) that the patriot "contributed" to FICA and instructed the jury that "if you find the defendant had wages, those wages were to be considered income as a matter of law." By what law you say? By IRC sect. 3101, I say. The Defendant himself declared his wages were "income" by voluntarily "contributing to FICA." Unless refuted in court, the FICA payment records establish prima facia evidence that the patriot/defendant "believed" his wages were income. His income tax was being measured by his wages!

How clever, neat, and tidy. Neither the defendant nor the jury are any more the wiser from the experience. Patriots have been going into the court room shouting and screaming (as I did) that "wages aren't income," "I *had* to pay FICA," "SS is just another form of an income tax," etc., and the ol' judge just sits there and wraps another turn on the hangman's noose. He must be saying to himself "there can't be an easier way to make a living. Those idiots just don't know the key." The prosecutor never had to plead the issue or present the evidence.

And so, Congress has thoughtfully provided us with the Federal Insurance Contributions Act as a "convenient" way to "voluntarily" declare our "wages" are "income". Not objecting to FICA deductions is "volunteering." Every FICA deduction is prima facia evidence that "income" exists for that amount of FICA.

IRC section 3101 and the FICA "contribution" combine to form the nexus between wages and income. It becomes the link to IRC Chapter 24 ("Collection of Income tax at Source on Wages") and on to Chapter 1 ("Normal Taxes and Surtaxes"). Ignorance of the forgoing facts crippled my defense against a fraudulent conviction for willful failure to file a return (Sect. 7203). Now knowing these facts to be the core of the problem, the solution becomes obvious.

Mr. Creamer may be correct, but I disagree that the solution is "obvious". There are a host of alternative attempts to explain the mechanism by which government ensnares and compels average workers to pay what would otherwise be an illegal "income" tax. I, for example, have a pet theory that the real liabilities and obligations imposed by Social Security don't take effect until your SS account is fully "funded" by making contributions for a minimum number of "quarters". If you don't pay in your first minimal number of quarters, you're not really, fully subject to the administrative procedures that attach to all Social Security "beneficiaries". I'm probably wrong, just as most of the other theories pointing to Social Security as the cause of our problems are also technically wrong in that they are at least technically imprecise, off the mark.

However, here's another "nexus" which is backed by more than hunch and is therefore worth considering:

Public Salary Tax Act

According to Jack C. Rifen, a Missouri researcher into IRS law, in 1939, Congress passed

the "Public Salary Tax Act" (House Resolution 3790; Title 4 USC §111). This authority is written in the Statutes at Large of April 12, 1939 on pages 574, 575, 576 and 577. This act is the questionable agreement between the Federal government and the FREE and INDEPENDENT, SOVEREIGN states to tax *each other's* employees. Such is recorded in a speech by Hon. John Martin Col. in the Feb. 9, 1939 Congressional Record at page 502:

". . . by a vote of 269 to 103 passed a bill to enable the Federal government to tax the income of State and local officers and employees and to enable the states to tax the income of Federal officers and employees."

Plus, Rep. McLean of New Jersey made another speech (*Congressional Record* Feb. 9, 1939 page 1301) in which he said, "Emphasis will be laid upon the fact this is *only* to tax employees *of the states and federal government*."[1] [emph. added]

Editor's questions

Given that the 16th Amendment (generally, but incorrectly, credited with legalizing the income tax for *everyone*) was ratified in 1913, why would Congress have to pass a "Public Salary Tax Act" in 1939 (thirty-six years later) to allow the Federal government to tax state government employees? Had state government employees been previously exempt from the income tax?

Further, why was the 1939 "Public Salary Tax Act" structured as a "deal" between the state and federal governments, rather than a pure exercise of seemingly lawful Congressional power? That is, why did Congress bother to "trade" the federal power to tax state government employees for the state power to tax federal government employees? If they had the lawful power to impose the federal income tax on everyone (including state government employees), why not simply pass a law taxing the state employees and leave it at that? Why bother to "horse trade" with the states by allowing the state governments to also tax federal employees? There may be valid reasons for doing so, but this "trade-off" sounds more like a contract or agreement between governments rather than a law that applies to the sovereign American people.

In fact, it seems inconceivable that We the People -- the *sovereigns* -- were automatically subject to the federal income tax if our public *servants* (state and federal officers and employees) were somehow exempt. Therefore, if Congress had to pass a special act to allow the income taxation of state government employees, when did they pass a similar act to allow the income taxation of people who work, but are not employed by government? To my knowledge, no such act has been passed.

Further, if Congress had to "deal" a trade-off with the state governments (you can tax ours, if we can tax yours) in order to pass the "Public Salary Tax Act", what trade-off did Congress work with the American people? That is, if I (a private sector worker) am now obligated to pay income taxes to the feds, am I also empowered to somehow "tax" the feds? Obviously not. But if not, why did government have to "horse-trade" to tax public *servants*, but not the *sovereigns*?

In essence, the very existence of the 1939 "Public Salary Tax Act" casts serious doubt on any claim that the average non-governmental worker is "liable" for paying income taxes. The Public Salary Tax Act *proves* that, at least until 1939, the income tax did not universally apply to *all* working Americans. Therefore, what additional laws have been passed since 1939 to extend the obligation for paying income taxes to all private-sector Americans? So far as I know, none.

So, perhaps the more accurate question might be: What additional *agreements* (not laws) have been passed between the state and federal governments to allow the federal taxation of non-governmental state citizens? (Richard MacDonald's observations on the "Buck Act" follow and may answer that question,)

In any case, the Public Salary Tax Act of 1939 offers persuasive evidence that the income tax was not originally intended to apply to average Americans working in the private sector. Instead, the income tax was a "return", a "kickback" of sorts for the *privilege* of working for the government. Of course, from today's economic perspective of nearly full employment, the idea that it was ever regarded as a "privilege" to work for government seems ludicrous. However, from the economic perspective of 1939 -- after a decade of growing unem-

ployment, and at the height of the depression -- any job, especially a government job (which was virtually guaranteed to last forever) would've been regarded as a great gift, blessing and privilege. Therefore a "kick-back" in the form of income tax would not be resisted as unreasonable -- and even if it were, who would dare complain and risk losing his cushy government job to be forced back into unemployment?

Point: the Public Salary Tax Act of 1939 suggests that the income tax was fundamentally intended to apply only to government officers and employees -- not private citizens. However, given that massive numbers of private citizens have been paying income tax for almost half a century, we naturally tend to dismiss any evidence to the contrary -- no matter how compelling -- as absurd, virtually impossible. After all, if the income tax was only intended for government officers and employees, how could government have managed to somehow secretly extend that tax to apply to private sector employees, too?

How, indeed?

California researcher Richard MacDonald believes the answer is:

The Buck Act

Under the Constitution, our nation is divided into a "federal" *system* of government in which governmental powers and jurisdiction is divided among the fifty States and what has come to be known as the "Federal government". Originally, these state and "federal" powers and jurisdictions were intended by the Constitution to be mutually exclusive and as a result, the Feds had limited powers *between* the States and even less powers *within* the sovereign States. However, in Federal *territories* (areas like the "Louisiana Purchase" which the Federal government owned before enough Americans moved in to become a State) the Federal power was virtually absolute and only slightly fettered by the Constitution.

The Federal government always does everything according to various principles of laws. Therefore, under the Constitution, all acts of Congress are *territorial* in nature, and apply only *within* the *territorial* jurisdiction of Congress but *not* "within" the boundaries of the sovereign States.[2] Unwilling to violate this constitutional principle, but determined to tax all citizens of the several states, the Feds had to create a contractual nexus between the Federal government and the State citizens. For most of us, this contractual nexus is called "Social Security".

The Feds instituted Social Security in 1935 and created ten Social Security "Districts" which completely covered the 48 independent and sovereign states much like an overlay of clear glass. In this way, the Feds created a series of "Federal Areas" over the entire United States that expanded Federal jurisdiction far beyond the original constitutional limits.

In 1939, the federal government instituted the "Public Salary Tax Act"[3] which allowed all states to impose state income taxes on federal employees who worked in State territory in return for allowing the Feds to impose a federal income tax on state government employees who were employed in federal territories. Although the federal and state governments could legally *agree* to impose an income tax each other's *employees* working within state or federal territories, the federal government had no power to mandate an income tax on State citizens who were not government employees and did not work within federal territories.

In 1940, knowing it could not tax private sector employees who live and work outside the territorial jurisdiction of the Federal government, Congress passed the "Buck Act" (4 USCS Sections 104-113). Section 110(e) defined "Federal area" as "any lands or premises held or acquired by or for the use of the United States or any department, establishment, or agency of the United States; any federal area, or any part thereof, which is located within the exterior boundaries of any State, shall be deemed[4] to be a Federal area located within such State."

Thus, Section 110(e) allowed any "department, establishment, or agency" of the federal government – including the Social Security Administration — to create additional "Federal areas" within which the "Public Salary Tax Act of 1939" could even be imposed on persons other than government employees. In other words, if a Federal agency "created" a "Federal area" that some-

how included you, your job, or perhaps even your residence — you would be instantly obligated to pay federal income tax, even though you were not a state or federal employee. In fact, through the use of Federal areas, Section 111 of the Buck Act and then the taxing law in Title 26 (the Internal Revenue Code), the income tax originally intended only for government employees is now imposed on virtually all "U.S. citizens".

For most of us, the tax liabilities and obligations imposed in "Federal areas" are based on the use of a Social Security Number (SSN). However, "Federal areas" are not only those defined by the Social Security Administration. Because they can include *any* area designated by *any* "agency, department, or establishment" of the federal government, Federal areas include the federal "judicial districts" which cover all fifty states, "wetland areas" designated by the Environmental Protection Agency, public housing areas that have federal funding, homes that have federal bank loans, federally funded roads, and almost everything that the federal government touches through any type of aid.[5]

These Federal areas are deemed similar to *territories* acquired by the federal government through purchase or conquest, and therefor allow federal territorial law to be imposed on anyone operating *within* a "Federal area". By creating a host of "Federal areas" *within* the boundaries of the states, the federal government has expanded its jurisdiction and cleverly usurped the constitutional Sovereignty of the People and States.

Thus, there was created a fictional Federal "state within a state".[6] This fictional "State" is identified by the use of two letter abbreviations like: "CA", "TX", and "AL" as distinguished from the authorized abbreviations like, "Calif.", "Tex.", and "Ala.". This fictional State uses a ZIP Code (ZIP Code is copyrighted by the Government) which is within the municipal-legislative jurisdiction of congress. Federal territorial law is also evidenced by the Executive Branch's yellow-fringed U.S. flag flying in schools, offices and all courtrooms. As a result, even though they reside in one of the States of the union, "U.S. citizens" (legally, citizens of the *District of Columbia*) are classified as property, franchises, and "individual entit[ies]" of the federal government.[7] This places all private sector workers who have a SSN "within a Federal area" and therefore subject to all State and Federal laws.[8]

Tax avoidance?

To escape the taxes and performance obligations that exist within the fictional "Federal areas", you must live "on the land" in one of the several states of the union of several states, not in any fictional "Federal State" or "Federal Area" nor can you be involved in any activity that would make you subject to "federal laws". You cannot have a valid Social Security Number, a "resident" drivers license, a motor vehicle registered in your name, a "federal" bank account, a Federal Register Account Number relating to Individual persons [SSN],[9] or any other known "contract implied in fact" that would place you *within* any "federal area" and thus, within the territorial (administrative) jurisdiction of the municipal laws of Congress.

So do some research, I have given you all the proper directions to look for the jurisdictional nexus that places you within the purview of the federal government.

Mr. MacDonald is correct. You must do some research and confirm in your own mind that any of these theories is valid. But the theories abound, and the three we've seen so far are only a good start.

For example, some patriot researchers believe a key to understanding the SSN/ income tax nexus is found in Title 5 (Government Organization and Employees) of the United States Codes at Section 552a. There, in subsection (a) (Definitions) we find:

"(2) the term 'individual' means a citizen of the United States or an alien lawfully admitted for permanent residence;" and

"(13) the term 'Federal personnel' means officers and employees of the Government of the United States, members of the uniformed services (including members of the Reserve Components), individuals entitled to receive immediate or deferred retirement benefits under any retirement program of the Government of the United States (including survivor benefits)."

Note that the phrase "officers and employees" appears in both the Public Salary Tax Act of 1939 and 5 USC 552a(13). Does it follow that all "Federal personnel" -- including "members of the uniformed services" and "individuals entitled to receive . . . retirement benefits under *any* retirement program of the Government . . ." -- are therefore liable to pay income tax? Is Social Security a "government program that provides a *retirement* benefit? If so, are all individuals who have a SS Number "entitled to receive . . . retirement benefits" under a Government retirement program and therefore defined as "Federal personnel" liable to pay income tax? Some researchers say Yes.

According to Shawn Talbot Rice, in *Boswell v. Powell*, 43 SW 2d 497 (see also, *Crow v. State*, 14 Mo. 237, 264), the term "in the State" is construed by the courts to mean, "in the State [government]". In other words, if you admit to working "in the State of Texas" or "in the State of Oregon" etc., you may have inadvertently allowed government to *presume* that you work "in the State [*government*] of Texas". Based on your unwitting admission, the courts may then *presume* you are a "state employee" as mentioned in the Public Salary Tax Act of 1939 and therefore obligated to pay income tax.

When only the improbable remains

Admittedly, both the SSN and "in the State" theories seem farfetched as possible explanations for the connection between average Americans and the income tax. But on the other hand, if government needed a Public Salary Tax Act to subject *government* employees to the income tax -- and there is no similar law passed with regard to private sector workers -- how precisely did government maneuver average Americans into paying income tax? As Sherlock Holmes pointed out, "When you've eliminated all the impossibilities, whatever remains, no matter how improbable, must be the answer."

Whether the average American is tied to the income tax by the SSN or some legalistic phrase like "in the State" remains to be proven. But whatever the final nexus is seen to be, you can bet that from a common sense point of view, the connection will seem extremely improbable -- so unlikely, in fact, as to be routinely dismissed as impossible. ("Surely, our own government wouldn't do *that* to *us*!) And that disbelief, of course, would be the strength of a secret nexus. If common sense tells us that a particular explanation can't possibly be, obviously no one will waste time researching that explanation; even if someone does, no one will believe his evidence or conclusions. As a result, the income tax could roll on, unabated, supported in large measure by its own legalistic impossibility.

Faced with 1) the Public Salary Tax Act of 1939 for taxing *government* employees, and 2) the apparent lack of similar legislation for taxing *private sector* employees, how unreasonable is it to assume that private sector employees have been tricked into *voluntarily* paying income tax? If there's a law that says the *Judge* must pay income tax, there'd better be a similar law that says *I* have to pay income tax. If there's not, the only way government can get my money is through unlawful coercion or my own lawful but *voluntary* contribution.

[1] Rep. McLean's comment was highlighted to emphasize that only *government* employees could be taxed. But I suspect the word "employee" might also be crucial.

We know government can't tax the exercise of a right. Texas is a "right to work" state, and clearly we are all endowed by our Creator with a "right to *work*". But does it follow that we also have a "right to *employment*"? Maybe not.

Work is clearly a "right", but employment ("working" for someone else) may be a *privilege*, especially if your "employer" is the government or some government-chartered *corporation*. In either case, given the presence of the government-granted advantage of limited personal liability for those "employees" working for government or corporations, it's arguable that "employment" by either constitutes a *privilege* and thus, unlike work, could be taxed.

Of course, some of us who work for ourselves will merrily admit (even brag) we are "self-employed". But perhaps the judge's reaction is: "'Employed'? Did you say 'employed'? GOTCHA!"

It's only a hunch, but I suspect a man might do well to avoid applying any variety of the E-word (employee, employer,

employment) to his person. Are you "self-employed"? Nope. I *work*. "Are you an employee?" No. I'm a *worker*.

[2] See, Article I, Section 8, Clause 17 ["To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of particular States, and the Acceptance of Congress, become the Seat of Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings;" Also, Article IV, Section 3, Clause 2 "The Congress shall have Power to dispose of and make *all* needed Rules and Regulations respecting the Territory or other Property belonging to the United States; and nothing in this Constitution shall be so construed as to Prejudice any Claims of the United States, or of any particular State.]. See, *American Banana Co. v. U.S. Fruit Co.*, (1909) 213 U.S. 347; *U.S. v. Spear*, (1949) 338 U.S. 217; N.Y. *Central R.R. Co. v. Chisholm*, (1925) 268 U.S. 29.

[3] Municipal law of the District of Columbia.

[4] Editor's comment: According to *Black's Law Dictionary* (Rev. 4th), "Deemed" may be a key word since it means, "To hold; consider; adjudge; condemn; determine; treat as if; construe . . . . But see *Kleppe v. Odin Tp., McHenry County*, 40 N.D. 595, 169 N.W. 313, 314, which gives 'deemed' the force of only a 'disputable presumption,' or of prima facie evidence." Therefore, it might be possible to argue that the fiction of Federal areas created (deemed) by statute is merely a presumption, and with proper evidence, defeat that presumption.

[5] See *Springfield v. Kenny*, (1951 App.) 104 NE2d. 65.

[6] *Howard v. Commissioners of Sinking Fund*, 344 U.S. 624, 73 S.Ct. 465, 476; *Schwartz v. O'Hara TP. School Dist.*, 100 A.2d. 621, 625, 375 Pa. 440. (See also 31 C.F.R. Part 51.2, which also identifies a fictional State within a state.)

[7] See, *Wheeling Steel Corp. v. Fox*, 298 U.S. 193, 80 L.Ed. 1143, 56 S.Ct. 773.

[8] This argument is supported by California Form 590, Revenue and Taxation which declares that if you merely declare that you live in "California" (rather than "CA"), you have established that you do not live in a "Federal area" and are exempt from the Public Salary Tax Act of 1939 and from the California Income Tax for residents who live "in this State."

[9] Exec. Order Number 9397, Nov 1943.

Opening Bank Accounts Without SSN's

by J. Anderson

The Social Security Number (SSN) is a strange beast. Ostensibly intended to help distribute government benefits to American citizens, it therefore seems benign, desirable (of course, cheese also seems "benign, desirable" to mice).

Here's a SSN "curiosity": According to Feb., 1997 issue of "The World According to Us" newsletter (POB 10309, St Petersburg, Fla., 33733):

"Israeli Prime Minister Benyamin Netanyahu holds dual citizenship in the United States and Israel. An Israeli newspaper (Jerusalem Post) checked his U.S. Social Security number, 020-36-4537, and found four names using the same number: BENJAMIN NETYANYAHU, BENJAMIN NITAI, JOHN JAY SULLIVAN and JOHN JAY SULLIVAN, JR.. The newspaper was denied access to his S.S. account because it had a "Confidential" classification. Only five types of accounts have that classification -- employees of the CIA, FBI, IRS, criminals or terrorists. Take your pick!"

If this information is accurate, it not only implies that multiple names can be legally attached to the same SSN, but more importantly, that "names" are no more relevant to federal identification of your person than the various nicknames you had in grade school. From the federal government's perspective, the legal reality seems to be the individual's NUMBER; his name(s) are just "AKA's" like "Big Daddy" or "Bugsy" that help confirm the primary identification (the SS NUMBER) but are otherwise of less legal significance than data on your weight or a high school photo of your face. In essence, it appears possible that your SSN is not an identifier so much as your primary (only?) "federal" reality.

In any case, as we've seen in the previous article, many constitutionalists argue that the Social Security Number (SSN) is the nexus that ties average Americans to the dictates of the federal government's administrative rules and regulations. If so, by minimizing or eliminating our use of the SSN, we may also minimize or even escape our alleged obligations to obey much of government's administrative rules and regulations. The following article explains one tactic to minimize our use of SSNs.

As you probably know, whenever you use your Social Security Number (SSN) on a financial account, like at your bank or stockbrokers, your money becomes easy pickin's for lawsuit-happy lawyers, the government, or a former spouse. You probably also know that if your SSN is not attached or connected with your financial accounts, it's nearly impossible for anyone (like the IRS) to find and seize your money. The major problem is getting a financial institution to open an account without the SSN!

Be not dismayed, there is a way to do it, and should the financial institution refuse to cooperate, then you may be able to SUE the pants off of them.

Here's the plan!

Step 1. Read, research, and if you choose, fill out the following Constructive Notice. This Constructive Notice simply outlines the law that permits you to open a Bank Account without a SSN.

CONSTRUCTIVE NOTICE

To: (Person and Institution being served)

YOU ARE BEING MADE AWARE BY

THIS CONSTRUCTIVE NOTICE THAT YOU ARE IN VIOLATION OF FEDERAL LAW IF YOU REFUSE TO:

1. Open a non-interest bearing bank account if the party wanting to open the account does not provide a Social Security Account Number or a taxpayer identification number; or

2. To provide your services to a client or potential client because the client or potential client does not provide a Social Security Account Number or a taxpayer identification number.

You personally, and the institution you represent, may be liable for damages and attorney's fees.

In accordance with Section 1 of Public Law 93-579, also known as the Privacy Act of 1974,[1] and Title 5 of the United States Code Annotated 552(a), also known as the Privacy Act, you are being informed of the following:

The right to privacy is a personal and fundamental right protected by the Constitution of the United States. You may maintain in your records such information about an individual as is relevant and necessary to accomplish a purpose required by statute or by executive order of the President of the United States.

Section 7 of the Privacy Act of 1974, specifically provides that it shall be unlawful for any Federal, State or Local government agency to deny any individual any right, benefit or privilege provided by law because of such individual's refusal to disclose a Social Security Account Number.

"Right of Privacy is a personal right designed to protect persons from unlawful disclosure of personal information . . . ." *CNA Financial Corporation v. Local* 743, 515 F. Supp. 942.

"In enacting Section 7 of the Privacy Act of 1974, Congress sought to curtail the expanding use of Social Security Account Numbers by Federal and Local agencies, and by so doing, to eliminate the threat to individual privacy and confidentiality of information posed by common numerical identifiers." *Dole v. Wikon*, 529 F. Supp. 1343.

"It shall be unlawful for any Federal, State, or Local government agency to deny any individual any right, benefit, or privilege provided by law because of such individual's refusal to disclose a Social Security Account Number." *Supra*

"An agency is a relation created by express or implied contract or by law, whereby one party delegates the transaction of some lawful business with more or less discretionary power to another." *State Ex Real. Cities Service Gas v. Public Service Commission*, 85 SW 2d. 890.

If the institution you represent is a bank, you are advised that if such bank routinely collects information and provides such information to Federal, State, or Local government agencies, then such bank is an agency of the Government.

The 1976 Amendment to the Social Security Act, codified at 42 U.S.C., Section 301 et seq., 405 (c)(2) (i, iii), states that there are only four (4) instances where Social Security Account Numbers may be demanded. They are:

"1. For tax matters;

"2. To receive public assistance;

"3. To obtain and use a driver's license; and

"4. To register a motor vehicle."

You are advised that a non-interest-bearing account does not pertain to any of the above. Because the account pays no interest, there is no "need-to-know" on the part of the government.

In accordance with the Privacy Act of 1974, whenever an agency fails to comply with the law, the party wronged may bring Civil Action in the District Court of the United States against such agency. Should the Court determine that the agency acted in a manner which was intentional or willful, the agency shall be liable to the wronged party in an amount equal to the sum of:

A. Actual damages sustained, but in no case less than $1,000; and

B. The cost of the action together with reasonable attorney's fees.

Constructive Notice Issued by:
(your signature, name and address)
Witness: (signature)
Witness: (signature)
Date:

Step 2. Take the Constructive Notice to a bank where no one knows you.

Step 3. Have available a form of ID that does not have your social security account num-

ber on it. (Many states issue driver's licenses that do not have social security account numbers on them).

Step 4. Inform the bank representative of your intention to open a bank account without giving the bank your social security account number.

Step 5. Open a *non-interest-bearing* account. That is important!

Step 6. If the bank refuses to open your account, hand them a copy of the Constructive Notice and tell them you plan to sue them if they won't abide by the law!

There you have it. A safe and simple way to legally hide your money! Good luck and happy hiding.

Regardless of the author's opinion that this is a "safe and simple way to legally hide your money", there is something about "hiding" money that hints at fraud or criminal intent. That intent could conceivably be used against you in subsequent litigation. Therefore, it may be preferable to structure your "intent" such that you don't want to "hide" your money so much as legally limit your personal liability to unwarranted intrusions into your private affairs.

Further, don't automatically believe anyone who tells you any legal procedure is inherently "safe". While it may be that the previous procedure for opening a SSN-less bank account is perfect, you'd be foolish to trust this procedure without thoroughly reviewing all the included case cites and legal references, as well as the SSN law in general.

Here in Texas, rumor holds that the trick to opening a bank account without a SSN is to do so with a bank chartered by the STATE rather than the Federal government. Perhaps, federally chartered banks are legally bound to use a SSN, while state chartered banks are not – at least with respect to non-interest bearing accounts.

[1] Partial text of Public Law 93-579, Sect. 7, 88 Stat. 1909 (Dec. 31, 1974):

"(a) (1) It shall be unlawful for any Federal, State or local government agency to deny to any individual any right, benefit, or privilege provided by law because of such individual's refusal to disclose his social security account number.

" (2) the provisions of paragraph (1) of this subsection shall not apply with respect to —"

"(A) any disclosure which is required by Federal statute, or

"(B) the disclosure of a social security number to any Federal, State, or local agency maintaining a system of records in existence and operating before January 1,1975, if such disclosure was required under statute or regulation adopted prior to such date to verify the identity of an individual.

" (b) Any Federal, State, or local government agency which requests an individual to disclose his social security account number shall inform that individual whether that disclosure is mandatory or voluntary, by what statutory or other authority such number is solicited, and what uses will be made of it."

Paul Andrew Mitchell (pmitch@ primenet.com) offered the following speculation on Public Law 93-579 (Privacy Act) over the Internet on Nov. 13, 1996:

"Congress deliberately failed to codify this statute in Title 5 of the United States Code. You will find it embedded at the end of the historical notes within the Privacy Act. When a government employee was sued for violating this Act, he asserted ignorance of the law as his defense. The court upheld this defense, thus creating an important exception to the general rule that ignorance of the law is no excuse. My reading of this decision is that the court was giving silent judicial notice to the fact that Congress actually "hid" the law; thus, the court's holding did not really overturn the maxim ('ignorance is no excuse'); it merely recognized that fraud vitiates everything, even the most solemn promises."

Point: If Mr. Mitchell's right and Congress intentionally concealed the law, it's obvious they're up to something.

Working Without a SSN

Here's a series of letters between an individual asking for help in securing work without using a Social Security Number (SSN), his Congressman, and the Treasury Department.

6 October 1996

Representative Martin Frost
Rayburn House OFC BLD #2459
House of Representatives
Washington, D.C. 20515-0003

Dear Sir,

Last May I left full time employment to seek a part time job for the purposes of continuing my education. I sent Out applications and resumes to over fifty prospective employers. I am still unemployed a year and a half later because of a misunderstanding of State and Federal laws. I was contacted about employment last month by four different companies. I have done some research which I have shared with those companies. They will not accept any of my information, but require a formal letter from a governmental representative. I am having a problem getting this information from any of our governmental agencies. As of today, I have sent in several "certified return receipt requests" which have gone unanswered. Monday, 16 September 1996 I called several government agencies, talked to the several people, and posed the same question to each of them. None of them had an answer and suggested I write this letter to you.

The question I would like your help with is : *What are the instructions that an employer would follow in hiring a person who is otherwise qualified for employment, but does not have or use a Social Security Number (or related TIN, EIN or ITIN)?*

The *reason* for the absence of a Social Security Number is not the issue because the law provides for exceptions. However, according to a lawyer at the EEOC, the law is unclear on the employer's responsibility of implementing those exceptions. My reason is founded on *Revelations 13:16-18** and has not been a problem with employers. Employers do not engage in persecution for religious beliefs directly, but do so inadvertently because of what they see as a Federal requirement for employment. The IRS has been in business for years and this should not be a complicated question for them and it is not per the Lawyer I talked to at the Internal Revenue office, but again he would not send me a formal letter to satisfy a prospective employer.

I would appreciate a timely response.

Sincerely.
Vance Lee, Meurer

* "He also forced everyone, small and great, rich and poor, free and slave, to receive a mark on his right hand or on his forehead, so that no one could buy or sell unless he had the mark, which is the name of the beast or the number of his name." *Rev.* 13: 16-189.

Congressman Frost's reply:

January 2, 1997

Dear Mr. Meurer:

Enclosed please find a copy of the letter I received from the U.S. Department of Treasury in response to my inquiry on your behalf. I believe you will find this letter self-explanatory.

I always appreciate the opportunity to serve the constituents of the 24th Congressional District and hope you will call on me again whenever I may be of further service.

Sincerely,
Martin Frost
Member of Congress

The IRS letter of explanation follows. The italicized comments within the letter are my emphasis. The footnotes are my comments on the government's letter.

Note that my comments on this letter express a number of unsubstantiated conclusions that are hopefully interesting, but only personal speculation. Further, this is only a letter, not a statute, regulation, or court case. As such, it's "official" value is, at best, limited. It's entirely possible that the letter's author is sometimes writing casually; therefore it's inadvisable to read too much into the letter's specific language.

On the other hand, the letter is written by an "Assistant Chief Counsel (Income Tax & Accounting)" of the Office of Chief Counsel of the IRS. Further, since the author is a prominent IRS attorney writing an official reply to a U.S. Congressman, we can reasonably assume his letter was carefully constructed to be legally reliable (or intentionally evasive). Therefore, this letter may provide enough legal substance to justify interest, perhaps even cautious confidence in my comments.

Dec. 24, 1996

Department of The Treasury
Internal Revenue Service
Washington D.C. 20224

Office of Chief Counsel

Dear Mr. Frost:

This is in response to your letter, dated October 25, 1996, referring to this office for consideration the inquiry of your Constituent, Mr. Vance Lee Meurer. Mr. Meurer requests instructions for an employer to follow when hiring a person who does not have and will not use a social security number, or any other identifying number, because of his or her religious beliefs.

Mr. Meurer's question involves the liability for penalties of an *employer* who does not provide an employee's taxpayer identification number (TIN) when required. The following provisions of the law and regulations provide guidance as to an employer's obligations for providing the Service and an employee with the employee's TIN in connection with tax administration.[1]

Section 6109(a) of the Internal Revenue Code provides in part that any person required to make a return, statement, or other document with respect to another person shall request from such other person, and shall include in any such return, statement, or other document, such identifying number as may be prescribed for securing proper identification of such other person.

Section 6721(a) of the Code provides as a general rule that any person failing to include all of the required information on a return shall pay a *penalty* of $50 for each uncorrected return with respect to which the failure occurs; with the total penalty not exceeding $250,000 during the calendar year.[2]

Section 6722(a) of the Code provides, in part, that any person failing to include all of the information required to be shown on a payee statement shall pay a penalty of $50 for each statement with respect to which such a failure occurs; with the total penalty not exceeding $100,000 during the calendar year.[3]

Sections 6721(e) and 6722(c), in part, set forth greater penalties for intentionally failing to include required information on a return or

[1] Note that penalties for not using a SSN apparently apply primarily to the *employer*, not the employee. Also, note that the IRS seems to prefer using the terms "employee's TIN" and "TIN" (*Taxpayer* Identification Number) instead of "Social Security Number" (SSN). In fact, in this letter, the IRS refers to the SSN only four times, but the TIN twenty-four times. This reluctance to refer to the SSN (the subject of both Mr. Meurer's and Congressman Frost's letters) strikes me as curious because it implies there might be a "dual-nature" in our SSNs that somehow includes or implies the TIN. Are we tied to the income tax (as most constitutionalists suspect) because we have SSN? Or are tied to the tax because the SSN somehow implies or is converted into a *Taxpayer* Identification Number (TIN)? This speculation implies that the SSN may not be the malignant nexus to the income tax or "mark of the beast" that many people believe. Perhaps the SSN is a relatively benign "precursor" until it somehow metastasizes into the truly dangerous TIN. Whether I am a "taxpayer" may be debatable if the only supporting evidence is my SSN; but if I have or appear to use a "Taxpayer Identification Number" (TIN), who can avoid the presumption that I am a "taxpayer"?

[2] In theory, each employee without a SSN might simply offer to pay his employer the $50 penalty that might be assessed for filing any documents with the IRS which do not include the employee's SSN/TIN.

[3] What is a "payee statement"? If it's a single, end-of-year document filed with the IRS, sounds like the employee might be able to simply reimburse the boss another $50 penalty for not using a SSN/TIN. However, if a "payee statement" was issued more frequently – say, once a week like a paycheck (is a paycheck a "payee statement"?), the penalty could be prohibitive.

payee statement.

Section 6724(a) of the Code provides that no penalty shall be imposed for any failure if it is shown that the failure is due to reasonable cause and not to willful neglect.[4]

As a general rule, the question of whether a taxpayer has reasonable cause for failing to comply with specific requirements of the Code is in the first instance a question of fact which must be resolved on the basis of all the facts and circumstances surrounding each particular case. *Commissioner v Lane-Wells Co.*, 321 U.S. 219 (1944).[5]

Section 301.6724-1(a) of the Regulations on Administration and Procedure provides for a waiver of the penalty if the filer [employer] establishes significant mitigation factors for the failure or that the failure arose from events beyond the filer's control. The filer must also establish that he or she acted in a responsible manner before and after the failure occurred.[6]

Section 301.6724-1(c)(1)(v) of the regulations includes in the definition of "events beyond the filer's control" certain actions of the payee [employee] or other person with necessary information.

Section 301.6724-1(c)(6)(i) of the regulations includes in "actions of the payee" the *failure of the payee to provide* the filer with necessary information to comply with information reporting requirements.[7]

Section 301.6724-1(e) of the regulations provides special rules for acting in a responsible manner in the case of missing TINs. A filer seeking a waiver for reasonable cause will have acted responsibly if the failure to provide a TIN on an information return resulted from a *payee's failure to provide* the filer with the *information*. However, this provision applies only if the filer makes an initial solicitation, and if required, additional annual solicitations.[8]

[4] "Willful" is a crime, "reasonable" is OK. In other words, if the employer can offer a reasonable explanation for why the TIN was not provided, no penalty accrues. Mr. Meurer's reliance on the Biblical prohibition against "marks" etc. is presumably "reasonable" and therefore no $50 penalties should attach. But maybe the employee doesn't have to explain a thing. Maybe the entire legal obligation is on the back of the employer, especially the *corporate* employer since he's chartered by government and therefore subject to government rules.

[5] This "general rule" is potentially dangerous since it allows virtually endless harassment if the IRS decides to "resolve" the "question of fact" concerning use of the SSN "on the basis of all the facts and circumstances surrounding each particular case". Sounds like a universal fishing license for IRS agents seeking information ("*all* the facts").

[6] Could employers establish a formal "Company Policy On Hiring Individuals Without SSNs" that would stand up to government scrutiny just like a company Policy on Sexual Harassment or Affirmative Action? If such a document/ policy were devised and proven reliable, it could be propagated to every company in the USA. This might even benefit the employers in that it would open up a fairly large and probably talented labor pool of folks who refuse to use SSNs.

[7] Fascinating. If the employee simply doesn't provide the "necessary information" (SSN?), the employer is off the hook.

[8] In other words, as long as the employer asks for the SSN/TIN when the employee is first hired, and then again before the end of each calendar year, the employer's duties have been satisfied. And if each time, the employee answers, "Sorry, I don't have one" or "Sorry, I don't want to tell you", everything's still OK. More importantly, "the failure to provide a TIN" implies that the obligation to supply a TIN rests with the *employer*. That means that if there is a "conversion" of the SSN into a TIN, it takes place in the employer's office – not in Washington. Given government's reputation for tricking folks into assuming obligations that can't be imposed under the Constitution, the idea that the *employer* (not the government) somehow converts the SSN into a TIN makes some sense. Imagine that I get a job and give my employer my SSN; my employer then enters my SSN on some document that he sends to Washington that in fact asks for my TIN (somebody – perhaps a CPA or tax accountant — told the employer to just enter the SSN on the line that says TIN since "they mean the same thing"). Government gets the document in which my employer inadvertently identified me as a "Taxpayer" and simply accepts the information as true. Then government employees can truthfully say *they* did not mandate or designate me as a "taxpayer"; they simply relied on the information provided by my employer – presumably with my full knowledge and agreement. Suppose I sue the government to release me from my "taxpayer" status; it might not work unless I challenge the fact that I have been given (unbeknownst to me) a TIN. Further, the proper party to sue may be my *employer* — who may have falsely ID'd me as a "taxpayer" when he submitted my SSN as a TIN. In any case, so long as I fail to refute any statement of implication that I have a TIN, I'm presumed to be a "taxpayer" and the IRS can probably compel me to pay income taxes.

Section 301.6724-1(e)(1)(i) of the regulations provides that the filer must make an initial solicitation for the payee's TIN when the relationship between filer and payee begins.[9]

Section 301.6724-1(e)(1)(ii) of the [Code of Federal] regulations provides that the filer must undertake an annual *solicitation* if a TIN is not received as a result of an initial solicitation. The first annual solicitation must be made on or before December 31 of the year in which the relationship began or January 31 of the following year if the relationship began in December.

Section 30l.6724-1(e)(1)(iii) of the regulations provides that if the filer does not receive a TIN as a result of the first annual solicitation, the filer must undertake a second annual solicitation. This solicitation must be made after the expiration of the annual solicitation period and on or before December 31 of the year immediately succeeding the calendar year in which the relationship began.[10]

Section 301.6724-1(e)(1)(v) of the regulations provides that the initial and first annual solicitations relate to the failures on returns filed for the year in which the relationship begins. The second annual solicitation relates to failures on returns filed for the year immediately following the year in which the relationship begins and for succeeding calendar years.[11]

Section 301. 6724-1(e)(2) of the regulations provides that the manner of making solicitations may be by mail or by telephone.

Section 301.6724-1(e)(2)(i) of the [Code of Federal] regulations provides that mail solicitations must include—

(A) a letter informing the payee that he or she must provide his or her TIN and that he or she is subject to a $50.00 penalty imposed by the IRS under section 6723 if he or she fails to provide the TIN;[12]

(B) a Form W-9 or an acceptable substitute form on which the payee *can* include his or her TIN;[13] and

(C) a return envelope for the payee to mail Form W-9 to the filer.

Section 301.6724-1(e)(2)(ii) of the regulations provides that a telephone solicitation must be reasonably designed and carried out in a manner conducive to obtaining a TIN. The filer must—

(A) complete a call to each person with a missing TIN;

(B) request the TIN of the payee;

(C) inform the payee that he or she will be subject to a $50.00 penalty under section 6723 if he or she fails to furnish his or her TIN;

(D) maintain contemporaneous records showing that the solicitation was properly made; and

(E) provide contemporaneous records to the IRS upon request.

Section 301.6724-1(m) of the regulations provides that when seeking an administrative determination (after a penalty has been assessed), a filer must submit a written statement to the district director or the director of the service center where the returns are required to be filed. The statement must— [14]

(A) state the specific provision under which the waiver is being requested;

(B) set forth all the facts alleged as the basis for reasonable cause;

(C) contain the signature of the person required to file the return; and

[9] Again, the employer is obligated to ask for an employee's TIN – which is not necessarily a SSN. But what happens if the employee unknowingly provides a SSN instead? I wouldn't be surprised if, in the sense that 5 pounds of potatoes and 5 pounds of beef both use the number "5" but identify two entirely different commodities, the SSN and the TIN can be identical numbers which nevertheless refer to two entirely different legal entities and obligations. I'll bet most employers don't even know they're asking for a TIN instead of a SSN, or if they know, don't realize the two "numbers" create hugely different legal consequences for their "employees".

[10] Note that there is no obligation to "get" a TIN from the employee, only to *ask* when hiring and then ask again, every year, so long as the employee is still employed. Also, it appears that there may not be any clear obligation for the employee to "have" a TIN. But judging from this Department of Treasury document, the TIN seems to tie us to the IRS, while the SSN's nexus is less obvious.

[11] The employer's got to *ask* for your TIN when he hires you and again at the end of the first calendar year (twice in the first years). Afterwards, he must ask only once at the end of each calendar year.

[12] But if you don't have a TIN, you can't very well provide one, can you?

[13] Ah ha! Does the IRS counsel suggest that the "payee" (employee) "can" (voluntarily?) designate himself as a "Taxpayer"?

[14] Note that the "filer" is the *employer*, not employee.

(D) contain a declaration that it is made under penalties of perjury.

Thus, to summarize the foregoing: An employer who files with the Service certain information returns, with respect to an employee, must include the required identifying number under section 6109 of the Code. In the case of an individual, the identifying number is the individual's SSN. If an employer fails to include an employee's TIN on the information return and payee statement, the employer is subject to penalties under sections 6721 and 6722 of the Code.[15]

The regulations under section 6724 establish criteria for determining whether an employer has reasonable cause for failing to include an employee's TIN on a return, document, or information statement. The employer must solicit a new employee's TIN when that employee begins working for the employer. If the initial request fails, the employer must solicit the employee's TIN on or before December 31 of the employee's first year of employment, or by January 31 if employment began in December. If the second request fails, the employer must request the employee's TIN on or before December 31 of the employee's second year of employment. The employer's annual solicitations, by mail or by telephone, must inform the employee that he or she is subject to a $50.00 penalty, and must maintain records of the various requests for the employee's TIN. An employer complying with these requirements will likely satisfy the reasonable cause standard of section 6724 of the Code. Generally, no more than two annual solicitations are required in order for an employer to establish reasonable cause.

Thus, the cited Code and regulations sections do not establish a blanket exemption from penalties for an employer who has not provided the employee's TIN because the employee has failed to obtain or furnish an SSN. Rather, these sections provide a method whereby an employer can establish, subject to verification by the Service, that the failure to provide an employee's TIN is due to reasonable cause and not to willful neglect. Further, compliance with the solicitation provisions of section 301.6724-1 of the regulations will not preclude the Service from contacting the employer every time a return, statement, or other document is filed that lacks a required TIN. In light of this, the employer must maintain documentation of its efforts to secure a TIN from any employee failing to provide the employer with his or her SSN for the duration of that employee's employment.[16]

We hope this information will be helpful to you in replying to your constituent.

Sincerely yours,
Rudolf M. Planert
Assistant Chief Counsel
(Income Tax & Accounting)
Chief, Branch 4

[15] Why is the *individual's* "identifying number" declared to be the SSN, but the employer is required to provide the *employee's* TIN? (Curiously, the index on "Taxpayer ID numbers" does not tell how to get one.) Something sneaky may be happening here. The letter's next paragraph offers a clue: "The employer must solicit a new employee's TIN when the employee begins working for the employer." If there is a conversion from SSN to TIN, it apparently occurs when the individual *begins working for the corporation* and thereby becomes an "employee".

[16] In other words, the *administrative* hassles that might ensue should an employer fail to provide an employee's TIN may make the threatened $50 penalty look trivial. I.e., although the IRS probably lacks the resources to harass more than a small percentage of employers, by threatening to harass (a few) employers with endless "paper terrorist" requests for missing TINs, virtually all employers are intimidated into an employment policy of simply not hiring any individual who's too "uppity" to provide a SSN. Even though the "SSN-less" job applicant may be perfectly legal, why risk all that administrative hassle (plus the possibility triggering an *audit*) by employing folks outside the IRS's "recommendations"?

The Non-Responsive Response

Many of the "patriot" theories on income tax are spawned by the IRS's inability to provide concise, reliable information to persons asking for help to understand and apply our tax laws. Most of us have heard of the various studies in which identical tax returns were sent to a dozen IRS offices for computational "assistance". Result? Virtually no two IRS offices agreed on the final tax, and variations in "computed" monetary liablity ranged over several thousand dollars. A Government Accounting Office (GAO) study indicated that over 20% of IRS advice provided by telephone to taxpayers is wrong. Apparently, even the IRS doesn't understand the tax laws. As a result of IRS ignorance, the public has begun to study, analyze, and educate itself on the tax laws.

But the problem extends beyond mere IRS ignorance. When new students of tax law discover a legal point that seemingly declares that the income tax does not apply to most people, one of the first things they do is send a letter to the IRS asking for confirmation or explanation. However, the IRS routinely refuses to provide requested information on tax laws. Although they will usually respond to inquiries, their responses are typically generic, "boiler plate" replies that may generally apply to some people, but do not clearly apply to the specific person making the inquiry.

The following IRS letter illustrates this IRS tendency to refuse to specifically respond to the questions or legal challenges brought by American citizens. The italicized highlights are my additions; the footnotes are my comments. It's almost amazing how much information you can find or infer in a single, seemingly simple letter.

June 20 1994

Mr. Patrick H. Shaffer
Mesquite, TX

Dear Mr. Shaffer:

This is in response to your March 26, 1994, letter to President Clinton concerning several tax-related matters.

As much as he would like to, the President cannot reply personally to all of the correspondence he receives. Therefore, he has asked the departments and agencies of the Federal Government to reply in his behalf in those instances where they have special knowledge or special authority under the law. For this reason, your letter was recently forwarded to me.[1]

You *seem to believe*[2] that U.S. citizens and resident aliens do not have to file federal income tax returns unless they have foreign earned income reportable on Form 2555. You also questioned the regulations listing control numbers that the Office of Management and Budget (0MB) assigns to tax forms.

Because of the volume of work before us, *we are*

[1] Although President Clinton is understandably too busy to reply to Mr. Schaffer's letter of inquiry, he has forwarded Mr. Schaffer's letter to an IRS Assistant Commissioner Gwen A. Kraus (the author of the IRS letter) who has "special knowledge or special authority" to reply "in [the President's] behalf". Note that by forwarding Mr. Schaffer's letter, the President is implicitly *ordering* Ms. Kraus to respond.

[2] This IRS concession concerning Mr. Schaffer's "beliefs" may protect him from possible criminal charges (which must be based on "willful", knowing acts), but also skates around the fundamental point: Mr. Schaffer did not write to President Clinton to initiate a philosophical discussion; he wrote in an act of near desperation to ask that someone, somewhere, help him understand certain specified aspects of tax law which he had studied and understood to mean he was not required to pay income tax.

unable to address the issues in your letter on a point-by-point basis.[3]

Also, we cannot disclose confidential tax information about other individuals. However, the following general information[4] may be of interest to you.

By agreement with 0MB, all Internal Revenue Service regulations that are subject to the Paperwork Reduction Act must be listed in section 602.101 of the Code of Federal Regulations along with the 0MB control numbers assigned to them. This is intended to comply with the requirement under the Act that collections of information must display 0MB control numbers. Many regulations listed in section 602.101 have the same 0MB number as the tax forms that are related to them. However, the listing in section 602.101 is not meant to be the legal authority for filing any tax forms represented by the 0MB control numbers shown there.

Section 1.1-1 of the Regulations is contained in the list with 0MB number 1545-0067, which is also the 0MB number assigned to Form 2555. Section 1.1-1 provides rules and cross references for the computation of income tax on individuals and does not contain any information collec-

[3] There's always an excuse for not specifically answering a citizen's questions. In this case, they're "too busy". Maybe so. But how "busy" will they be when it comes time to take Mr. Schaffer through a series of court trials and appeals to collect his money? More importantly, the *President of the United States* has implicitly ordered IRS Ass't. Commissioner Gwen A. Kraus to answer Mr. Schaffer's letter. (After all, if the President wanted to merely ignore Mr. Schaffer's letter, there are plenty of White House flunkies to write a generic, boilerplate reply thanking Mr. Schaffer for his "interest in this troubling problem and your continuing support for President Clinton".) Because Mr. Schaffer's letter was forwarded to an Assistant Commissioner with "special knowledge or authority", it appears President Clinton wanted specific answers be provided for Mr. Schaffer's questions. Nevertheless, claiming she's too busy, Ms. Kraus refused to obey the *President's* implicit order. (Interesting. Who does she think she is? Hilary?)

Realistically, there are somewhere between ten and twenty fundamental "patriot" arguments against the income tax. There are hundreds of thousands of alleged taxpayers using these fundamental arguments – but the IRS claims to be "too busy" to explain why those arguments are invalid! Surely, the IRS understands those arguments. So why not create twenty IRS boilerplate responses (one for each potential patriot argument)? Then, when the IRS receives a letter like Mr. Schaffer's, an IRS clerk could identify the letter's fundamental arguments and send a boilerplate response with legal information that specifically refutes each patriot argument.

If the IRS routinely refuted each fundamental patriot arguments with compelling proof, the tax resistance movement would wither and "voluntary" compliance would again become the norm. Nevertheless, the IRS refuses to find time to provide specific answers. What can we infer from that refusal except that the patriot arguments are fundamentally correct and no IRS assertion to the contrary is possible?

[4] If the balance of "information" is this letter is "general" in nature, it must be nonspecific boilerplate. Surely, if the "overworked" Ass't Commissioner who wrote this letter didn't have time to research and reply to Mr. Schaffer's specific questions, she also didn't have time to go digging through her notes to provide a personalized collection of "general information" that "may be of interest" to Mr. Schaffer. Point: the majority of the letter is nonresponsive, nonspecific, and probably boilerplate.

tions or filing requirements subject to the Paperwork Reduction Act. *Section 1.1-1 was mistakenly listed in section 602.101 and should not appear there at all.* Our Office of Chief Counsel is taking steps to have it removed from section 602.101.[5]

Whether an individual is liable[6] for income tax is determined under Subtitle A of the Internal Revenue Code, Chapter 1, Subchapter A - Determination of Tax Liability. Part I, section 1, imposes a tax on the taxable income of every individual.[7] Whether an individual has taxable income is determined under Chapter 1, Subchapter B - Computation of Taxable Income. Part I, section 63, defines "taxable income," generally, as gross income minus the deductions allowed by Chapter 1.[8]

Code section 6012 provides that every individual whose gross income for the tax year equals or exceeds specified amounts must make a return with respect to income taxes under Subtitle A. Section 6151 provides that, except as specifically provided otherwise, when a return of tax is required by the Code or the regulations, the person required to make such return shall, without assessment or notice and demand from the Secretary, pay such tax to the internal revenue officer with whom the return is filed.

The law itself does not require individuals to file a Form 1040.[9] However, Code section 6001 provides that every person liable for any tax imposed by the Code shall make such returns and comply with such rules and regulations as the Secretary may from time to time prescribe. Section 1.6012-1(a) (6) of the Income Tax Regulations provides that Form 1040 is prescribed for general use in making the return required under Code section 6012. The 0MB numbers related to these sections (as well as sec-

[5] First, who says the published law is mistaken? Is this "mistake" a legal fact, or merely an opinion expressed by IRS officials? Second, if the IRS published information that is "mistaken", why doesn't the IRS have to "recall" all the books containing this bogus information, just like Chevrolet would have to recall all Chevy pickup trucks with defective (sometimes exploding) gas tanks? After all, many alleged taxpayers may be risking serious fines and even jail terms if they rely on this "mistaken" information provided by the IRS. On the other hand, how can the IRS indict and try anyone if they know their own Code books are defective? If one section of the published law is "mistaken", how can we be sure other sections are not also "mistaken"? What, then, is the law? Who should obey or be held liable for failing to obey improperly published laws?

[6] "*Whether* an individual is liable" implicitly concedes that some individuals are *not* "liable". This in turn implies that some of the patriot arguments may be valid.

[7] At first, the phrase, ". . . imposes a tax on the taxable income of every individual . . ." sounds like *every individual* must pay income tax. Not so. The tax is imposed on *"taxable* income"-- not individuals. Further, the IRS implies that some "income" is not "taxable". Again, this implication lends credence to patriot arguments that challenge whether a particular kind of income is truly "taxable".

[8] One of the key issues in the income tax debate concerns the *definition* of "income". While the IRC *has defined* "'taxable income,' generally, as *gross income* minus the deductions allowed by Chapter 1," there is *no similar IRC definition* for the more fundamental term "*gross* income". Although there are court cases which define "income" as "*corporate* profit", the IRC provides *no clear definition* of the central subject ("gross income") on which the "income tax" is based. Without a clear, legal definition of "*gross* income", how can we know what is legally subject to the "income tax"?

In this letter, the IRS admitted that it mistakenly published an inaccurate section of law but was also "taking steps to have it removed". OK, why not take similar steps to include a legal definition of the *fundamental substance* ("gross income") that is subject to being taxed? The IRS may have dozens of valid reasons why a definition of "gross income" has not been published in the IRC for the last forty years -- but what is their excuse for not publishing that definition *tomorrow*? If that single definition were published, it would probably eliminate about half of the patriot challenges to the income tax. Nevertheless, no IRC definition of "gross income" is published or anticipated.

Patriot researchers contend the IRS failure to define "gross income" is not accidental but stems back to the original definition of "gross income" in Section 22(a) of the 1939 IRC. According to these researchers, the IRS intentionally deleted a couple of key words when Section 22(a) of the 1939 IRC became Section 61 of the 1954 IRC. If this research is valid, it indicates the IRS is knowingly and intentionally deceiving the public into "voluntarily" paying taxes that are not mandatory.

[9] People think the patriots are crazy to argue that there is no legal requirement to file an income tax return -- and yet here's an Assistant Commission in the IRS agreeing that "the law itself does not

tions for itemized deductions, etc.) were listed in your letter to the Honorable Sam Johnson.

The Government expects voluntary compliance with the federal tax law. This means that we expect taxpayers to comply with the law without being compelled to do so by action of a Government agent; it does not mean that the taxpayer is free to disregard the law.[10] *If* an individual is required by law to file a return or pay tax, it is mandatory that he or she do so.[11]

I hope that this information will be helpful.[12]

Sincerely yours,
Gwen A. Krauss
Ass't. Commissioner (Taxpayer Service)
Internal Revenue Service
Washington, D.C. 20224

In the final analysis, the reason "patriot" arguments persist is not because patriots are stupidly stubborn, but because the IRS refuses to unequivocally and specifically answer and refute those arguments.

The public's belief that tax law is clear , the income tax universally mandatory, and the patriot arguments impossible has been fostered not by clear and convincing statements from the IRS, but by court room convictions of folks who espouse the patriot arguments. Based on these highly publicized convictions, the public naturally assumes the income tax must be mandatory. However, few Americans realize that the courts don't really rule that the income tax is mandatory for all Americans, only for the specific defendant in each case. Also, unlike IRS officials who may be held personally liable for lying to the people, the courts can rule the sea is red, the earth is flat, and the income tax mandatory and incur no personal liability should their rulings be false -- so there's an inherent advantage to letting the courts serve as the IRS' primary advocates. As a result, judges are notoriously biased against "tax resistors", routinely suppress or ignore defendants' evidence, and dispense jury instructions which generally guarantee convictions. Simply put, innocent people are sometimes, perhaps regularly, convicted based on judicial bias and/or corruption.

In sum, the public's belief that income tax is mandatory is based less on clear statements by the IRS than on the implications inherent in convictions by the courts.

require individuals to file a Form 1040." The Ass't. Commissioner does insist that "every person *liable* . . . shall make returns . . . .", but in doing so, she again lends credence to patriot arguments that the income tax is not mandatory for all Americans but only for that minority who are "liable".

[10] "[F]ree to disregard the law"? Here, the IRS actually insults Mr. Schaffer and the patriot community. I'll guarantee that Mr. Schaffer has spent thousands of eye-straining hours reading and trying to understand the virtually incomprehensible tax laws. If he or the patriot community believed they didn't have to obey the law, why would they dedicate their lives to its study? The folks who "disregard the law" are the ones who simply quit filing, never crack a law book, and never write a letter of inquiry to the IRS or President Clinton. Mr. Schaffer and the patriot community does not disregard the law, they hold it in high regard. And more importantly, not only agree to obey the law, they insist that government also obey the law. And *that's* what makes government mad because, if the patriot arguments are correct, it's our government in general and the IRS in particular that operates as if it were "free to disregard the law".

[11] Is the income tax "mandatory" or "voluntary"? Here's a partial answer from the IRS itself: "*If* an individual is required . . . it is *mandatory* that he do so." If, if, if! Therefore, for some people under certain circumstances, the income tax is mandatory. For the rest of us ("those *not* liable"), the income tax is not mandatory. Point: whether any particular patriot's argument that the income tax is voluntary is correct or not is debatable -- however, it is clearly *possible* that his "voluntary" argument is valid.

But if the income tax is not "mandatory", does that necessarily mean it must be "voluntary"? Perhaps Mr. Schaffer and the patriot community have spent so much time trying to prove the income tax is *not* normally "mandatory", that they've ignored the *reverse* side of the same coin. Why not write a letter to President Clinton or the IRS asking if the income tax is ever paid "voluntarily"? I.e., does the IRS ever accept "voluntary" contributions? How often? How much? If "voluntary" contributions are allowed, what are the laws, regulations, and required forms with which you might agree to "voluntarily" pay an income tax to the IRS? I wonder if the IRS has any boilerplate replies for those questions.

[12] How could this information be "helpful" if it did not specifically address Mr. Schaffer's questions? If there's any "help" here, it's help in sustaining the IRS system without revealing the true nature of that system.

The Paperwork Reduction Act

by Larry Becraft

Larry Becraft is a Huntsville, Alabama attorney. The following article was written in the 1980's and illustrates both a legal foundation for challenging the IRS, and the fact that these challenges are not new. Generally, the IRS response has been to ignore this kind of information, and simply keep on collecting the tax money, law or no law.

The Paperwork Reduction Act (herein "PRA") was approved on December 11, 1980.[1] This act required all federal agencies to submit to the Director of the Office of Management and Budget (O.M.B.) all "collections of information" for his approval and the assignment of O.M.B. control numbers.

Section 3502(4) defined the term "collection of information" generally as the obtaining of facts or opinions by a federal agency "through the use of written report forms, ... reporting ... requirements, or other similar methods calling for ... answers to identical questions". An "information collection request" was defined in § 3502(11) to mean "a written report form, application form, schedule, questionnaire, reporting or record keeping requirement, or other similar method calling for the collection of information".

Section 3507, subsection (f) provided: "An agency shall not engage in a collection of information without obtaining from the Director a control number to be displayed upon the information collection request."

The chief method of securing compliance by federal agencies with this act was § 3512:

"Notwithstanding any other provision of law, no person shall be subject to any penalty for failing to maintain or provide information to any agency if the information collection request involved was made after December 31, 1981, and does not display a current control number assigned by the Director, or fails to state that such request is not subject to this chapter."

The Senate Committee on Governmental Affairs summarized the purpose of § 3512 as follows:

"The purpose of this section is to protect the public from the burden of collections of information which have not been subjected to the clearance process described by §3507. Information collection requests which do not display a current control number or, if not, indicate why not are to be considered 'bootleg' requests and may be ignored by the public."[2]

The implementation of regulations for the PRA was hotly contested.[3] The major issue of concern related to whether agency *regulations* were subject to the requirements of the act, the federal agencies contending that only *forms* were covered by the act. This contention was rejected by O.M.B., which stated:

"It is not possible to argue that OMB clearance authority is confined to forms and similar instruments . . . . Many reporting requirements are enforced by means of forms, but other reporting requirements and virtually all record keeping requirements are imposed by other means, including oral surveys, guidelines, directives, and — most significantly — regulations . . . . The only way all reporting and record keeping requirements can be covered by the Act is to cover these other methods for the collection of information, including *regulations*."[4] [Emph. add.]

"It follows that OMB has authority over reporting and record keeping requirements in rules that were in effect when the Act was passed as well as in rules subsequently issued with or without public notice and comment."[5]

"Pursuant to these authorities, the Director has concluded that all collections of information, including those mandated by regulations, must display a currently valid OMB control number,"[6]

The regulations for the PRA thus expressly subjected *regulations* adopted by agencies to the clearance process.[7] The act clearly requires that forms seeking the collection of information must be approved by O.M.B. and must display O.M.B. control numbers. But, regarding the instances in which specific "reporting requirement" *regulations* would likewise be subject to the PRA, the report stated:

"As discussed in connection with section 1320.7(d), any collection of information specifically contained in a regulation (such as a form printed as part of a regulation) is considered part of the collection of information requirement imposed by that regulation, and does not need an additional approval. Such a collection must display the control number assigned to the collection of information requirement in the regulation. On the other hand, a form is not considered to be 'specifically contained in' a regulation merely because the regulation refers to or authorizes the form. A generally valid test is that the form requires independent clearance if the information collection component of the related regulation cannot be enforced without the form. For example, if a regulation states that respondents must supply certain data 'on a form to be provided by the agency', the form must be cleared independently."[8]

In other words, if a reporting requirement regulation simply mentions a form, both the *regulation* and *form* must be separately approved by O.M.B., although both will display the same O.M.B. control number.

The regulations promulgated for the PRA on March 31, 1983, were specific in the requirements placed upon the information collection activities of federal agencies. Section 1320.4(a) of these regulations provided:

"An agency shall not engage in a collection of information without obtaining Office of Management and Budget (OMB) approval of the collection of information and displaying a currently valid OMB control number and, unless OMB determines it to be inappropriate, an expiration date."[9]

Section 1320.7 contained important definitions. A "collection of information" was defined as including forms and reporting requirements, the latter being defined as "a requirement imposed by an agency on persons to provide information to another person or to the agency". By the plain terms of this definition, a "reporting requirement" encompasses a regulation which requires the provision of information. The "display" of OMB control numbers meant the printing of such number in the upper right hand corner on forms.

For *regulations*, the "display" of the control number was required to be a "part of the regulatory text or as a technical amendment". Section 1320.14 of these regulations plainly commanded federal agencies to obtain and display O.M.B. control numbers for agency regulations subject to the act.

While most federal income tax forms ("information collection requests") were approved and given O.M.B. control numbers prior to December 31, 1981, the same has not occurred regarding the reporting and record keeping *regulations* within 26 C.F.R. The most common, typical method to display an O.M.B. control number for regulations is to append at the regulation's conclusion, "(Approved by the Office of Management and Budget under control number 0000-0000)".

As of May, 1987, only 32 of the multitude of reporting and record keeping regulations in 26 C.F.R. displayed control numbers in this fashion. Those regulations and corresponding control numbers are:

Regulation in 26 C.F.R	Control Number:
1. 1.860-2	1545-0045
2. 1.860-4	1545-0045
3. 1.897-1	1545-0123
4. 1.901-2	1545-0746
5. 1.901-2A	1545-0746
6. 1.1256(h)-1T	1545-0644
7. 1.1256(h)-2T	1545-0644
8. 1.1256(h)-3T	1545-0644
9. 1.1441-2	1545-0795
10. 1.1441-3	1545-0795
11. 1.1441-4	1545-0795
12. 1.1441-5	1545-0795
13. 1.1441-6	1545-0795
14. 1.1441-7	1545-0795
15. 1.1445-7	1545-0902
16. 1.1461-1	1545-0795
17. 1.1461-2	1545-0795
18. 1.1461-3	1545-0257
19. 1.1462-1	1545-0795
20. 1.1502-13T	1545-0885
21. 1.6045-2T	1545-0115
22. 1.6046-1	1545-0794
23. 1.6050J-1T	1545-0877
24. 1.6050L-1T	1545-0908
25. 1.6151-1	1545-0257
26. 1.6154-4	1545-0257
27. 1.6302-1	1545-0257
28. 1.6302-2	1545-0257
29. 1.9200-2	1545-0767
30. 31.3401(a)(8)(A)-1	1545-0067
31. 31.3402(f)(1)-1	1545-0010
32. 31.3501(a)-1T	1545-0074 &1545-0907

Regarding the federal income tax, the most important statutes requiring the provision of information to federal agencies such as the I.R.S. are found in 26 U.S.C. chapter 61. The general requirement to make returns (provide information) is found in §6011, which begins with the words, "when required by regulations prescribed by the Secretary". Sections 6012 through 6021 do not require the filing of any specific returns, and the same applies for §§ 6031 through 6053. It is the corresponding *regulations* in 26 C.F.R. part 1 that require the making of specific returns. But, the most important regulations fail to meet the re-

quirements of the PRA since they do not display control numbers in the text of the regulations.

Specifically, 26 U.S.C. § 6012 says, "returns with respect to income taxes under subtitle A shall be made by the following" and then describes categories of individuals. This section's failure to describe what information is required to be provided is a serious deficiency.[10] Arguably, all that § 6012 requires is the making of a return which could be a simple letter containing only the statement, "this is a return". It is the *regulations* for §6012 that require the making of Form 1040, yet these regulations *don't display O.M.B. control numbers*.

Certainly, § 1.6012-1 is a "reporting requirement" and a "collection of information requirement" under the terms of the PRA, and should legally display a control number to be effective. The regulation at §1.6012-1 fails to display an O.M.B. control number in the manner required by the PRA regulations. Therefore, such regulation is unenforceable and PRA § 3512 is operative to prevent someone from being punished for violating this regulation.

The current regulations for the PRA prove the above contention precisely.[11] Section 1320.5 of this edition of the PRA regulations declares:

"The failure to display a currently valid OMB control number for a collection of information contained in a current rule does not, as a legal matter, rescind or amend the rule; however, its absence *will alert the public* that either the agency has failed to comply with applicable legal requirements for the collection of information or the collection of information has been disapproved, and that therefore the portion of the rule containing the collection of information has no legal force and effect and the public protection provisions of 44 U.S.C. 3512 apply." [Emph. add. Editor's note: the phrase "will alert the public" is disingenuous since not one man in a hundred would realize the significanse of a missing OMB number. This section creates a presumption that the public *will* be alerted by the absence of an OMB that the relevant rule or regulation has no legal force. Therefore, if the public proceeds to fill out the form or obey the "OMB-less" regulation anyway, their acts are presumed to be voluntary and therefore lawful and binding. In other words, this section effectively allows government to lawfully "trick" ignorant and trusting Americans into obeying invalid regulations.]

Whenever the collection of information, wherein neither the form nor the applicable regulation display O.M.B. control numbers, the public protection provisions of § 3512 apply. This proved to be true in *U. S. v. Smith*[12] which reversed a criminal conviction where neither the form nor the regulation in question had control numbers. See also *United States v. Hatch*[13] which holds that a violation of the PRA is a *jurisdictional* impediment to the imposition of criminal penalties.

The application of the PRA to federal income tax laws, regulations and forms is just slightly different, and involves collections of information only partially in compliance with the PRA. Assuming that the federal income tax forms themselves comply with the PRA, still the fact that the supporting and underlying collection of information requirement *regulations* fail to display such control numbers has a consequence. The purpose of both the PRA and its regulations is to insure that *all* collections of information properly display control numbers, and the only way to enforce this purpose is to punish incomplete compliance wherein an agency fails to obtain control numbers for its regulations but does obtain them for its forms.

The Paperwork Reduction Act's (PRA) purpose is to insure that the collection of information by federal agencies has been sanctioned and approved by OMB, such approval evidenced by a currently valid control number. The control number contains 8 digits; the first four numbers represent the number for the agency in question and the second four numbers represent the number assigned to the "collection of information". Examples of agency numbers are "1505" which designates the Department of the Treasury, "1512" which designates the Bureau of Alcohol, Tobacco and Firearms, "1515" which designates the Customs Service, and "1545" which designates the IRS.

A "collection of information" is typically a series of questions designed to collect facts or opinions. It is common for an agency regulation to precisely set forth the required information sought

to be collected; the actual collection of information will occur by means of a form which carefully follows the language of the supporting regulation. As previously noted, both the regulation and the corresponding form will have the same O.M.B. control number.

It's also common for an agency regulation to seek the collection of information by a directive that compels a party subject to the regulation to file a specifically identified form. In this case, the regulation constitutes a "reporting requirement" which must be approved by O.M.B., and both the regulation and the corresponding form will have to be separately approved. Again, both will be given the same O.M.B. control number.

The reason for assigning the same control number to both the form and supporting regulation is for identification purposes so that regulations seeking information can be matched to the appropriate forms via the control number. For example, agency regulations often state that an unidentified form will be used to provide the information. Despite the regulation's silence on the form's designation, the agency knows which precise form is required by the regulation since the unspecified form must be given the same identical control number as the regulation.

Section 1441 of the Internal Revenue Code (IRC) deals with withholding of federal income tax from the income of nonresident aliens and foreign corporations. 26 C.F.R. §1.1441-5 was promulgated on the authority of §1441. As seen in the previous list, regulation §1.1441-5 displays within the body of the regulation the control number of "1545-0795". This regulation deals with parties *not subject to withholding* under §1441 of the Code, but the regulation itself fails to mention the name of the relevent form. However, the form which displays the same control number is Form 8233, entitled "Exemption from Withholding on Compensation for Independent Personal Services of a Nonresident Alien Individual". This illustrates that a regulation bearing a particular control number relates exclusively to the form also displaying the same control number.

Section 3401(a)(8)(A) of the IRC states that wages subject to withholding under chapter 34 of the Code does not encompass wages paid to U.S. citizens and residents entitled to the benefits under §911 of the Code. The corresponding regulation for this section is 26 C.F.R. §31.3401(a)(8)(A)-1, which deals with the same subject matter. The required form is not identified within the regulation, but the regulation does display control number "1545-0067". The Form which contains the same control number is Form 2555 -- "Foreign Earned Income". Again, the connection between regulations and forms via the O.M.B. control number appears self-evident. If there was no such connection, a regulation requiring the filing of a particular form would not have the same control number as the form, yet repeatedly both forms and regulations have the same control number and they all "tie" together.

As enacted in 1980, the PRA clearly applied to all collections of information, including both forms and agency regulations. On September 8, 1982, O.M.B. promulgated proposed regulations for the PRA which clearly held that both forms and regulations were within the scope of the act.

However, at that time, a number of federal agencies had not submitted their agency regulations to O.M.B. for approval, notwithstanding the December 31, 1981, deadline. These agencies unsuccessfully opposed the O.M.B.'s effort to make regulations subject to the act.

The PRA required the "dis-

play" of an assigned O.M.B. control number to be within the text of the regulation itself. The very first tax regulations having assigned and properly displayed O.M.B. control numbers were those involved with the promulgation of Treasury Decision (T.D.) 7898 on April 29, 1983.[14] This T.D. involved new tax regulations 26 C.F.R., §§ 1.127-1 and 1.127-2. The latter was entitled "Qualified educational assistance program" and was assigned O.M.B. control number "1545-0768".

The second Treasury Decision involving regulations which were assigned O.M.B. control numbers was T.D. 7919 [15] This T.D. amended regulation §31.3402(q)-1, entitled "Extension of withholding to certain gambling winnings", and this regulation was assigned O.M.B. control number "1545-0238". Form W-2G has the same control number, and this form is entitled "Statement for recipients of certain gambling winnings".

The third Treasury Decision to be approved with O.M.B. control numbers was T.D. 7915.[16] This decision related to regulation §31.3402(m)-1, entitled "Withholding allowances", and was assigned control number "1545-0010". The form which bears the same control number is *Form W-4*, entitled "Employee's withholding allowance certificate". Without listing all similar regulations, it's clear that Treasury and I.R.S. fully understood the requirement to obtain control numbers for regulations and to publish those control numbers within the text of the regulations as early as April, 1983.

As seen in the previous list, by May of 1987, there were only 32 tax regulations within 26 C.F.R. that contained control numbers within their text. However, regulations under the PRA permit the publication of control numbers assigned to agency regulations by "technical amendments". Depending upon what a "technical amendment" is, it may be that many of the tax regulations within 26 C.F.R. which are subject to the PRA have been assigned O.M.B. control numbers.

Nevertheless, PRA regulations also require that whenever a federal agency seeks an O.M.B. control number, notice of such action must be published in the Federal Register.[17] Examination of the notices published by the I.R.S. in the Federal Register between the dates January 1, 1983, through March 14, 1985, indicates that the I.R.S. failed to comply with the Federal Register publishing requirement except for those 32 tax regulations listed above.

However, on March 14, 1985, Treasury Decision 8011 was published.[18] This Treasury Decision purports to comply with the PRA regulations and alleges that it is a list of control numbers assigned by O.M.B. to the tax regulations within 26 C.F.R. which are subject to the PRA. If this T.D. which created 26 C.F.R. §602.101 is indeed valid, its analysis reveals much about what tax forms are required to be filed.

The PRA requires the assignment of a single O.M.B. control number to a single "collection of information". Obviously, one request will not be assigned two different control numbers. For regulations, O.M.B. exercises approval only for that portion of a regulation which requests information; it doesn't exercise any authority over any other portion of a regulation.[19] For a regulation requiring the provision of information via a particular form, O.M.B. assigns the same control number to that regulation as to the form. Thus, a single "collection of information" encompasses the form in question and *all* regulations bearing the *same* control number.

The first glance, 26 C.F.R. §602.101 appears to be nothing more than a tabular list of cites to tax regulations in one column and corresponding O.M.B. control numbers in an opposing column. In essence, part 602 alleges that O.M.B. has assigned the designated control number to the designated tax regulation. However, to properly understand part 602, it is necessary to catalog *all* regulations having the *same* control number.

Section 6012 of the IRC concerns the *making* of income tax returns, and the corresponding tax regulation is §1.6012-1. Part 602 reveals that regulations "1.6012-0 through 1.6012-6" have been assigned control number "1545-0067". Part 602 also discloses that regulation §1.6012-1 has been assigned three control numbers, including "1545-0074". Below, there is a list of all regulations within part 602 which have been assigned these control numbers.

Analysis of this list of regulations which have been assigned control number "1545-0074" reveals that virtually all of these regulations relate only to the *type* of information to be disclosed on a return. Only two regulations (1.931-1 and 1.935-1) bearing this control number require the *filing* of this return by a specified class of people who are U.S. citizens residing in the insular possessions (Guam, Puerto Rico, & Virgin Islands). The form which displays this particular control number is the *Form 1040*.

Treasury Regulation 1.1-1 contains a "reporting requirement" subject to the PRA:

"In general, the tax is payable upon the basis of returns rendered by persons liable therefor . . . or at the source of the income by withholding."

The O.M.B. has assigned control number "1545-0067" for this reporting requirement, the corresponding form Form 2555 ("Foreign Earned Income"), and regulations "1.6012-0 through 1.6012-6".

Note that §6091 of the Code fails to identify any specific and definite filing requirement, and the section itself is enforcible only by regulations promulgated by the Secretary. 26 C.F.R., §1.6091-2, presents the "reporting requirement" that income tax returns should be submitted to either district directors or service centers. However, although all regulations issued pursuant to 26 C.F.R. §6091 are clearly information collection requests subject to the PRA, none of them properly display O.M.B. control numbers as demanded by PRA regulations.

The proof that all regulations under §6091 are classified as "reporting requirements" is found at 5 C.F.R. §1320.7 which concerns definitions of *reporting* requirements and *recordkeeping* requirements. Both of these are classified as "information collection requests". The terms "reporting and recordkeeping requirements" are commonly used and understood by all federal agencies. In fact, in the C.F.R. index, the general topic of "Reporting and Recordkeeping Requirements" is 72 pages long and includes the regulations under §6091.

Since the regulations at 1.6091-1, 1.6091-2, 1.6091-3 and 1.6091-4 are "reporting requirements" and thus subject to the PRA, the enforceability of these regulations depends upon the display of O.M.B. control numbers within their text. Since these regulations do not presently display the control numbers properly, people who ignore these alleged regulatory "requirements" are protected from liability by the provisions of PRA §3512.

Enforcibility of regulations under §6091 does not change even when 26 C.F.R., § 602.101, is taken into consideration. The following list contains all regulations of whatever type issued pursuant to §6091 of the Code, and the control number assigned to such regulations by part 602 appear in the opposing column:

Sect. 6091 Regulations	**Part 602 Control No.**
1.6091-1.	None
1.6091-2.	None
1.6091-3. . . .	1545-0089 (1040NR)
1.6091-4.	None
20.6091-1.	1545-0015 (706)
25.6091-1.	1545-0020 (709)
31.6091-1.	1545-0028 (940)
	1545-0029 (941)
301.6091-1.	None

This list shows that the very regulations on which the prosecution relies to assert that the Defendant had a duty to file some income tax return does not and never has had any assigned O.M.B. control number. Therefore, the duty to comply with this particular regulation has no real force of law and the same may be ignored by the public with impunity.

Attorney Becraft's conclusion may be legally correct, but I doubt that any alleged IRS regulation can be "ignored with impunity". There's too much evidence of IRS behavior that can be characterized as abusive or even criminal to suppose the IRS feels obligated to understand or obey the law. If you're going to tangle with the IRS, you'd best do your homework but still recognize your most dangerous adversaries may be overconfidence in your understanding of the law or any personal belief that the IRS andcourts feel obligated to obey it.

[1] see Public Law 96-511, 94 Stat. 2812, codified at 44 U.S.C., § 3501, et. seq.

[2] See Senate Report No. 96-930, 1980 U.S. Code Cong. and Admin. News 6241, at 6292.

[3] see preliminary remarks to such regulations, 48 Fed. Reg. 13666 (March 31, 1983).

[4] Id., at 13667.

[5] Id., at 13668.

[6] Id., at 13669.

[7] see 5 C.F.R., § 1320.14.

[8] Id., at 13682.

[9] (48 Fed. Reg. 13689), 5 C.F.R., part 1320.

[10] see *Viereck v. United States*, 318 U.S. 236, 63 S. Ct. 561 (1943).

[11] see 53 Fed. Reg. 16623, May 10, 1988.

[12] 866 F.2d 1092 (9th Cir. 1989)

[13] 919 F.2d 1394 (9th Cir. 1990)

[14] see 48 Fed. Reg. 31015 (July 6, 1983), 1983-2 C.B. 34.

[15] approved May 5, 1983; see 48 Fed. Reg. 46296 (October 12, 1983), 1983-2 C.B. 213.

[16] approved May 18, 1983; see 48 Fed. Reg. 44072 (September 27, 1983), 1983-2 C.B. 174.

[17] see 5 C.F.R., §1320.12.

[18] see 50 Fed. Reg. 10221, 1985-1 C.B. 397, 26 C.F.R. §602.101.

[19] see *Action Alliance of Senior Citizens of Greater Philadelphia v. Sullivan*, 930 F.2d 77 (D.C. Cir. 1991).

Incarceration for Income Taxes Is Illegal

by Irwin Schiff

Irwin Schiff has fought the income tax "war" for several decades. He is arguably the father of the modern tax resistance movement. He's published several books on the IRS, appeared on hundreds of radio and TV programs, and also been jailed three times for challenging the IRS's authority.

His article illustrates some of the contradictions, omissions, and "peculiarities" that populate the Internal Revenue Code (IRC) and also demonstrates Mr. Schiff's fighting spirit. Yes, he's lost three cases to the IRS and been jailed for several years. On the basis of his losses and subsequent incarceration, the quality of his recommendations is suspect and can't be regarded as "legal" advice. After all, if Irwin's so smart, why'd he get jailed three times?

On the other hand, why hasn't the IRS jailed him four times? Or five? And having jailed him three times, why'd government ever let him back out? The answer may be this: Based on his years of study and experience, Mr. Schiff knows both "what's right" (income taxes are "voluntary") and "what is" (you can be jailed for doing what's right). Since time began, incarceration (or worse) has been an occupational hazard for every revolutionary who's tried to tell truths that contradicted government lies. As a result, governments that were most corrupt also tended to have the highest incarceration rates.

Today, the United States jails a higher percentage of its people than any other nation on the face of this earth. As a result, although we are still wary of "ex-cons", incarceration is no longer an automatic badge of shame. Yes, there's a bunch of bad guys in the slammer who absolutely belong there. But increasingly, there's also a bunch of good guys whose fundamental "crime" was "felonious political incorrectness". That is, without damaged persons or property, and no constitutional violations, people are still thrown in jail.

More importantly, the reason for incarcerating the constitutionally innocent is not merely to punish them, but to use them as an example to "deter" (terrorize) the public from the same sort of politically incorrect behavior. Therefore, it's quite possible that government didn't jail Irwin Schiff merely to punish him so much as scare you and me away from believing what Schiff says or acting on his recommendations. In a "politically correct" society, the bottom line in incarceration is government's attempt to terrorize its own citizens into "politically correct" behavior. That is, in some instances, a highly publicized incarceration is not only an assault on the person jailed, it's also an assault by threat upon the American people. Government jailed Irwin behind bars of iron, but in doing so, also "jailed" large numbers of Americans behind bars of fear.

But make no mistake. Even if Mr. Schiff is 100% correct, challenging the tax man is a risky business. It's not enough to know the law, you must also avoid the courts where law is irrelevant and convictions presumed.

No matter. Schiff continues to educate and inspire thousands of other tax resistors, and has arguably precipitated more collective grief and expense for the IRS than any other living man -- which is probably why he's been jailed. But that fact that Schiff hasn't quit shows government "deterrence" is a weak, unreliable threat as compared to the strength of truth and the spirit of the American people. Schiff got jailed three times. Schiff got out three times. Schiff didn't quit. That must bug the hey out of government.

There are a number of reasons which make a mandatory income tax unconstitutional:

- The three taxing clauses in the Constitution establish two general classes of taxes: "excise" taxes (which must be imposed on the basis of *uniformity)* and "direct" taxes (which must be imposed on the basis of *apportionment)*. All federal taxes, in order to be mandatory, must be imposed on one basis or another. (See *Pollock v. Farmer's Loan and Trust*, supra; and *Brushaber v. Union Pacific RR* 240 U.S.). Since the income tax is imposed on neither basis (though the Court in *Brushaber* [incorrectly] held the tax to be an excise), its payment can not be made mandatory. And, obviously, no one can be legitimately prosecuted with respect to a tax not imposed pursuant to the Constitution.
- The 16th Amendment (which allegedly legalizes the income tax) did not amend the Constitution nor did it give the government any new taxing powers — such as the ability to impose a direct tax on "income" without apportionment (see *Brushaber*, supra and *Stanton vs. Baltic Mining Co*, 240 U.S. 103).
- Despite the claim in its caption, Section 61 of the IRC does not define "Gross Income" (since a word can not be defined with itself). Therefore, "income" is not defined in the Code (see *U.S. v. Ballard* 535 F.2d 400,404). Further, Congress has no power to define the meaning of "income" since by doing so, it would be amending the Constitution by legislation alone (see *Eisner v. Macomber* 252 U.S. 189, 206). However, the Supreme Court defined "income" to mean a "gain or increase arising from corporate activities" (see *Doyle v. Mitchell*, 247 U.S. 179, and *Merchant's Loan and Trust Co. v. Smietanka*. 255 U.S. 509, 518,519). Therefore, no unincorporated American can have any "income" subject to an "income" tax, since the word "income," for tax purposes, means a *corporate* profit. If anything we have a "profits" tax, not an "income" tax.
- If the income tax were mandatory, it would have to be declared "void for vagueness," by any legitimate court since no one (let alone someone of average intelligence) can understand our income tax "laws". According to former IRS Commissioner and head of the Justice Department's Tax Division Shirley Peterson in an April, 1993 speech at Southern Methodist University in Dallas, Texas:

"Eight decades of amendment and accretions to the Code have produced a virtual impenetrable maze. The rules are unintelligible to most citizens — including those holding advanced degrees and including many who specialize in tax law. The rules are equally mysterious to many government employees who are charged with administering and enforcing the law . . . The overall cost of compliance reaches into the hundreds of billions of dollars . . . The key question is: can we define 'income' in a fair and reasonably straightforward manner? Unfortunately, we have not yet succeeded in doing so."

So how can a tax law which even a former IRS Commissioner admits is, "impenetrable . . . unintelligible . . . mysterious," – and doesn't even *define* what it purports to tax – *not* be "void for vagueness"?

- All IRS seizures for income tax are illegal. Unlike the Bureau of Alcohol, Tobacco and Firearms (BATF), the IRS is by statute, only an *administrative* agency without any *enforcement* powers. Although they make almost three million illegal seizures and liens each year, IRS agents have no more legal authority to seize property and impose IRS liens than Department of Education clerks. For proof, read section 7608(a) of the Code. You'll see that IRS agents have authority to issue summons, make seizures, etc. *only* in connection with *liquor, tobacco and firearms taxes*.

Section 7608(b) authorizes *only* Special Agents to act with respect to *all other taxes* - which supposedly includes income taxes. However, the job description for Special Agents in their own "Organization and Staffing" manual (MT 1100-344, par 1132 75, 1-6-87) only authorizes them to "enforce the criminal statute applicable to income, estate, gift, employment, and excise taxes ... *involving United States citizens residing in foreign countries* and nonresident aliens subject to Federal income tax filing requirement...."

The combination of Section 7608 and the Special Agents' job description proves no IRS agent has lawful authority to bother any citizen living within the 50 states with regard to income taxes. Since there's no income tax with

respect to any citizen living within the 50 states, how could tax collectors be authorized to bother anyone in connection with such a "tax"?

- All IRS tax liens are filed illegally. All states require that federal tax liens be certified by either the Secretary of the Treasury or someone with the delegated authority to certify such liens. Since federal tax liens are never certified, nor signed by the Secretary of the Treasury, or anyone else with the delegated authority to do so, they are recorded in violation of both federal and state law.

As incredible as it seems, there are no laws making alleged income tax offenses crimes, and no court was ever given jurisdiction to prosecute anyone for committing any such offenses.

To quickly prove that there are no crimes — or civil penalties — involving income taxes, read the IRC's table of contents. There you'll see a number of entries for a variety of federal taxes. For example, if you read under each heading involving Alcohol, Tobacco and Occupational taxes, you'll see subheadings directing you to Code sections dealing with the "liability", "payment", and "penalties".

Turn to the heading for Income taxes, and see if you can find similar subheadings for liability, payment, and penalties. You won't find any.

What does this tell you? It tells you that there are no laws establishing a "liability" for income taxes, or requiring anyone "to pay" such a tax. It also proves, if your are in jail for tax evasion or for willful failure to file (violations of IRC sections 7201 & 7203), you are in jail illegally, since you could not "evade" or "fail to file" a return in connection with a tax that: 1) no statute required you to pay; 2) no statute made you "liable" for; and 3) no statute created a penalty. In addition, if you turn to 7402(f) (the IRC jurisdictional section), you'll see that section only gives federal courts "civil" jurisdiction in connection with Title 26. There is no mention of "criminal" jurisdiction.

For comparison purposes check 8 U.S.C 1329. That section provides that with regard to Title 8, district courts "shall have jurisdiction of all cases, civil *and criminal*, arising under any of the provisions of this title." [Emph. add.] However no similar mention of "criminal" jurisdiction appears in IRC 7402(f).

Therefore, if you are incarcerated for failing to file, at the very least, you have: 1) a habeas corpus action charging that the federal judge in your trial lacked subject matter jurisdiction; and 2) since I doubt your attorney raised the issue of criminal jurisdiction in a pretrial motion to quash your indictment or information, or addressed this issue on appeal -- you were denied your Sixth Amendment right to a fair trial because of "ineffective counsel". And this is only one of many issues that can be raised in a habeas corpus petition charging "ineffective council" — or in a malpractice suit against the attorney who "defended" you.

Why there are no laws requiring anyone to pay income taxes? Because if federal income "tax" "laws" were mandatory, they would violate all of the Constitution's three taxing clauses, as well as the 1st, 4th, 5th, 6th, 13th and 16th Amendments to the Constitution. To avoid being ruled unconstitutional on these and other grounds, the payment of this "tax" was not made mandatory. That's why the IRS continually refers to the "voluntary compliance" nature of this "tax."[1]

So why do people go to jail for violating income tax laws that don't exist? They do so because of the rampant corruption that exists on the federal bench and/or because of the general incompetence of the lawyers who defend them.[2] If the American public really knew what was going on, practically every federal judge — and most Justice Department attorneys — would be behind bars, since most of them have been involved in illegal 26 U.S.C. 7201 and 7203 prosecutions. Thus they have "conspired," in numerous prosecutions, "to injure (and) oppress (such defendants) . . . in the free exercise (and) enjoyment of (numerous) rights and privileges secured to (them) by the Constitution (and) laws of the United States" in blatant violation of the provisions contained in 18 U.S.C. 241. These illegal prosecutions are designed to intimidate and coerce the public into paying a tax that is not legally required and into accepting collection procedures that are barred by numer-

ous clauses of the U.S. Constitution.

How does the Constitution bar IRS collection procedures? Let me count the ways. First, since all information on a 1040 can be used against you, there can be no law requiring you to give it; any such law would be in obvious violation of an Americans' 5th Amendment right against being compelled to be a witness against himself. However, you can waive that right, if you were first given a "Miranda warning" . . . and, sure enough, the 1040 instruction booklet warns you that, with respect to the information you put on a 1040, the IRS:

". . . may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to the states, the District of Columbia, and U.S. commonwealths or possessions . . . . And we may give it to foreign governments."

Obviously, all those governments and governmental agencies who want such information, want it so they can use it against you -- *and government tells you so in the 1040 instruction booklet*. If, despite this warning, you give the IRS the information, you are saying "It's okay with me if all these agencies use this information against me." But is it really "okay" with you? Of course not. That's why government buries its Miranda warning in the gobbledygook of its "Privacy Act and Paperwork Reduction Act Note"; it knows the public won't notice it, or recognize its significance even if they do notice it.

But why don't tax liars -- I mean tax *lawyers* -- explain this warning (and its significance) to their clients? If yours didn't, you have the basis of a malpractice suit — especially if you were convicted on the basis of a tax return your tax liar – ahh, tax *lawyer* — advised you to file.

For further clarification, read the IRS's own "Handbook for Special Agents" paragraphs 342.12 and 342.15 (1-18-80), which read:

"(1) An individual taxpayer may refuse to exhibit his/her books and records for examination on the ground that compelling him/her to do so might violate his/her right against self-incrimination under the Fifth Amendment and constitute an illegal search and seizure under the Fourth Amendment. (*Boyd v. U.S.*; *U.S. v. Vadner*.)"

The next paragraph ("Waiver of Constitutional Rights") explains that those who turn over their books and records to the IRS waive constitutional rights in doing so, since an individual *can*, ". . . claim immunity before the Government agent and refuse to produce his books. After the Government has gotten possession of the information *with his consent*, it (is) too late . . . to claim constitutional immunity." [emph. added]

From these entries in the IRS's *own manual*, we can learn a lot about the nature of the income "tax" and the federal courts' supporting duplicity. This handbook *admits* that – for constitutional reasons – individuals can't be required to turn over their books and records to the IRS since the information they contain can be used against them. Therefore, can individuals be required to turn over a *summary* of their books and records? Obviously not. But what is a 1040, if not a *summary* of your books and records? Since all information on a 1040 can be used against you (just like information in your books and records) – if you can't be required to turn over your books and records on constitutional ground's, on the same grounds, you can't be *required* to supply such information on a 1040.

In 1926 a South Carolina bootlegger and automobile dealer decided he couldn't file an income tax return because (he correctly concluded) if he filed and reported his illegal income they could prosecute him with for bootlegging, and if he filed but didn't report it, they could prosecute him for tax evasion. Therefore, he did what any logical, intelligent person would do under the circumstances: he filed nothing. He was subsequently prosecuted and convicted for failing to file an income tax return. And in what is one (*Sullivan v. U.S.* 15 F.2d 809, 4th Circuit) of only two[3] honest federal court decisions involving income taxes, the Fourth Circuit Court of Appeal reversed his conviction, and ruled:

1. *Requiring* Sullivan to file a tax return would be "in conflict with the Fifth Amendment."

2. The language of the Fifth amendment must "receive a liberal construction by the courts."

3. No one can be *compelled* "in any proceedings to make disclosures or to *give evidence which tends to incriminate him or subject him to* fines, penalties or forfeitures."

4. The Fifth Amendment "applies alike to criminal and *civil* proceedings.

5. "There can be no question that one who files a return under oath is a witness [against himself] within the meaning of the [Fifth] Amendment." (brackets added)

Thus, the 1927 *Sullivan* decision would have ended the income taxes right then and there — on 5th Amendment grounds alone. However, government appealed to the Supreme Court, which — in a totally fraudulent decision — saved the income tax. In reversing the Appellate Court, Justice Oliver Wendell Holmes, who wrote the decision for the Court, did not contradict any of the above claims made by the Fourth Circuit. Space will not permit me to analyze the fraudulent basis of Holmes' decision; however in that decision, he did hold that Sullivan could "test that or any other point" on his return. In other words he held that Sullivan could have taken the Fifth in connection with *each, individual question* asked on an income tax return.

Subsequently, lower federal courts totally misrepresented what Holmes said, and claimed that he said that Sullivan could only have taken the Fifth in connection with the "sources" of his income, but that he was still required to report the *amount* of his income. Thus, lower courts took a fraudulent Supreme Court decision and compounded its fraud even further, and now maintain "it is not a return unless it contains information from which a tax can be computed." Not only is this a total perversion of what the Supreme Court actually held in *Sullivan*, but it is an impossible legal conclusion given the obvious, uncontested and irrefutable contentions in the appellate court decision, which was reversed on other grounds. But perversions of law and the Constitution are routine in federal court decisions, and quite in keeping with the character of that bench.[4]

Because federal courts so totally perverted the *Sullivan* decision, they now enforce some totally untenable positions. The fact that they get away with it is a tribute to the ignorance of the American public and the media concerning the Constitution. If, as our "courts" claim, you are required to report illegal income, how can you do so without incriminating yourself? "Well," say our honorable judges, you can do so by reporting it as "miscellaneous"' income, and since you are not identifying the "source" you will not be incriminating yourself. This, of course, is pure, unadulterated b.s. since there's no way you can report illegal income without incriminating yourself.

For example, how can any criminal (including drug dealers and corrupt judges) report illegal income without incriminating himself? Can he report his *gross* income without listing his "business" deductions? Can a dealer report and deduct what he paid for the drugs he sold? Can a judge report how he split his bribes with the court clerk? Can the dealer show and deduct whatever he paid to pilots, hit men and cops he had on his payroll, overlooking the many other business deductions involved in distributing drugs? Are criminals therefore allowed to merely report their *net* (after deductions) income and not their gross? But if they can, why can't legitimate business men do the same thing?

Clearly, for a taxpayer to report only a composite "net" income, he must claim that his income was earned illegally. Wouldn't that incriminate him? Aimes, the Russian mole in the CIA, was convicted of espionage and also tax evasion, because he didn't pay income taxes on the millions he received from the USSR. According to our "courts" and Justice Department, had he reported the money he received from the USSR as "miscellaneous" income, that would not have incriminated him. If so, picture this: assume that Aimes' CIA salary was $75,000 and in the same year he received $1,000,000 from the Soviet Union. He could report "$75,000 in wages and $1,000,000 "miscellaneous" on his 1040 without incriminating himself? Had he done so, counterintelligence officers would have been all over him the next day.

And Pollard, who worked in the navy code room, was convicted of spying for Israel and was also convicted of tax evasion, because he did not report and pay taxes on the money he received from Israel, which, I believe, for one year was $100,000. So, suppose in that year he reported his salary from the navy as $18,000 and also reported on his 1040 "$100,000 miscellaneous income." If Naval Intelligence didn't get on his case the next day, how intelligent could be our Navy be?

While incarcerated, I met many inmates whose lawyers got them to plead guilty to both committing some crime and also for evading the tax on the illegal income generated by those crimes. Invariably all such inmates admitted that they would have loved to report their illegal income and pay the tax on it, so they could spend the proceeds openly. But they didn't report it, not to evade the tax but to avoid incriminating themselves. Obviously, if an individual earns $100,000 legitimately and only reports $50,000, he fails to report $50,000 in order to evade the tax. But if a man earns $50,000 legally and $50,000 illegally, does he fail to report the $50,000 he earned illegally in order to evade the tax? No, he doesn't report it because he doesn't want to incriminate himself. Obviously, these people did not seek to "evade" the tax on their illegal income. So all those people who — on *advice of counsel* — pled guilty to tax evasion for failure to report illegal income were sold down the river by their lawyers. At most, they could only have been subject to civil -- not criminal -- penalties (though the law, as shown in the IRC's Table of Contents does not even provide for *civil* penalties).

Since there is no way anyone can report illegal income without incriminating themselves, the claim by the courts that one must report illegal income is specious on its face, and amounts to Congress having passed a law requiring all those who commit crimes to confess to committing them; and if they don't confess, and are caught, they then can be charged with committing two crimes, the crime they committed and the crime of not reporting the crime they committed. Would any such law, if passed by Congress, be held constitutional? Of course not. It would be like issuing a ticket for not wearing a seatbelt while driving, and issuing a second ticket for failing to report the fact that you didn't fasten your seatbelt. By enforcing their own fraudulent and lawless decisions (instead of enforcing the statutes as written) our lawless federal *judges* have, by themselves, succeeded in creating and enforcing a "law" that Congress could never have passed. Can there be any doubt that the greatest collection of criminals in America sit on the federal bench?

If you are "required" to give any information to the government on a tax return, then that information is *compelled*. But government can't use *compelled* testimony against you in a criminal trial. For example, suppose you're passing a jewelry store (which had just been robbed), three cops grab you and claim you were the robber. You deny it, but one starts twisting your arm behind your back, while the other two hold you, and he says, "Unless you sign this confession admitting you broke in and robbed this store, I'll break your arm off, right here and now." So what do you do? You sign the form. Why? Because you don't want your arm ripped off. Is your "confession" worth anything (assuming it could be easily proven that your arm was being twisted at the time you signed it)?

Suppose you were later charged with robbing that jewelry store (which you subsequently denied) but at trial the prosecutor introduces your signed "confession." Suppose your lawyer knew that at the time you signed it, three cops were holding you and threatening to "twist your arm off, if you didn't sign it," but he doesn't point this out to the court, doesn't raise any objection, and *allows* your "confession" to be admitted and used against you — as if it were given voluntarily.

Suppose your were con-

victed based on that "confession". Could your lawyer be held to be "ineffective" in a subsequent habeas corpus petition? You bet he could. Could you prevail against him — on this basis alone — in a civil, malpractice suit? You bet you could.

So if you were convicted of any alleged income tax violation in which the government used your own tax returns against you — and your lawyer did not vigorously object to their being admitted — then your lawyer might be guilty of the same omission as the lawyer in my example. Since government claims that unless you file a return and provide "information from which a tax can be determined," you will go to jail for "failure to file" — the information on that return is *compelled* as surely as if the IRS twisted your arm to get it. The only difference is the nature of the compulsion. But compulsion is compulsion. Information that government compels you to give under threat of imprisonment can't be used against you — if the proper objection is raised.

I've only exposed the tip of the iceberg in the income tax scam, but this exposure should still provide enough material to get you started on a habeas corpus action and a malpractice suit against the lawyer who helped put you in jail. All things considered the federal income tax represents the most extensive program of organized deceit and extortion ever conceived by man, and proves that, in America, organized crime begins with the federal government.

[1] I put quotes around "tax," in connection with income "taxes," since there is really no such "tax". First, a "tax" is defined as "a *mandatory* exaction for the support of government." Since the payment of income taxes is not *mandatory*, it does not fall within the definition of a "tax." In essence, the government merely invites voluntary contributions in payment of this alleged tax. Secondly, the word "income" is not even defined in the IRC, and the Supreme Court defined the word as meaning a corporate "profit". So, if anything, the so-called income tax is, in realty, a "profits" tax on corporations, not an "income" tax for individuals.

[2] Another common reason is the lack of understanding of tax law issues by many who are tried for these offenses due to misinformation they pick up from unreliable sources.

[3] The other case being the 1895 *Pollack v. Farmer's Loan & Trust Co*, 158 U.S. 601, wherein the Supreme Court declared the Income Tax Act of 1894 unconstitutional. Between *Pollock* in 1895 and *Sullivan* in 1927 there might be a handful of "borderline honest" decisions. But since the 1927 *Sullivan* decision, there were, at most, another handful of possibly "borderline honest" decisions, while hundreds, if not thousands, of federal court decisions are simply fraudulent from beginning to end. For proof, see three other of this writer's books, *The Great Income Hoax* (1985); *The Social Security Swindle: How Anyone Can Drop Out* (1984), and *The Federal Mafia: How It illegally Imposes and Unlawfully Collects Income Taxes* (1992).

[4] Lower courts pretend that the constitutional issue involved in filing a 1040 is the issue of "self-incrimination," when the correct issue is that of being *compelled* to witness against oneself. The Fifth Amendment does not even mention "self-incrimination," but states that "No person . . . shall be compelled . . . to be a witness against himself." In other words, while its quite lawful for me to voluntarily confess (self-incriminate) to a crime, it is absolutely forbidden for government to beat (compel) that same confession out of me. In *Sullivan*, Justice Holmes, deceitfully addressed the wrong issue ("self-incrimination") in order to reverse the appellate court which addressed the right issue -- whether government could *compel* Sullivan to witness against himself by *requiring* him to file a 1040. For a fuller understanding of how Justice Holmes artfully managed to send a person to jail by knowingly addressing a wrong issue (proving that he is not entitled to the saintly reputation he enjoys), see *How Anyone Can Stop Paying Income Taxes*: (pages 15-22 & 143-153) Freedom Books, Las Vegas NV.

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Presumed Duties

by Frank Kowalik

As we've seen in some of the previous articles, the government seems to impose the income tax on private sector workers through a measure of legal trickery . Mr. Kowalik offers one strategy to defeat some of that trickery.

There is no simple way to explain the term "Federal income tax return." It is certain, however, that it does not mean that a 1040 form is required by law to be made by *all* working Americans. The duty to make a "Federal income tax return" applies to wages received *from the U.S. Government*. The duty to file a 1040 form applies primarily to *federal government employees* (FGE).

The Revenue Act of 1918 (c. 18, 40 Stat. *1057,* enacted by Congress on February 24, 1919 Sec. 213) controls the wages received by persons whose conduct is effectively connected with a trade or business within the U.S. Government:

". . . for the purposes of this title. . . the term 'gross income' -

"(a) Includes gains, profits, and income derived from salaries, wages, or compensation for personal service (including in the case of the President of the United States, the judges of the Supreme and inferior courts of the United States, and all other officers and employees, whether elected or appointed, of the United States, Alaska, Hawaii, or any political subdivision thereof, or the District of Columbia, the compensation received as such), of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever."

Under this law, "gross income" includes "gain" and "income" derived from "wages" received by a *federal government employee* (FGE).

The "income" portion is consideration for their labor, while the nature of "gain" portion remains U.S. Government property transferred into the possession of the FGE "transferee" [see 26 USC Sec. 6902]. The "gain" portion creates the liability and duty to "return" to the U.S. Government any part of it that cannot be legally retained by the FGE. That which can be retained is noticed on a 1040 form; the balance is returned to the U.S. Treasury. The part which is returned is commonly referred to as tax.

To avoid prejudice to property that belongs to the FGE, Congress does not permit the "income" portion to be taxed. According to 4 U.S.C. Sec. 111:

"State, and so forth, taxation affecting Federal areas; taxation affecting Federal employees; income tax. The United States consents to the taxation of pay or compensation for personal service as an officer or employee of the United States, a territory or possession or political subdivision thereof, the government of the District of Columbia, or an agency or instrumentality of one or more of the foregoing, by a duly constituted taxing authority having jurisdiction, if the taxation does not discriminate against the officer or employee because of the source of the pay or compensation."

By this law the U.S. Government permits state governments to tax it's property (the "gain" portion of "gross income derived from "wages") in the possession of a FGE. State governments demonstrate their understanding of this fact by only applying state income taxes to persons who are *first* required to make and file the *Federal* income tax return.

However, Congress has made no law as to taxation of pay or compensation for personal service performed for any person *other than the U.S. Government* [see 4 U.S.C. Sec. 111]. Congressional intent to exempt private sector workers from the income tax is demonstrated by 26 U.S.C.

Sec. 7701 (a)(31) which identifies one's estate as *foreign* to the U.S. Government and not includible in gross income under subtitle A when it is created through sources other than the U.S. Government. In other words, where a human being's gross income is from sources *without* the U.S. Government there is no U.S. Government property ("gain" portion) in one's possession that is liable to be returned; and makes unnecessary the requirement to file a 1040 form.

Voluntary compliance

Although the duty to pay federal income tax was originally intended to apply only to government employees, under the IRS mission of voluntary compliance all non-government workers are also encouraged to "voluntarily" send their property to the IRS:

"Sec. 1111.1 Mission. The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of noncompliance, and doing all things needful to a proper enforcement of the law." *Federal Register,* Vol.39, No.62 - March 29, 1974, page 11572.

The IRS enforces "voluntary compliance" which is *presumed* to exist when a 1040 form is based upon property *not* received from the U.S. Government. However, if filing a 1040 is compelled (not presumed) by any legal and or physical coercion, the result is evidence of involuntary servitude. This was expressed by the U.S. Supreme Court:

"We hold only that the jury must be instructed that compulsion of service by the use or threatened use of physical or legal coercion is a necessary incident of a condition of involuntary servitude." *U.S. v. Kozminski,* 487 U.S. 931,955-956(1988)

Involuntary servitude is unconstitutional. Constitutional prohibitions apply when a 1040 form filed by private sector workers can be used to compel them to deliver their personal property to the IRS. However, many constitutional issues do not apply where a 1040 form is filed by a FGE to return government property to the U.S. Treasury. Because it's easier to prosecute defendants who do not enjoy constitutional protections, an incentive exists to prosecute all private sector workers as if they were government employees.

Presumptions

Under Rule 301 of the Federal Rules of Evidence, where you do not place into evidence a rebuttal to that which is presumed, you accept the presumptions and permit enforcement of the IRS collection procedures on a voluntary compliance basis. However, according to Rule 301, government agents and the courts must respect any remedy afforded you by any rebuttal you place into evidence:

"Presumptions in General in Civil Actions and Proceedings: In all civil actions and proceedings not otherwise provided for by Act of Congress or by these rules, a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or meet the presumption, but does not shift to such party the burden of proof in the sense of the risk of nonpersuasion, which remains throughout the trial upon the party on whom it was originally cast."

In other words, if the government enters a presumption into evidence that you are a "space alien" and you don't rebut that presumption, the court will defy common sense and issue a verdict based on the "legal fact" that you *are* a space alien (and perhaps order you extradited to Mars). It's important to recognize that you need not *prove* you are not a space alien (in fact, that's not possible since you can't prove a negative) -- but you must rebut the presumption or it stands as fact. To rebut, you must merely issue a denial (i.e., "I am not a space alien", or better yet an *affidavit*: "I *swear* under penalty of perjury that I am not a space alien"). Once rebutted, if government can't show *proof* that you're a space alien (or a "taxpayer"), the court cannot base its verdict on that allegation. If the government's presumption is critical to its case, the case must fail.

Given that Constitution has less application when prosecuting federal government employees than when prosecuting private sector workers, it's easier to prosecute government employees. This ease of non-con-

stitutional prosecution creates an incentive for government to try all persons *as if* they were associated with the government. The government responds to this incentive by offering subtle presumptions into evidence that suggest private sector workers are in fact tied to the government. If the workers do not rebut these presumptions, they are tried as government employees and typically convicted.

At present, the only way I know to rebut government presumptions that legally obligate private sector workers to pay income tax is: 1) identify whatever presumptive elements exist in the government's case; and 2) produce and submit an *affidavit* which denies those presumptions.

If the proper affidavits are submitted early in the tax enforcement process, the IRS can be stopped administratively by removing the presumptions they depend on to prosecuted their case. However, in my affidavits, I am careful to rebut the government's presumptions without creating *new* controversies that can be adjudicated by the courts.

I believe that silence to my affidavits is evidence that government cannot overcome my rebuttal and therefore makes a record (and perhaps a presumption in *my* favor) that they accept as fact that my position has merit and is correct at law.

Also, where a return is required but has not been made, the Secretary has remedy under 26 U.S.C. Sec.6020(b) to effectuate the return by making and subscribing a 1040 form:

"(b)Execution of return by Secretary

"(1) Authority of Secretary to execute return. - If any person fails to make any return *required* by any internal revenue law or regulation made thereunder at the time prescribed therefor, or makes, willfully or otherwise, a false or fraudulent return, the Secretary shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise." [Emph. add.]

Therefore, it might be "presumed" and later argued that the neglect or failure of the Secretary (or delegate) to make and subscribe a 1040 form for a particular individual becomes evidence that a "return" is *not* required from that person, and implies that person's property cannot be included as gross income under subtitle A.

Upon this evidence I believe that I can exercise, or initiate, control over my life, liberty and property.

Frank Kowalik is the author of the book, IRS Humbug, available for $33.50 ($29.95 for the book and $3.55 for P & H), check made payable to Frank Kowalik, at Universalistic Publishers, P.O. Box 70486, Oakland Park, Florida 33307.

Meet the IRS!

by Mosie Clark

If there's one lesson in tax resistance, it's this: don't go to court. The judge is seldom impartial and typically functions as a government-paid executioner. Although the percentage of court cases favoring the citizen-defendants is increasing, the odds in favor of conviction are prohibitively high.

So what do you do? You stop 'em administratively, long before anyone files paperwork necessary to precipitate a trial.

How do you stop them administratively? In general, you "reach out and touch someone." That is, you establish a personal relationship with one or more IRS agents and supervisors and in doing so, establish their personal liability in the event you are unlawfully prosecuted. You get in somebody's face, make him admit the law that favors you in front of witnesses, and if he proceeds to prosecute, you prosecute criminally, sue civilly, or lien the s.o.b. for every dime he'll ever have.

As the tax burden on Americans has grown, so has the tax resistance movement and, in turn, the quantity and then quality of letters written to challenge IRS authority and procedures. Although letters well-grounded in law are rare, they were once sufficient to slow or even stop IRS enforcement procedures. That was an administrative victory.

However, as the number of effective letters and administrative victories, increased, the IRS countered the written challenges with generic "form letters" (which don't specifically respond to taxpayer challenges) or by simply ignoring the taxpayers' letters. As a result, writing intelligent letters to the IRS became largely futile and letter-based administrative victories became rare.

Frustrated by their inability to force the IRS to obey the law with letters, tax resistors realized the only way to compel lawful IRS procedure was through face-to-face meetings with IRS agents.

That's right. No more administrative letters written from the safety of your home. Instead, you march right into the IRS office and demand a face-to-face meeting with the IRS agent in charge of your case. Sounds scary, but folks with sufficient legal knowledge and courage to request a meeting have been surprisingly successful in administratively nullifying IRS assessments, penalties, levies, seizures, and avoiding court action.

However, after about two years of administrative defeats by the "meeting strategy", some IRS districts began to counter by refusing to grant most taxpayer-requested meetings. And so, the unending battle between tax collector's and "collectees" continues to evolve.

The newest tax resistor strategy has now gone back to letter writing, except the letters are written and mailed by licensed attorneys on behalf of their tax-resistant clients. For the moment, the IRS is responding to letters from lawyers, but we can reasonably assume that within the next twelve to twenty-four months, the IRS will begin to ignore the lawyers' letters. Then, perhaps the lawyers will demand the face-to-face meetings with the IRS agents. Lawyer-requested meetings may work for another year or two, and then IRS will implement another counter-strategy that forces tax-resistors to devise yet another strategy to force gov-

ernment to obey it's own law.

In the meantime, this article presents a sample of one group's "distilled wisdom" concerning taxpayer-requested meetings with the IRS to secure administrative victories. Although these recommendations may not work in IRS districts that refuse to grant taxpayer-requested meetings, they are still helpful to establish your own moral authority and personal convictions regarding tax laws. That is, if you learn enough law to challenge the IRS and ask for a face-to-face meeting, but the IRS refuses to face you – what can you conclude except that the IRS knows you are right?

This implicit validation of your challenge can be personally empowering. It's one thing to face the IRS hoping you're right (and fearing you're wrong), but quite another to KNOW that your arguments are so strong that the IRS fears to face you. Given government's reliance on fear to intimidate folks into "voluntary" compliance, any evidence of courage on the citizens' side and/or fear on the part of government reverses the balance of power, causing wolves to run from sheep, and sheep to remember they are men.

So the following recommendations deserve consideration. They may help pro se" tax resistors in some IRS districts and may also be helpful in all IRS districts if employed with the aid of a "licensed" attorney.

Get a Preliminary Meeting with the IRS (Basic Principles)

Meeting Control

1. IRS Agents are trained in meeting control.

2. *We* must control the meeting.

a. Ask pertinent questions.

b. Do not proceed until each question is answered.

c. Discuss issues in this meeting. Try to discover their basic arguments.

Conducting the interview

1. Goals of meeting.

a. Make an appointment to examine documents;

b. Get a name of IRS agent/employee to write to for an appointment.

c. Get assurances the name they give you has authority to correct your problem(s).

2. Do not discuss what they *want to discuss.* You are not required to follow their script!

NOTE: Since the purpose of this preliminary meeting is to secure a later meeting which can be recorded, it is not a formal meeting, so do not make the opening statement. Just introduce your witness(es):

"My name is _____ and these are my witnesses. My purpose in being here today is to obtain an appointment to discuss this (notice of) levy. I an requesting a formal meeting to challenge the accuracy of this (levy, assessment, requirement file a return) with someone who has authority to correct any mistakes that have been made by the IRS in connection with this matter. I am also requiring that in this meeting I be allowed to examine all determination documents, including but not limited to forms 5546 or AMDIS whichever has been used, as required by 26 USC Sect. 6110."

1. "Can you make this appointment for me now?"

2. "Since I am required to give ten days written notice to record this meeting, to whom do I write the confirming letter?

"I also demand the levy be released until a final determination is made as required by law. In *Bothke v. Fluor Engineers*, 713, F2.d 1405 (1983) the U.S. Court of Appeals ruled that if a taxpayer has informed an IRS agent that he believes that there is an error in the assessment and the agent continues levy action without first determining if the taxpayer's argument has merit, such agent *loses his immunity from suit*."

Second (Formal) Meeting Focusing on Lien/ Levy/ Seizure Agenda Basic Principles

Meeting Control.

1. IRS Agents are trained in meeting control.

2. We *must control* the meeting.

a. Ask pertinent questions.

b. Do not proceed until question is answered.

c. Demand that documents be produced to back up any claims agents make (26 USC sec 6110).

d. Make an opening statement.

e. Have copies of all documents you intend to make the agents discuss.

f. Focus on your Goals:

(1) Lift a lien or release a levy.

(2) Remove assessments

Opening statement

Start both tape recorders (make a recording for yourself and another for the IRS agent). Make your opening statement (modify to meet the situation):

"This is (your name) speaking. Present at this meeting are myself, my witnesses (their names),and Agent (agent's name) (also supervisors name if present). This meeting is taking place at the IRS offices at (address of office). The time is (time) and the date is (date). The meeting is being recorded by (your name) with two tape recorders. One tape will be given to Agent (agent's name) at the conclusion of the meeting. I claim all my rights protected by the 4th and 5th amendments to the Constitution for The United States of America. I do not waive any rights. The purpose of this meeting with the IRS is to challenge the lien(s)/ levy(ies)/ seizure by the IRS. To clarify any positions I may take, I am reading excerpts from three Supreme Court Cases. They are very short:

"An individual may be under no obligation to do a particular thing, and his failure to act creates no liability, but if he voluntarily attempts to act and do the particular thing, he comes under an implied obligation in respect to the manner in which he does it . . . ." *Guardian T&D Co. vs Fisher* (1906) 26 S.Ct. 186, 188.

"Whatever form in which the Government functions, anyone entering into an arrangement with the Government takes the risk of having accurately ascertained that he who purports to act for the Government stays within the bounds of his authority . . . and this is so even though as here, the agent himself may have been unaware of the limitations upon his authority." *Federal Crop Insurance Corp. vs Merrill* 332 U.S. at 364 (1947), 68 S.Ct. 1;92 L.Ed. 10.

"We think it important to note the Act's civil and criminal penalties attach only on violation of the regulations promulgated by the Secretary; if the Secretary were to do nothing, the act itself would impose no penalties on anyone." *California Bankers Association v. Schultz,* cited as 39 L.ed.2d 812. (1974)

"In order for me to ascertain the agent's authority it is necessary for them to provide me with the statute(s) and regulation(s) that gives them authority to do what they are proposing to do. If I do not ascertain these limits, I may grant you authority which you do not have and give up my protection by the Constitution which I will not do knowingly. IRS Publication One states the agent will explain the law and protect my rights at all times."

Questions

Do not proceed to next question until each question is fully answered.

1. What statute makes me liable for any tax? When he answers, stop and carefully read and analyze the specific statute from the IRC. If possible, refute his contention that that particular statute makes *you* liable.

2. "What is the implementing regulation?"

3. (For Levy and Seizure) "What Statute gives the authority to the IRS to seize my property?" If they say "Section 6331" (which does grant the IRS authority to file levies), read subsection 6331(a) to them which says in part, "Levy may be made upon the accrued salary or wages of any officer, employee, or elected official, of the United States, the District of Columbia, or any agency or instrumentality of the United States or the District of Columbia . . . ."

Then ask:

4. "How does Section 6331 apply to me?" (That is, since I am not an "officer, employee, or elected official of the United States or District of Columbia", it appears that you have no authority to file a levy on me.)

5. "What is the implementing regulation?" Compare his answer to the Parallel Table of Authorities.

6. "What excise taxable activity code do you show on the AMDIS or 5546 you have generated for me?"

7. (For Levy) "Since there is no implementing regulation in 26 CFR, but only in 27 CFR, unless I am engaged in one of the privileged occupations (alcohol, tobacco, or firearms), there is no authority to levy my property — is that not correct?"

Do not proceed until he/she answers.

8. "What privileged occupation do you show I am engaged in on my Form 5546 or AMDIS?"

9. "Who has the authority to correct this error and return my property, since I deny I am engaged in any privileged activity?"

Now insist on a release of levy immediately!

Agenda for Summons Meeting (IRS has summonsed you to appear)

- Some agents will show their ID without you asking. If they do not, ask them for it on tape.
- Some agents will make an opening statement. You always make one also repeating the information on date, time, people present, and the location.
- If a second party is present for the meeting find out who they are and what their title is. If the agent does not satisfactorily identify his *job title*, ask until he/she does.

Opening statement

(Turn on both recorders!).

"This is (your name) speaking. I AM HERE IN RESPONSE TO YOUR SUMMONS. **S**ince this is a summons proceeding, I am claiming all my rights protected by the Fourth and Fifth Amendments to the Constitution for The United States of America. IRS Publication One assures me that the IRS agents will explain the law to me and protect my rights at all times. Present at this meeting are/is (Agent and any other IRS person). Also present as my witnesses are (witnesses names). The meeting is taking place at (the IRS location). The time is _____ and the date is _____.

"To clarify any positions I may take I am reading short excerpts from three United States Supreme Court Cases:"

[Insert the three case quotes (*Guardian T&D*, *Federal Crop Insurance Corp.*, and *California Bankers*.) previously cited in "Second (Formal) Meeting Focusing on Lien / Levy / Seizure Agenda."]

"In order for me to ascertain the agent's authority it is necessary for them to provide me with the statute(s) and regulation(s) that gives them authority to do what they are proposing to do. If I do not ascertain these limits I may grant you authority which you do not have."

Read Section 342.12 (Books and Records of An Individual) from IRS *Handbook for Special Agent (*which reads *in part*: "(1) An individual taxpayer may refuse to exhibit his/her books and records for examination on the ground that compelling him/her to do so might violate his/her right against self-incrimination under the Fifth Amendment and constitute and illegal search and seizure under the 4th Amendment. . .")

"I am now *refusing* to exhibit my books and records. However, I do have questions which your IRS Publication One assures me you will answer"

Questions

1. "What is the statute that makes me liable for any tax?"

DO NOT PROCEED UNTIL THIS QUESTION IS ANSWERED! Whatever statute they say, read the statute to them from your copy of the Internal Revenue Code and remind them what it says! If it does not establish liability, ask them again. KEEP ON POINT. Do not allow the agent to shift the topic to some other question or issue. Our recent experience is that the agent will not answer this question and will probably attempt to terminate the meeting at this point. Remind the agent that according to IRS Publication One, it is the agent's responsibility to inform you of the law. Then demand to see his supervisor. If you do not get the proper action then demand the supervisor's supervisor.

If they answer "26 USC Sec.

1", ask:

2. "What is the implementing regulation?"

If they answer 26 CFR 1.1-1, ask:

3. "What form is prescribed by the Code of Federal Regulations (CFR)?"

If they say "form 1040", show them 26 CFR 602.101 which shows form OMB number 1545006<u>7</u> as the correct form for CFR 1.1-1.

4. "The 1040 form you are telling me I must file is OMB number 1545007<u>4</u> -- not 1545006<u>7</u>. Are you trying to induce me to file an improper from? Isn't that fraud?"

If they say no, Ask "Why not?" (Remember, their answers are being tape recorded and witnessed. Since their answers "can and will be used against them in a court of law", that potential liability should compel them to tell the truth or terminate the meeting rather than expose themselves to civil or criminal liabilities.)

If there is a lien or levy against you, all levy and/or seizure action must cease until a determination is made. You are entitled to see the determination papers per Sec. 6110. If you are challenging a seizure or levy then ask:

5. "What statute gives you authority to levy or seize my property or money?"

If they say "Section 6331" (which does grant the IRS authority to file levies), read subsection 6331(a) to them which says in part, "Levy may be made upon the accrued salary or wages of any officer, employee, or elected official, of the United States, the District of Columbia, or any agency or instrumentality of the United States or the District of Columbia . . . ." Then ask:

6. "How does Section 6331 apply to me?" (That is, since I am not an "officer, employee, or elected official of the United States or District of Columbia", it appears that you have no authority to file a levy on me.)

7. "What is your implementing regulation to implement Sec. 6331?'" (Without an implementing regulation, they have no authority to proceed.) Show them the Parallel Table of Authorities. (Correct answer: 27 CFR part 70).

8. "What kind of excise taxable activity do you show me engaged in on the form 5546 or AMDIS?'"

9. "Who has the authority to return my money/property to me and issue a Form 2358C letter?'"

Purpose

Remember, your purpose for this summons meeting is to get a Form 2358C letter declaring you are not required to file a return, get back any money they have levied, get an agreement to return any property they have seized and/or get a statement you owe no tax!

If you are dealing with the first level agent at the determination level, you must first try to get past him and get an appointment with a Problem Resolution Officer (PRO). If you are unsuccessful in resolving the matter at any meeting level, file a written complaint to the next two levels of IRS hierarchy. Then write complaint letters to your Congressman and both Senators stating you are attempting to follow the IRS's own procedures and they are not cooperating.

Obviously, this article is not "complete". That is, before you can use any portion of the suggested strategy, you'll have to thoroughly study some of the article's references. For example, at one point the article recommends, "If they say, 'Form 1040', show them 26 CFR strategy which shows form OMB 15450067 as the correct form for CFR 1.1-1." It would be a good idea to have a copy of 26 CFR (Code of Federal Regulations) Section strategy on hand when you "meet the IRS" and also have thorough understanding of what that Section means.

But suppose you've got copies of all the referenced statutes and regulations, understand them thoroughly, and commit each step of the proposed strategy to your photographic memory. Are you ready to "meet the IRS" and certain to win the confrontation? Of course not.

Remember, this strategy includes a number of presumptions. For example:

"Question five: 'What statute gives you authority to levy or seize my property or money?'" If they say "Section 6331", then read 6331(a) to them. . . ."

Very nice. The folks who designed this strategy have anticipated the IRS response to their question. But what if the IRS doesn't say, "Section 6331"? What if they answer "Section 4007", "Public Law 93-549", or "the 16th Amendment"? What will you do? Your brilliant sequential strategy has just been diverted, maybe derailed, and you will have no recourse except to improvise. First you want to see and read the relevant Section of statute. Then you want to think, analyze, consider. Maybe you want to ask for the meeting to be continued to another time so you can study the relevant Section/ statute at home before you make a decision.

Whatever you do, don't allow the IRS to rattle you, divert you from your goal, or bamboozle you into signing or agreeing to something contrary to your interests. Therefore, while any number of "strategies" are possible, one of the most important attributes for a man challenging the IRS is his personal ability to think on his feet.

But the most important at-

tribute is the ability to work with others. As individuals reluctant to "volunteer" over half of our income to government, we are somewhat like laboratory rats being run through a government operated maze. Historically, not one rat in 100,000 successfully negotiated the IRS maze.

Ahh, but thanks to the stress imposed by government, we are evolving into a new-and-improved breed of lab rats. Where we used to function as "loners" (every rat for himself), today we are more socialized (willing to work with other rats to ensure that all escape the maze, not just me). By working together, we share information on how to run the maze. As a result, where once only one rat in 100,000 could successfully run the maze, now the figure is more like one in a hundred, maybe even one in twenty.

Moreover, where we used to go into the tax maze essentially "nekkid", today we go in armed with knowledge, witnesses, and technology (tape recorders). By bringing witnesses and especially tape recorders, even if we lose, we are able to walk out of the maze with a map (tape recording) of the design, tricks, traps, and proper choices within the maze.

Sure, you might not win in your attempt to negotiate the maze. The IRS may stop you temporarily or even permanently. But if you leave the maze with a tape recording and witnesses of what transpired, you can sit down with other tax resistors and analyze the tape, your performance, and the IRS' performance. With a little effort and insight, you'll be able to discern the point in the maze where you made the wrong turn.

Better yet, with the aid of your tape recording and witnesses watching for the look of sudden fear in the IRS agent's eyes, you may inadvertently ask a question you never intended to ask, that makes the IRS scurry out of the room like cockroaches when somebody turns on a light. At the moment it happens, you might not understand why the IRS ran. But on reexamination of the tape, you may discover that when you posed seemingly unremarkable question, THAT was the trigger that shot the IRS out of the meeting.

If so, you've just discovered another critical question (or statement) to be added to the strategy previously outlined in this article. By dumb luck or the grace of God, you've just uncovered another "secret passage" in the IRS maze that will let others, maybe thousands of others run the maze more quickly, efficiently, even safely.

By recording, witnessing, analyzing, and then sharing the information gleaned from each meeting with the IRS, the tax resistors' knowledge base is growing faster than the that of the IRS. As a result, something extraordinary is happening: we have begun to reverse the IRS-taxpayer roles. Formerly, IRS agents were the "lab technicians" who ran us citizen-rats through their tax maze, studied us, and kept track of how far we ran before we collapsed, how long we lasted til we surrendered. However, today we alleged taxpayers are evolving into the lab technicians, and the IRS has become the rats. Now we run the IRS through the same tax maze to see how far IRS agents can go before they quit, how long they will last before they run out of the room. The monstrous, mysterious tax code that once empowered the IRS has now ensnared them.

Of course, this battle is a long ways from over. I believe the IRS is on the way out, but it's not gone yet. But if we work together, recording and witnessing our IRS meetings, increasing our knowledge base, sharing our information in books, magazines, and over the internet – we are going to run the IRS and their criminal maze right off the face of North America. ■

Things You Aren't Supposed To Think About

by Oakland County Taxpayers Association

If you're not confused by the laws, theories and questions surrounding income tax, try making sense of the fundamental object behind the whole taxing process: money.

To MUSE is to think; AMUSE is to not think. We are amused by ball games, booze, pornography, preachers, and presidents which keep us from thinking about things that we *should* think about such as the following:

Gold standard

Gold and economic freedom are inseparable, . . . the gold standard is an instrument of laissez-faire and . . . each implies and requires the other.

What medium of exchange will be acceptable to all participants in an economy is not determined arbitrarily. Where store-of-value considerations are important, as they are in richer, more civilized societies, the medium of exchange must be a durable commodity, usually a metal. A metal is generally chosen because it is homogeneous and divisible: every unit is the same as every other and it can be blended or formed in any quantity. Precious jewels, for example, are neither homogeneous nor divisible.

More important, the commodity chosen as a medium must be a luxury. Human desires for luxuries are unlimited and, therefore, luxury goods are always in demand and will always be acceptable. The term "luxury good" implies scarcity and high unit value. Having a high unit value, such a good is easily portable; for instance, an ounce of gold is worth a half-ton of pig iron . . . .

Under the gold standard, a free banking system stands as the protector on an economy's stability and balanced growth. In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold in 1933.

The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard.

"The gold standard is incompatible with chronic deficit spending (the hallmark of the welfare state). Stripped of its academic jargon, the welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare schemes. . . ." *Alan Greenspan, "Gold and Economic Freedom".*

Inflation

"Inflation" is defined in the *Random House Dictionary* as "undue expansion or increase of the currency of a country, esp. by the issuing of paper money not redeemable in specie."

- Today, people are beginning to understand that the government's account is overdrawn, that a piece of paper is not the equivalent of a gold coin, or an automobile, or a loaf of bread — and that if you attempt to falsify monetary values, you do not achieve abundance, you merely debase the currency and go bankrupt. – *Moral Inflation, ARL, III, 12, 1.*
- Inflation is not caused by the actions of private citizens, but by the government: by an artificial expansion of the money supply required to support deficit spending. No private embezzlers or bank robbers in history have ever plundered people's savings on a scale comparable to the plunder perpetrated by the fiscal policies of statist governments. – *"Who Will Protect Us From Our Protectors?" TON, May 1962.*
- The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings *saved* by the productive members of society lose value in term of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion. – *Alan Greenspan, "Gold and Economic Freedom," CUI, 101.*
- There is only one institution that can arrogate to itself the power legally to trade by means of rubber checks: the government. And it is the only institution that can mortgage your future without your knowledge or consent: government securities (and paper money) are promisor notes on future tax receipts, i.e., on your future production. – *"Egalitarianism and Inflation," PWNI, 156; pb 128.*

"High" finance, international

- Cuba announced that it planned to sell houses to the Cuban people who had been renting those houses, "to bring in much-needed hard currency to the Cuban government." WHAT money can the Cuban government collect from the Cuban people that the Cuban government does not already print without restraint?
- The Russians were said to have exchanged 250 tons of gold for "hard currency." Just what IS the "hard currency" Russia obtained?
- We are told that Russia and China borrow from U.S. banks and King Solomon told us, "The borrower is servant to the lender." Were the newspapers lying about the borrowing or did Solomon lie OR were both the newspapers and Solomon telling the truth?
- Why would the Russians give up their valuable gold for Federal Reserve *credit* if they are not in fact *servants* of the Federal Reserve?
- Why do people send their sons 10,000 miles "to fight communism " when all ten planks of Mark's communist manifesto are in effect in America???

"High" finance, domestic

- Why does our government print bonds to get our paper money from us when they can print all of the paper money that they want?
- If government does not print all of the money that they want, why don't they? WHAT restrains them?
- If our government can

print money, why can't ALL governments print money?

- If ALL governments can print money, why do all governments *borrow* money?
- Why would any government need taxes if all governments can print (paper) money?
- Why don't states and cities print all of the (paper) money they need and forget about taxes when the Constitution does not prohibit their printing money?
- How can the IRS get MONEY from us when the IRS has written that dollar bills "are not dollars" and the Fed wrote that their system works "only with credit?" If credit exists only in our minds, wouldn't they have to control minds to work us with credit? DO THEY?
- Did paper dollar bills become "money" when the written promise to redeem them in real money (silver) was deleted from the bills in 1963?
- Why does ONE Federal Reserve bank shred five *tons* of Fed notes daily instead of giving the money to the starving people of the world who would not care that the money was torn or soiled?
- What do the first users of money give for it and who do they give it to? Wouldn't the recipient be the first user?
- When you offer a $5 bill for a $1 purchase and you receive four $1 bills as change, do you receive four times as much money as you offered or four times as much PAPER? Doesn't this question prove that paper "money" is *not* real money?
- When government prints money, do they pay for the paper, ink, and labor with the money that they print? If not, what do they pay for it with?
- If government can pay for the paper, ink, and labor with the money they print, does it really cost them anything, or is it free?
- Does government create 5 dollars when it prints a five dollar bill and ten times as much if it adds a zero (0) after the five to create 50 dollars when it prints a fifty dollar bill?
- Can government print any number it wants on the paper when printing money?
- Who tells government what numbers to print on the paper?
- Why are we forced to pay interest on the national debt when government could print one piece of paper with a number on it equal to the national debt and pay it off?
- With the deficit so huge, why were IRA and Keough plans created that reduce tax revenue and thereby increase the deficit? Is the deficit a phoney?

Perhaps more to the point – is our paper money a phoney? As I begin to understand the nature of money, I wonder if the real reason for the IRS is not to collect money so much as to "put on a show" so intimidating that Americans are persuaded that the paper we carry in our pockets must be "real" money. All the IRS's cost, regulation and judicial violence is an implicit "proof" that our paper money has real value. After all, surely government wouldn't go to all that expense of harassing, fining and jailing Americans for failing to pay income tax if the only money we had was essentially worthless -- or would they?

In the final analysis, the IRS may be more of an intrinsic component of our banking/ money system than the collection agency of the Federal government. And whatever is going on between banks, government, and the IRS is being done with smoke, mirrors and lies that defy both common sense and common law.

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American Patriot Needs Help!

I have fought for years against the **Ungodly** who, today, almost totally control America. Because I've fought corruption, our government has charged me with several felony indictments in a U.S. District Court. I, and others, believe these charges were filed to shut me up.

It's time for us to reclaim God's country — which He ordained for us — and live under God's laws and not man's laws. God's warnings are coming to pass; they are being fulfilled every day. This is our last chance to stand up for God before *God's* second and final coming.

My most precious possession is my soul that God gave me. If we sacrifice our souls to survive in this world, on judgement day, God states, "**He will know us not**".

The cost for my upcoming court trial will exceed $100,000. As one of God's children, I am asking for any donations you can afford to send to me, to offset the cost of my upcoming trial and defense.

Let us all join together and create a united house and fight God's unholy evil enemies. We will then be blessed by our God. God bless all who have eyes to see and ears to hear. To paraphrase Patrick Henry, "give me God's liberty or give me death".

Celeste C. Leone
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Central Banks, Gold, & Decline of the Dollar

by Robert Batemarco

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Are business cycles, inflation and currency depreciation inevitable facts of life? Are they part of the very laws of nature? Or do their origins stem from the actions of man? If so, are they discoverable by economic science? And, if economics can teach us their origins, can it also teach how to avoid them?

The particular need which all money, even fiat money which we now use, serves is to facilitate exchange. People accept money, even if it is not backed by a single grain of precious metal, because they know other people will accept it in exchange for goods and services.

But people accept the U.S. dollar today in exchange for much less than they used to. Since 1933, the U.S. dollar has lost 92 percent of its domestic purchasing power.[1] Even at its "moderate" 1994 inflation rate of 2.7 percent, the dollar will lose another half of its purchasing power by 2022. In international markets, the dollar has, since 1969, depreciated 65 percent against the Deutsche Mark, 74 percent against the Swiss franc, and 76 percent against the yen.[2]

Many economists claim that this is the price we pay for "full employment." If so, I'd like to ask who among you thinks we've gotten our money's worth? We've experienced eleven recessions[3] since the advent of inflation as the normal state of affairs in 1933, with the unemployment rate reaching 10.8 percent as recently as 1982. Clearly, the "demise of the business cycle" — a forecast made during every boom since the 1920s — is a mirage.

Other things being equal, if the quantity of anything is increased, the value per unit in the eyes of its users will go down. The quantity of U.S. money has increased year in and year out every year since 1933. The narrow M1 measure of the quantity of U.S. money (basically currency in circulation and balances in checking accounts) stood at $19.9 billion in 1933. By 1940, it had doubled to $39.7 billion. It surpassed $100 billion in 1946, $200 billion in 1969 (and 1946-1969 was considered a noninflationary period), $400 billion in 1980, $800 billion in 1990, and today it stands at almost $1.2 trillion. That is over 60 times what it was in 1933.

For all practical purposes, the quantity of money is determined by the Federal Reserve System, our central bank. Its increase should come as no surprise. The Federal Reserve was created to make the quantity of money "flexible." The theory was that the quantity of money should be able to go up and down with the "needs of *business*."

Under the Fed, "the demands of *government* funding and refunding . . . unequivocally have set the pattern for American money management."[4] Right from the start, the Fed's supposed "independence" was compromised whenever the Treasury asserted its need for funds. In World War I, this was done indirectly as the Fed loaned reserves to banks at a lower discount rate to buy war bonds. In 1933, President Roosevelt ordered the Fed to buy up to $1 billion of Treasury bills and to maintain them in its portfolio in order to keep bond prices from falling. From 1936 to 1951, the Fed was required to maintain the yields on Treasury bills at 0.375 percent and bonds at 2.5 percent. Thereafter, the Fed was required to maintain "an

orderly market" for Treasury issues.[5] Today, the Federal Reserve System owns nearly 8 percent of all U.S. Treasury debt outstanding.[6]

The Fed granted access to unprecedented resources to the federal government by creating money to "finance" (i.e., to monetize) government's debt. It also served as a cartellization device, making it unnecessary for banks to compete with each other by restricting their expansion of credit. Before the emergence of the Fed, a bank which expanded credit more rapidly than other banks would soon find those other banks presenting their notes or deposits for redemption. It would have to redeem these liabilities from its reserves. To safeguard their reserve holdings was one of the foremost problems which occupied the mind of bankers. The Fed, by serving as the member banks' *banker*, a central source of reserves and lender of last resort, made this task much easier. When the Fed created new reserves, all banks could expand together.

And expand they did. Before the Fed opened its doors in November 1914, the average reserve requirement of banks was 21.1 percent.[7] This meant that at most, the private banking system could create $3.74 of new money through loans for every $1 of gold reserves it held. Under the Fed, banks could count deposits with the Fed as reserves. The Fed, in turn, needed 35 percent gold backing against those deposits. This increased the available reserve base almost threefold. In addition, the Fed reduced member bank reserve requirements to 11.6 percent in 1914 and to 9.8 percent in 1917.[8] At that point, $1 in gold reserves had the potential of supporting an additional *$28* of loans.

Note that at this time, gold still played a role in our monetary system. Gold coins circulated, albeit rarely, and banknotes (now almost all issued by the Federal Reserve) and deposits were redeemable in *gold*. Gold set a limit on the extent of credit expansion, and once that limit was reached, further expansion had to cease, at least in theory. But limits were never what central banking was about. In practice, whenever gold threatened to limit credit expansion, the government changed the rules.

Cutting off the last vestige of gold convertibility in 1971 rendered the dollar a pure fiat currency. The fate of the new paper money was determined by the whim of the people running the Fed.

The average person looks to central banks to maintain full employment and the value of the dollar. However, the historical record makes clear that a sound dollar was never the Fed's intention. Nor has the goal of full employment done more than provide them with a plausible excuse to inflate the currency. The Fed has certainly not covered itself with glory in achieving either goal. Should this leave us in despair? Only if there is no alternative to central banking with fiat money and fractional reserves. History, however, does provide us with an alternative which has worked in the past and can work in the future. That alternative is gold.

There is nothing about money that makes it so unique that the market could not provide it just as it provides other goods. Historically, the market *did* provide money. An economy without money, a barter economy, is grossly inefficient because of the difficulty of finding a trading partner who will accept what you have and who also has exactly what you want. There must be what economists call a "double coincidence of wants." The difficulty of finding suitable partners led traders to seek out commodities for which they could trade which were more marketable in the sense that more people were willing to accept them. Clearly, perishable, bulky items of uneven quality would never do. Precious metals, however, combined durability, homogeneity, and high value in small quantity. These qualities led to wide acceptance. Once people became aware of the extreme marketability of the precious metals, they could take care of the rest without any government help. Gold and silver went from being "highly marketable" to being universally "accepted in exchange" — i.e., they became "money."

If we desire a money that will maintain its value, we must have a money that cannot be created at will. This is the real key to the suitability of gold as money. Since 1492 there has never been a year in which the growth of the world gold stock increased by more than five percent in a single year. In this century, the average has been about two percent.[9] Thus with gold money, the degrees of inflation that have plagued us in the twentieth century would not have occurred. Under the classic gold standard, even when only a fractional reserve was held by the banks, prices in the United States were as low in 1933 as they had been 100 years earlier. In Great Britain, which remained on the gold standard until the outbreak of World War I, prices in 1914 on the average were less than half of what they were a century earlier.[10]

Traditionally, the gold standard was not limited to one or two countries; it was an international system. With gold as money, one need not constantly be concerned with exchange rate fluctuations. Indeed, the

very notion of an exchange rate is different under a gold standard than under a fiat money regime. Under fiat money, exchange rates are prices of the different national currencies in terms of one another. Under a gold standard, exchange rates are not prices at all. They are more akin to conversion units, like 12 inches per foot, since under an international gold standard, every national currency unit would represent a specific weight of the same substance, i.e., gold. As such, their relationships would be immutable. This constancy of exchange rates eliminates exchange rate risk and the need to employ real resources to hedge such risk. Under such a system, trade between people in different countries should be no more difficult than trade among people of the several states of the United States today. It is no accident that the closest the world has come to the ideal of international "free trade" occurred during the heyday of the international gold standard.

It is common to speak of the "collapse" of the gold standard, with the implication that it did not work. In fact, *governments abandoned the gold standard because it worked precisely as it was supposed to: it prevented governments and their central banks from surreptitiously diverting wealth from its rightful owners to themselves*. The commitment to maintain gold convertibility restrains credit creation, which leads to gold outflows and threatens convertibility. If government were unable to issue fiat money created by their central banks, they would not have had the means to embark on the welfare state, and it is even possible that the citizens of the United States and Europe might have been spared the horrors of the first World War. If those same governments and central banks had stood by their promises to maintain convertibility of their currencies into gold, the catastrophic post-World War I inflations would not have ensued.

In recent years, some countries have suffered so much from central banks run amok, that they have decided to dispense with those legalized counterfeiters. Yet they have not returned to the gold standard. The expedient they are using is the currency board. Argentina, Estonia, and Lithuania have all recently instituted currency boards after suffering hyperinflations. A currency board issues notes and coins backed 100 percent by some foreign currency. The board guarantees full convertibility between its currency and the foreign currency it uses as its reserves. Unlike central banks, currency boards cannot act as lenders of last resort nor can they create inflation, although they can import the inflation of the currency they hold in reserve. Typically, this is well below the level of inflation which caused countries to resort to a currency board in the first place. In over 150 years of experience with currency boards in over 70 countries, not a single currency board has failed to maintain full convertibility.[11]

While currency boards may be a step in the right direction for countries in the throes of central-bank-induced monetary chaos, what keeps such countries from returning to gold? For one thing, they have been taught by at least two generations of economists that the gold standard is impractical. Let's examine three of the most common objections in turn:

1. *Gold is too costly.* Those who allude to the high cost of gold have in mind the resource costs of mining it. They are certainly correct in saying that more resources are expended to produce a dollar's worth of gold than to produce a fiat (paper) dollar. The cost of the former at the margin is very close to a dollar, while the cost of the latter is under a cent. The flaw in this argument is that the concept of cost they employ is too narrow.

The correct economic concept is that of "opportunity cost", defined as the value of one's best sacrificed alternative. Viewed from this perspective, the cost of fiat money is actually much greater than that of gold. The cost of fiat money is not merely the expense of printing new dollar bills. It also includes the cost of resources people use to protect themselves from the consequences of the inevitable inflation which fiat money makes possible, as well as the wasted capital entailed by the erroneous signals emitted under inflationary circumstances. The cost of digging gold out of the ground is comparatively minuscule.[12]

2. *Gold supplies will not increase at the rate necessary to meet the needs of an expanding economy*. With flexible prices and wages, any given amount of money is enough to accomplish money's task of facilitating exchange. Having the gold standard in place in the United States did not prevent industrial production from rising 534 percent from 1878 to 1913.[13] Thus it is a mistake to think that an increase in the quantity of money must be increased to assure economic development. Moreover, an increase in the quantity of money is not tantamount to an increase in wealth. For instance, if new paper or fiat money is introduced into the economy, prices will be affected as the new money reaches individuals who use it to outbid others for the existing stocks of sport jackets, groceries, houses, computers, automobiles, or whatever. But the monetary increase itself does not bring more goods and services into existence.

3. *A gold standard would be*

too deflationary to maintain full employment. In the relationship of a gold standard to full employment, the gold partisans have both theory and history on their side. The absolute "level" of prices does not drive production and employment decisions. Rather the differences between prices of specific inputs and outputs, better known as profit margins, are keys to these decisions. It is central bank creation of fiat money which alters these margins in ways that ultimately send workers to the unemployment line. Historically, the gradual price declines of the nineteenth century made way for the biggest boom in job creation the world's ever seen.

The practical issues involved in actually returning to a gold standard are complex. But one of the most common objections, determining the proper valuation of gold, is fairly minor. After all, the market values gold every day. Any gold price other than that set by the market is by definition arbitrary. If we were to repeal legal tender laws, laws which today require the public to accept paper Federal Reserve Notes in payment of all debts, and permit banks to accept deposits denominated in ounces of gold, a parallel gold-based monetary system would soon arise and operate side-by-side with the Federal Reserve's fiat money.[14]

A more difficult problem than that would be how to get the gold the government seized in 1934 back into the hands of the public. But even that surely can't be more difficult than returning the businesses seized by the Communists in Eastern Europe to their rightful owners. If the Czech Republic can do that, we should be able to get government-held gold back into circulation.

In all likelihood, the biggest problem gold proponents face is that people simply aren't ready to go back to gold. Most people aren't aware of the extent of our monetary disarray and many of those who are don't understand its source. Two generations of Americans have known nothing but unbacked paper as money; few realize that there is an alternative. In contrast, when the United States restored gold convertibility in 1879 and when Britain did so in 1821 and 1926, gold money was still seen as the norm. That is no longer the case.

It might take a hyper-inflationary disaster to shake people's faith in fiat money. Let's hope not. In addition to the horrendous costs of such a "learning experience," it's not even a sure thing that it would lead us back to gold. Recent hyper-inflations in places as disparate as Russia and Bolivia have not done so.

The desire to get something for nothing dies hard. Governments use central banks with the unlimited power to issue fiat money as their way to get something for nothing. By "sharing" some of that loot with us, those governments have convinced us that we too are getting something for nothing. Until we either wise up to the fact that governments can't give us something for nothing or, better yet, when we realize the moral folly of taking government handouts when offered, we will continue to get money as base as our desires.

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I doubt that 20th Century warfare is possible without a credit-based monetary system. Historically, without credit, the only way a nation could normally fund a foreign war of aggression would be based on whatever wealth was accumulated in their government's treasury. To initiate a foreign war (with all the attendant logistical costs of trans-

port, feeding, arming, and paying the soldiers, etc.) would require a government to have a huge treasury.

But how would the government accumulate all that money except by taxing its own people? If government took enough money from its own people to fund a foreign war, two things would happen: 1) while the taxes were imposed and accumulated, they nation's own economy would be impoverished; and 2) the overtaxed, impoverished people would be unwilling to fight for their government -- i.e., their loyalty and morale would be so poor, they'd probably retreat or surrender rather than fight in the foreign war. The net result of overtaxing it's own people would be a loss of the economic strength and public support that's absolutely necessary to initiate and win a foreign war.

Further, while imposing a tax sufficient to fund a foreign war, a government would necessarily accumulate a lot of gold in its treasury before the war was actually declared. However, all that money in the government treasury would create a strong incentive for some other foreign government to initiate a war in order to steal the accumulated gold as plunder.

Since the local populace would be demoralized by high taxes, the local government could not count on their support to fend off an invasion. This public discontent would provide another incentive for a brash foreigner (or perhaps a domestic revolutionary or political rival) to attempt to overthrow the existing government. Result? By raising taxes, a government might precipitate its own destruction. Therefore, war might be less likely in a gold-based monetary system

On the other hand, if government could fund foreign wars with credit, it would not need to overtax and impoverish its people before the war and thereby lose their loyalty and fighting spirit. Instead, leaders like Lyndon Johnson could promote our ability to have "guns and butter" and lead most folks to assume the proposed war would be economically painless. All government would have to do is print more money, spread patriotic propaganda about "fighting for democracy", and march a bunch of trusting, foolish kids overseas to lose legs, ingest Agent Orange, be left behind as POW's, or perhaps jeopardize their souls by killing "enemy" soldiers for reasons as lame as the 1960's "Domino Theory". If our kids were wounded, killed, or captured -- tough. The important thing was the war was initiated, more money was borrowed, and the American People were further indebted (some say "enslaved"). All this, through the modern miracle of credit-based warfare -- fight now, pay later!

The truth is probably this: You could not have one "world war" (let alone two) without first creating a credit-based money system. Korea, Viet Nam, Agent Orange, posttraumatic stress syndrome, POWs, Gulf War Illness -- without a debt-based, unlimited credit money system none of these would be likely, and the lives lost or shattered in those conflicts would've probably lived longer and more fully.

And it's probably not only the United States that's guilty of credit-based warfare; I'd bet that the post WWII global expansion of "Evil-Empire Communism" was funded by a generous line of credit from one or more banking systems. Without credit, how else could it have happened?

Why that credit may have been provided to the Soviet Union is debatable. But if those reasons persist and the USSR is gone, how would the powers that be create a new threat to the Western World? By providing enormous credit to a potential adversary. What potential adversary remains besides Red China? Is the international banking community providing credit to China?

[1] Arsen J. Darnay, editor, *Economic Indicator Hand-book* (Detroit, London: Gale Research Inc., 1992), p.232 and *Survey of Current Business,* vol.75, Feb. *1995, p.* C-5.

[2] *The Wall Street Journal,* Apr. *7, 1995, & The Economic Report of the President, 1995.*

[3] As measured by the National Bureau of Economic Research.

[4] Robert Shapiro, "Politics and the Federal Reserve," *The Public Interest,* winter 1982, p.123.

[5] Shapiro, pp.126-127.

[6] *Federal Reserve Bulletin,* February 1995, *p.* A30.

[7] Murray N. Rothbard, "The Federal Reserve as a Cartellization Device: The Early Years, 1913-1930," in Barry N. Siegel, editor, *Money in Crisis* (Cambridge: Ballinger Publishing Company, 1984), p.107.

[8] Rothbard, pp.105-106.

[9] Richard M. Salsman, *Gold and Liberty* (Great Barrington, Mass.: American Institute for Economic Research, *1995),* p.26.

[10] Michael David Bordo, "The Classical Gold standard: Some Lessons for Today," *Federal Reserve Bank of St. Louis Review,* May 1981, pp. 8-9.

[11] Steve H. Hanke, "Critics Err-Mexico Still Needs a Currency Board," *The Wall Street Journal,* February 22, 1995.

[12] For a fuller treatment of this issue, see Roger Garrison, "The Cost of a Gold Standard," in Llewellyn H. Rockwell, Jr., editor, *The Gold Standard: An Austrian Perspective* (Lexington Books, 1985), pp.61-79.

[13] Alan Reynolds, "Gold and Economic Boom," in Siegel, p.256.

[14] Hans Sennholz, *Money and Freedom* (Spring Mills, Pa.: Libertarian Press, 1985), pp.81-83.

It's not the Money, It's the Principal (whatever *that* is)

by Alfred Adask

I have photocopies of three letters allegedly written by officials of the U.S. Department of The Treasury discussing the nature of Federal Reserve Notes (FRN's). I can't prove the photocopies are legitimate, but I believe they are. The dates on the first two letters are 1977 and 1982; the third letter's date is unclear. Assuming these letters are legitimate and the statements they contain accurate, they offer some interesting insights into our money system.

The first letter is marked "Exhibit 0-8" and was apparently used in someone's trial, but the name of the recipient has been whited out and is unknown to me. It's simply one of those millions of document's that float like autumn leaves through the constitutionalist community. (The italicized highlights are my additions.)

Department of The Treasury
Office Of The General Counsel
Washington, D.C. 20220
Feb 18, 1977

Dear Mr.

This is to respond to your letter of November 23, 1976 in which you request a definition of the dollar as distinguished from a Federal Reserve note.

Federal Reserve notes are not dollars. Those notes are *denominated* in dollars, which are the unit of account of the United States money. The Coinage Act of 1792 established the dollar as the basic unit of the United States currency, by providing that "The money of account of the United States shall be expressed in dollars or units, dimes or tenths, cents or hundredths . . ." 31 U.S.C. Sect. 371.

The fact that Federal Reserve notes may not be converted into gold or silver does not render them worthless. Mr. Bernard of the Federal Reserve Board is quite correct in stating that the *value* of the dollar is its *purchasing power*. Professor Samuelson, in his text Economics, notes that the dollar, as our medium of exchange, is wanted not for its own sake, but *for the things it will buy*.

I trust this information responds to your inquiry.

Sincerely yours,
Russell L. Munk
Assistant General Counsel

The second letter was written in 1982 from the Department of The Treasury to Bryon Dale – a student of the American money system.

As Mr. Dale knew (and the letter confirms), in 1982 the Federal government printed our paper money (Federal Reserve Notes) for $20.60 per thousand physical notes, then sold the Notes *at cost* to the Federal Reserve, which ultimately issued the notes to the public *at full face value* – plus interest (the interest alone is typically more than the cost for printing the Note).

Under this arrangement, in 1982 the Federal Reserve could buy a $100 FR note from our government for two cents (today the cost is about four cents), and ultimately loan it back to the American people at full face value ($100). Plus interest. (Quite a deal, hmm? How'd you like to buy pieces of paper for two cents and sell 'em for $100 each?)

Based on a similar analysis, Byron Dale enclosed a $1 Federal Reserve Note with his letter to the Bureau of Engraving and Printing and offered to buy a freshly printed $100 bill directly from the government for $1 FRN. It

sounds silly, but technically, it might be a good deal. After all, the Federal Reserve would only pay two cents for that $100 bill, so Byron's $1 offer was 50 times greater.

Here's government's response to Mr. Dale's "generous" offer (again, I've emphasized some sections with *italics*):

Department Of The Treasury
Bureau Of Engraving And Printing
Washington, D.C. 20228
December 14, 1982

Mr.. Byron C. Dale
R.R. 2, Box 72
Timberlake, South Dakoka 57656

Dear Mr. Dale:

This is in response to your letter of November 15, 1982 in which you enclose a $1 Federal Reserve note and request to purchase a one hundred dollar bill.

The Bureau of Engraving and Printing produces the Nation's paper currency and sells it to the Federal Reserve system for $20.60 per one thousand notes. The notes, however, are not money until they are monetarized and issued by a Federal Reserve Bank. To obtain notes, a *Federal Reserve Bank must pledge collateral* equal to the face value of the note. Collateral must consist of the following assets, alone or in any combination: 1) gold certificates, 2) special Drawing Right certificates, 3) U.S. Government securities, and 4) "eligible paper," as described by Statute.

Federal Reserve Notes are *obligations of the United States*, and have a first *lien* on the assets of the issuing Federal Reserve bank. *Money without backing is worthless*, and in effect, you are suggesting that currency be printed without the necessary collateral which is required of the Federal Reserve Bank.

I hope this information is helpful. Your $1 FR note is returned.

Sincerely,
M. M. Schneider
Acting Executive Assistant

Well, the government didn't take Mr. Dale's deal, but then they didn't keep his "$1 FR note", either. Although they conceded that "Money without backing is worthless", they also assured Mr. Dale that any mix of "gold certificates, special drawing Right certificates, U.S. Government securities, and 'eligible paper' as described by statute" would provide the necessary backing to make Federal Reserve Notes "worth something" (as opposed to "worthless").

Here's the third letter (date uncertain) from the government which discusses Federal Reserve Notes (italicized highlights, my addition):

Department Of The Treasury
Washington, D.C. 20220

Gaylon L. Harrell
Latham, Illinois

Dear Mr. Harrell:

This is in response to your letter to me of August 10 in which you asked a further question about Federal Reserve notes.

Federal Reserve notes are legal tender currency (31 U.S.C. 5103). They are issued by the twelve Federal Reserve Banks pursuant to Section 16 of the Federal Reserve Act of 1913 (12 U.S.C. 411). A *commercial bank* which belongs to the Federal Reserve System can obtain Federal Reserve notes from the Federal Reserve Bank in its district whenever it wishes, but it must pay for them in full, dollar for dollar, by drawing down its account with its district Federal Reserve Bank.

The Federal Reserve Bank in turn obtains the notes from the Bureau of Engraving and Printing

in the United States Treasury Department. It pays to the Bureau the cost of producing the notes. The Federal Reserve notes then become liabilities of the twelve Federal Reserve Banks. Because the notes are *Federal Reserve liabilities*, the issuing Bank records *both* a *liability* and an *asset* when it receives the notes from the Bureau of Engraving and Printing, and therefore *does not show any earnings* as a result of the transaction.

In addition to being liabilities of the Federal Reserve Banks, Federal Reserve notes are *obligations of the United States* Government (12 U.S.C. 411). Congress has specified that a Federal Reserve Bank must hold collateral (chiefly gold certificates and United States securities) equal in value to the Federal Reserve notes which that Bank receives (12 U.S.C. 412). The purpose of this section, initially enacted in 1913, was to provide backing for the note issue. The idea was that if the Federal Reserve System were ever dissolved, the United States would take over the notes (liabilities) thus meeting the requirements of [12 U.S.C.] 411, but would also take over the assets, which would be of equal value. The notes are a first *lien* on all the assets of the Federal Reserve Banks, as well as on the collateral specifically held against them (12 U.S.C. 412).

Federal Reserve notes are not redeemable in gold or silver or in any other commodity. They have not been redeemable since 1933. Thus, after 1933, a Federal Reserve note did not represent a promise to pay gold or anything else, even though the term "note" was retained as part of the name of the currency. *In the sense that they are not redeemable, Federal Reserve notes have not been backed by anything since 1933.* They are valued not for themselves, but for what they will buy. *In another sense*, because they are a legal tender, Federal Reserve notes are "backed" by all goods and services in the economy.

I hope that this information is useful to you.

Sincerely,
Russell L. Munk
Assistant General Counsel

In a sense . . . ?

Interesting. Note that the second letter explained that "Money without backing is worthless", and the undated letter declared, "Federal Reserve notes have not been backed by anything since 1933." Are FRN's therefore worthless?

Well, we can't quite tell from the third letter. After all, the writer hedged his comments by saying "*In the sense* that they are not redeemable, Federal Reserve notes have not been backed by anything since 1933," but also "*In another sense*, because they are a legal tender, Federal Reserve notes are 'backed' by all goods and services in the economy."

Hmm. Sounds mysterious. "In the sense" vs. "In another sense" . . . golly, which "sense" do you suppose is correct? (And which is "politically correct"?) Is the FRN worthless or not? And why do you suppose the assistant General Counsel wouldn't give us a straight answer?

The answer to which "sense" applies is suggested in the 1977 letter which declares the value of a dollar is in its "purchasing power", in "the things it will buy". Virtually every analyst agrees that due to inflation, today's Federal Reserve "dollar" is worth less than a nickel as compared to the FRN of 1933. Therefore, although we can't truly say the FRN dollar is "worthless" (it's still worth a couple of cents as compared to 1933), it is fair to say the FRN is almost worthless – and, given it's persistent six decade decline, "in that sense" likely to become "completely" worthless (i.e., "obviously worthless" -- even to the public") in the foreseeable future. That is, the time may be approaching when there'll be no more suckers dumb enough to take FRNs in trade for real property or services.

Every FRN has a silver lining?

Does this mean we should abandon our FRNs and start hoarding gold coins in a tin can buried in the back yard? Could be. After all, even government subtly discourages use of FRN's by encouraging suspicions about anyone who pays his bills with cash. Aren't we a little embarrassed if we don't have credit cards? Think you can pay cash for a new home or car without arousing the suspicions of the real estate agent or car dealer?

We are taught that the common denominator among drug pushers, prostitutes, criminals, and especially tax evaders is a tendency to do business in cash. In fact, carrying "too much" cash has become prima facie evidence of

criminal activity. By encouraging the anti-cash bias, government pushes for a "cashless, FRN-less society" where everyone uses plastic cards to conduct computer-recorded business that can't take place without government getting its cut.

Nevertheless, the beleaguered FRNs may still have some surprising value. For example, when we pay for something with a check, the check is denominated in "dollars". Although the vast majority of Americans haven't seen real (gold or silver) dollars or paid for anything with real dollars in their lives, the fact that we denominate our checks in "dollars" may constitute prima facie evidence that we have received income and paid our bills with "dollars" subject to taxes. This distinction might be important since real "dollars" are assets and therefore taxable, while the nature of FRN dollars is less clear.

According to the third letter: **"**Because the notes are *Federal Reserve liabilities*, the issuing Bank records *both a liability and an asset* when it receives the notes from the Bureau of Engraving and Printing, and therefore does not show any earnings as a result of the transaction."

Conventional thinking in the patriot community (whatever that is) regards the previous statement and others like it as evidence that FRNs are pure liabilities, debt instruments having a negative financial value. As such, the more FRNs you have, the more you owe. Sounds nuts, but it's probably not.

However, I read that quote and am intrigued by the idea that FRNs are "recorded" by the Bank that buys them as *both* liabilities *and* assets.

It's easy to see that if you earn $100,000 in real, *asset-based* money, your personal assets have increased and you may be subject to income tax. It's also possible to imagine that if your "income" is denominated in a *debt-based* money, you've actually suffered a loss and might be exempt from income taxes. But what can you see or imagine if your income is denominated in a currency that is *both* assets and liability?

If, as the third letter claims, FRNs are both "liabilities" and "assets," what are they? Accounting units. What else could they be?

Moreover, the third letter says "the issuing Bank records both a liability and an asset when it receives the notes from the Bureau of Engraving and Printing, and therefore does not show any earnings as a result of the transaction." This implies that the liabilities and assets inherent in each FRN are *equal*, and therefore the *value* of any FRN is *zero*. I.e., I have a $100 FRN that represents $100 in assets and $100 in liabilities -- what is my FRN worth? Subtract the liabilities from the assets. If they're equal ($100 - $100), the answer's *zero*.

So what is my FRN? It's a *unit of measure*, no different from inches, feet, pounds, tons, and centigrams. It's an accounting unit. A number.

What is the tax on a *number*? Is the tax on 100,000 more than the tax on 1,000? It depends. 100,000 what? 1,000 what? The tax on 100,000 *dollars* is clearly more than the tax on 1,000 *pennies*. The tax on 1,000 dollars and 100,000 pennies is identical. And a tax on 1,000 pennies is greater than the tax on 100,000 grains of sand. The taxable item is not the unit of measurement, but the *commodity* it describes.

Therefore, is the tax on $100 in gold-backed money the same as the tax on $100 FRN? Can I be taxed on the basis of an income denominated in *units of measurement* that the issuing Federal Reserve Bank implicitly says are worth *zero*? If the Federal Reserve Bank can count a FRN as both an asset and liability, can I do the same and also have no earnings to be taxed?

Those questions sound ridiculous, but there is some supporting law. **C**onsider 31 U.S.C. § 742 (which deals with "Public Debt"):

"Exemption from taxation. Except as otherwise provided by law, all stocks, bonds, Treasury notes, and other *obligations of the United States*, shall be *exempt from taxation* by or under *State* or *municipal* or *local* authority. This exemption extends to *every* form of taxation that would require that either the obligations or the interest thereon, or both, be considered, directly or indirectly, in the computation of the tax, except nondiscriminatory franchise or other non-property taxes in lieu thereof imposed on corporations and except estate taxes or inheritance taxes." (R.S. § 3701; Sept. 22, 1959, Pub.L. 86-346, Title I, § 105(a), 73 Stat. 622.) [emph. add.]

Now consider, 18 U.S.C. §8:

"Obligation or other security of the United States defined.

"The term 'obligation or other security of the United States' includes all bonds, certificates of indebtedness, national bank currency, *Federal Reserve notes, Federal Reserve bank notes*, coupons, United States notes, Treasury notes, gold certificates, silver certificates, fractional notes, certificates of deposit, bills, checks, or drafts for money, drawn by or upon authorized officers of the United States, stamps and other representatives of value, of whatever denomination, issued under any Act of Congress, and canceled United States stamps." [emph. add.]

Hmm. According to our last two letters and 18 U.S.C. §8, FRNs are "obligation[s] . . . of the United States". According to 31 U.S.C. 31 §742 ". . . obligations of the United States, shall be exempt from taxation by or under State or municipal or local authority".

Therefore, it might be argued that anyone paid in cash (FRN's) for their work or products might be exempt from paying a *state* income or sales tax.

Further, "This exemption extends to *every* form of taxation that would require that either the *obligations* or the interest thereon, or both, be considered, directly or indirectly, in the computation of the tax." Therefore, it appears that if I bought a car or a house and made it abundantly clear on the bill of sale that I paid cash with FRNs (I might even list the serial number of each bill used to pay the bill), that car or house might not be subject to state or local property taxes since its value was computed "directly or indirectly" in FRNs ("obligations of the United States").

If this were so, you can see why government would want a FRN-less society. With an all-electronic financial system, every transaction would be automatically denominated in "Dollars", there'd be no opportunity to claim you were paying or being paid in tax-exempt FRNs, and if you didn't like it, you'd have to do without. Result? Every financial transaction would not only be taxable but electronically and instantly taxed.

However, until government establishes its FRN-less utopia, it's remotely possible that, with additional research and effective argument, use of "virtually worthless" FRNs might enable you to avoid state and local taxes of "every form".

Crazy, hmm?

Welcome to the Alice In Wonderland world of paper money, taxes, and "high" finance. (Makes you wonder what bankers and IRS officials are smoking, doesn't it?) But it gets even more bizarre.

Viva Villa!

I remember a black and white movie called *Pancho Villa* from the 1930's (maybe 1940's) which starred Victor McLaughlin as the Mexican revolutionary. There's a scene where some Europeans arrive with some enormous amount of new paper money ($20 million?) that Pancho Villa ordered printed, and ask to be paid the agreed fee ($100,000?). The childlike Villa orders his Lieutenant to peel $100,000 from the freshly printed $20 million and pay the printers. The printers, of course, refuse to accept a *portion* of the money they printed as payment for *all* the money they printed. Simplistic Villa does not understand money, is bewildered by the printers' demand, but eventually pays the printers in real money (gold-backed) .

It's an amusing scene, but it makes a point that should also apply to our government's "sale" of freshly-printed FRNs to the Federal Reserve. Unless our government is truly dumber than Pancho Villa (and I don't deny the possibility), it's pretty hard to imagine Washington is fool enough to print $1 billion in $100-denominated FRNs and then sell 'em to the Federal Reserve for just $400,000 (current production costs are about four cents per note) in the *same* FRNs they just printed. This is equivalent to General Motors selling Cadillacs to the public for one spare tire (which can be found in the trunk of each new Cadillac).

Perhaps one obstacle to understanding FRNs is the assumption that statements like, "The Bureau of Engraving and Printing produces the Nation's paper currency and sells it to the Federal Reserve system for *$20.60* per one thousand notes" (second letter), mean the Federal Reserve pays $20.60 in *FRNs* for the newly printed FRNs. If that were true, we'd be right back in the land of Pancho Villa, using $20.60 in FRNs to pay the printer for 1,000 in freshly-printed FRNs. Even in government, that's too crazy to be true. The "$20.60" paid for printing 1,000 FRNs, must designate a currency *other than FRNs*.

Let's hypothesize that the federal government will not accept FRNs to pay for the printing of FRNs, but instead insists on being paid in gold. This is not implausible. After all, back around 1913, when Washington first agreed to print and sell FRN's to the Federal Reserve, the country was only using real, gold-backed money. Just like the printers in the Pancho Villa movie, our government's Bureau of Engraving and Printing could not have agreed to accept *FRNs* in payment for printing *FRNs*. They must have demanded payment in something tangible, probably gold or some gold equivalent and it's likely that form of payment is *still* required. So let's play with the idea that, although each FR note currently costs only four cents to print, those "four cents" are not "FRN-cents" but are denominated in *gold*-backed currency.

There are approximately 480 grains to an ounce. Prior to 1933, the conversion rate for "real" paper money to gold was $20 / ounce; a real dollar was worth about 25 grains of gold; and each *real* penny (gold-backed; not FRN-pennies) was worth about 0.25 grains of gold. Today, if the Fed were still paying four cents in *real* money (gold) for each FR note, their cost for each "FR note" ($1, $5, $10, etc.) would be roughly 4 cents times 0.25 grains of gold/ cent, which equals 1 grain of gold.

With current conversion rates approaching $400 FRN per ounce (480 grains) of gold, each grain of gold is worth about $0.83 FRN ($400 FRN divided by 480 grains). So if the Federal Reserve were paying four *real* (gold-backed) cents for each FR note, it would cost them about one grain of gold or $0.83 FRN to print a single FR note. If so, the Fed's real cost ($0.83) for buying a paper $1 FR note would be very near to its face value. As a result, the exorbitant profit the Federal Reserve enjoyed on $1 bills when gold was still worth $32 FRN, is gone.

Of course, $5 FR notes are still lucrative, since they also only cost about $0.83 (FRN; 1 grain of gold) to print. $10, $20, $50, and $100 FR notes are even more lucrative, but like the $1 FR note, also subject to the ravages of inflation. As a result, it is conceivable that *paper* FRN's are becoming so costly (in real money, gold), that it may be unprofitable for the Fed to continue buying and then loaning them. If so, the Fed may also be secretly conniving to eliminate the paper FRN and restructure the money system to retain its extraordinary profit potential relative to real, gold-backed dollars.

Regardless of whether any of this fanciful speculation is remotely valid, I suspect that an overlooked but critical process takes place in our money system when we *sell* the FRNs we've printed to the Federal Reserve, and thereby allow the Fed to legally *own* and then *loan* those same FRNs back to us -- and even charge us interest (rent?) on use of *their* notes. In a sense, since the Fed *owns* every paper FRN until both the principal and *interest* are paid off on whatever loan originally released the particular FRN into the economy, the Federal Reserve could be said to be the true "owner" of every FRN in your wallet.

The possibility that you don't really "own" the money in your pocket, might explain stories about government simply seizing someone's cash and refusing to give it back, even if the original possessor did nothing illegal. If it's not really "your" money -- only pieces of paper someone borrowed but which truly belong to the Federal Reserve -- you have possession but no lawful title to "your" FRNs. Can government legally "detain" your cash (FRNs) until the issue of lawful title (ownership) is determined? Until you produce a bill of sale or some other proof that you *own* (not merely *possess*) those FRNs, government might be able to "presume" they are stolen and hold them pending claim by the "lawful" owner. And unless the original loan that "monetized" your specific FRN has been paid in full with interest, no such proof of ownership would be possible.

On the other hand, if you could show that the original loan for the Bank series and serial number on your FRN had been paid, your mere possession of that FRN would be prima facie evidence of your ownership unless someone else could produce a superior title. If you owned your money, you could *pay* rather than *discharge* your debts. If you could actually *pay* your bills, you could actually *own* property.

Perhaps that's why the Fed routinely burns millions of "old" FRNs every day. Not because they're worn out, but because they are so old that it might be argued that the principal and *interest* had been paid off on the original loan and therefore those "old" FRN's were truly "owned" by the possessor.

When I asked a friend to proofread this article, he thought it was interesting, but incomplete. At the end of the article he wrote, "Does this piece have an ending?"

No.

I have no conclusion. And that bothers me. I'm pretty sure I'm dealing with interesting (possibly important) concepts, but I can't find a conclusion.

However, in a sense, maybe that's the point. A conclusion requires answers, data, evidence. All I seem to have is questions, suspicions and inferences. But why? Is my inability to reach a conclusion based on my own laziness and inability to find facts?

Normally, I'd say Yes – the in-

ability to reach a conclusion is my fault. But in this instance, I'm not so sure. The problem is that the same questions and suspicions I've raised have been banging around the constitutionalist community for several decades. And yet, to my knowledge, government has refused to provide a coherent answer to questions concerning either the income tax or the money system.

Why?

And note that the lack of information and inability to reach supportable conclusions is not confined to myself. On April 14, 1993, Former IRS Commissioner Shirley Peterson said publicly that the Internal Revenue Code (IRC) is now:

". . . a virtual impenetrable maze. The rules are unintelligible to most citizens – including those holding advanced degrees and . . . specialize in tax law. The rules are equally mysterious to many government employees who are charged with administering and enforcing the law . . . ."

Based on a an alleged system of laws that even an IRS Commissioner can't understand, our government takes so much of our earning as to drive us toward poverty, precipitate divorces, bankrupt businesses, incarcerate some of us and drive others to suicide or plots to bomb government facilities. And our money system is every bit as "impenetrable . . . unintelligible . . . mysterious" as the IRC.

How can this be? How can an entire nation be unable to understand its own tax and monetary systems? Are our laws incomprehensible because of endless tinkering by generations of well-meaning but incompetent politicians? Are we to believe that the creation of a relatively brief, comprehensible tax code is simply impossible? Or is it more likely that our laws are incomprehensible by intent?

Every adult understands the ancient refrain, "Oh, what a tangled web we weave, when first we practice to deceive." You start lyin', and it quickly turns into a endless labyrinth of more lies and anxieties. We recognize the "tangled web" phenomenon in our own adrenaline-soaked attempts to weave deceptions.

But do we ever recognize the "tangled webs" of others? When we see millions of words in the IRC, are we looking at law? Or are we witnessing the most complex, tangled web of lies and deceit the world's ever seen?

The IRC was written in 1939, rewritten in '54, and again in '86. And not once has government succeeded in producing a document the American people can read and understand. After a half century of ambiguity, imprecision, mystery and misunderstanding, isn't it time to ask if maybe the reason we can't understand the tax and monetary laws is because some very powerful people don't want us to?

In the end, how can we dismiss even the most bizarre "patriot" theory of tax law, if we can't first show what the "real" law is? How can you tell me I'm wrong, if you can't first show me what's right?

And if you can't show me the "right" tax or monetary law, why not? Because you're ignorant? Or because the tax and monetary laws are inherently "wrong"? Perhaps there is no "right" to be found in the IRC and so the true law must be concealed, buried under millions of words.

So, for those of you who feel cheated out of a conclusion to this article, just wait. I guarantee a conclusion of monstrous proportions is headed our way. Within ten years, maybe five, you'll see the conclusion of the IRS – or you'll see the conclusion of the American Dream.

And it's up to you and me to write that conclusion.

(To be continued.)

In the IRS or Out — We're Still Here To Help You

by Ted Parrish

Here's the text from a pair of letters. The first is actually an advertisement from a former IRS agent offering his professional services to help extricate Ted Parrish from IRS lien problems; the second, Mr. Parish's reply. According to Mr. Parrish, "I've recently received a flood of solicitations from tax attorneys due, I suppose, to my IRS tax liens being made public record. As a long-time member of Save-A-Patriot's fellowship, I was compelled to answer one of them."

The letters are at least amusing, but also indicate the political momentum in the American income tax drama: IRS agents are quitting the agency to make a fast buck "helping" the public; the public is "just saying no" to income taxes.

In my imagination, these letters conjure up an image of the I.R.S.S. Titanic slowly listing to port, sinking while the ship's stewards (IRS agents) are selling First Class Cabins to Third Class passengers at highly reduced rates. If it weren't for the inherent danger, the whole thing would be kinda silly.

Here's the solicitation from "Sam Peden, Former IRS Officer, Manager Collection Division, 33+ yrs" who opens his letter with the headline "Get the IRS off your back in 24 hours or less! Save money and have peace of mind."

Dear Friend:

The reason I'm writing this letter is to tell you how to get the IRS off your back in 24 hours *or less.* The obvious benefits are *you'll save money - pay less interest* and *get peace of mind.* You may even be able to *settle your debt for pennies on the dollar*!

I know that what I'm saying may sound too impossible to believe, but if you just read this letter you will understand why I'm saying it.

My name is Sam Peden. I'm a *former* senior IRS officer with over thirty-three years of experience working for the IRS. I'm not a professional ad writer, but what I have to share with you is so extraordinary and powerful, I decided to write to you myself, so please bear with me.

I should probably start off explaining that the IRS has filed a tax lien (a formal and legal claim for tax money) against you, in case you don't already know it. And, if that isn't bad enough, they're also charging you an exorbitant amount of penalties and a ridiculous amount of interest, on top of those taxes. Right now, even as you read this letter, your tax bill is growing at a phenomenal rate. Every second that goes by, is *costing you a lot more money*! How much more - well, the interest and penalties on the taxes you owe could easily cause your tax bill to double or triple! In fact, you could wind up paying far more than if you were paying the highest rate of interest on a loan or on a credit card balance.

The good news is you don't have to stand helplessly by and watch the amount you owe grow faster than your ability to pay it back! You can do something about it right now -- *without even having the money to pay off the debt.* That's right – you don't have to owe more money. *You can pay less to the IRS* – and I can show you how!

HOW DO I KNOW - because I've been doing this for well over

thirty years. In fact, I'm an expert at it. I was a Senior IRS Revenue Officer, and also the manager of the collection division of the IRS, for many, many years. I've probably handled and supervised the handling of tens of thousands of cases just like yours. I've seen almost every possible tax problem and every possible tax debt. In fact, I've seen so many of these cases that I know all the ins and outs of all of the rules and how to take full advantage of them. I could probably tell it to you in my sleep.

After all those years working for the IRS, I finally got tired of being good at getting money for the government. So I decided to leave and to give something back, by using all that I had to help taxpayers just like yourself.

And that's exactly what I'm doing, In fact, thank goodness, I've managed to become so successful at it that sometimes I even get referred more cases than I can handle. Accountants refer cases to me, tax attorneys send me cases, satisfied taxpayers send their friends to me. It goes on and on. Currently however, I do have room to take a few more cases. And in your situation, I'm almost certain that you can benefit from my help. That's why I sent this specifically to you!

So listen, this is what I'm willing to do - call me - I'll speak with you at no cost. In fact, not only will I speak with you at no charge, I'll also meet with you and tell you exactly what I think you should do and how you should do *all at no cost to you*. All you have to do is call me - there's no cost to you! I'll help you - call me - IT'S FREE! I can show you how to legitimately pay less to the IRS! But in order provide *FREE* HELP to you - you've got to call *me!*

If you wait or don't take action now, I can assure you of one thing - IT WILL COST YOU MORE MONEY NOT LESS!!! *You have my word on that*!

Here's why, by calling me you'll *get the help you need*!

- Besides myself, our staff includes many other former *Senior* IRS personnel who have years of experience with the IRS and know how to deal with tax debts and tax problems from the inside out (they're on our side now!).
- We've been doing this and have helped many people for many years (people just like you).
- We've worked effectively with IRS personnel for many years (we have more contacts than you can ever imagine).
- We get your liens, levies and garnishments removed quickly.
- We handle notices promptly with no interruption.
- We'll file your unfiled returns and you'll pay the least tax possible.
- We'll establish a payment plan that works for you.

You can save money with just one free phone call! There's NO COST and NO OBLIGATION! It can only save you money. What are you waiting for?

Start to solve your tax problems NOW, by calling me at: BELLEVUE (206) 646-9195, TOLL FREE (800) HALT IRS 1-800-425-8477

Very truly yours,
Samuel S. Peden, EA
"Take advantage of my experience, I'm on your side now"

Those of you having tax problems might want to employ Mr. Peden's service. Mr. Parrish, however, declined:

December 7, 1996

Mr. Sam Peden Suite # 6OO
320 108th Ave. N.E.
Bellevue, Wa. 98004

Dear Sam:

Thank you for your letter offering your professional services. I was so excited to read "I'm on your side now." Just think, a former IRS officer with 33+ years of experience, is [finally] on *our* side!

I've enclosed an application for you to join hands with 65 million Sovereign Americans (40% of the population) in our battle to eliminate the IRS and their corruption and the constructive fraud they have perpetrated on the American people in the form of an "Income Tax". Yes, Sam, you read correctly! The IRS has publicly admitted (Tom Sullivan, Talk Radio, Sacramento, Calif.) that 40% of former tax payers are now non-filers. We are delighted to have you "on our side".

What's more, Sam, not only are our numbers rapidly increasing (I signed up three just last week), but we are wining landmark, precedent decision in court cases across the nation: *Gabe Scott vs. U.S.* in Alaska; *Lloyd Long*

vs. U.S. in Tenn..; etc., etc. For you see, Sam, the alleged "Law" that makes STATE citizens LIABLE (emphasis on "LIABLE") for an income tax return, or to pay income tax, does not exist or at least the IRS seems to be having difficulty finding one to submit as evidence in court. If you find one, Sam, let me know, and we'll split the $50,000 reward that's being offered.

As for me personally, Sam, please don't concern yourself. I own a private, cash business, have no bank accounts, no homes, real estate, or autos in my name, no employer, and no traceable assets to be found in this country. Concerning the embarrassment with my neighbors . . . they are also members of our group and we have sworn under oath to defend each other's property against illegal search and seizure. Best of all, Sam, I'm single, with absolutely no responsibilities except to myself and my country and fellow patriots. We are winning our country back, Sam, from the Federal Reserve and the bureaucrats in Washington, District of Criminals.

Oh, by the way, Sam, as far as the IRS filing a lien and accessing a "legal claim to tax money", *every* letter or document I've received from them has been *illegal*, in direct violation of procedures outlined and specified in their own manual and/or Title 25 (Administrative Procedures). Of course, having been an IRS officer for 33+ years, Sam, I don't have to tell you all of this.

We look forward to receiving your application, Sam. Thanks for joining our side.

Sincerely,
Ted Parrish

P.S. Some recent good news! The IRS has recently laid off 5,000 of it's work force and discontinued the random audits due to lack of funding. Personally, I'd like to see all of them selling shoes for a living, or at least something productive, and legal.

P.S.P.S. We are no longer on the defense, Sam. We are on the offense! And we are pursuing it relentlessly.

Etc.

Things kids teach parents

- If you hook a dog leash over a ceiling fan, the motor is not strong enough to rotate a 42 pound boy wearing underwear and a superman cape. However, it is strong enough to spread paint on all four walls of a 20 by 20 foot room.

- When using the ceiling fan as a bat you may have to throw the ball up a few times before you get a hit. A ceiling fan can hit a baseball a long way. The glass in windows (even double pane) doesn't stop a baseball hit by a ceiling fan.

- When you hear the toilet flush and the words "Uh-oh," it's already too late.

- If you use a waterbed as home plate while wearing baseball shoes, it does not leak – it *explodes*. A king-size waterbed holds enough water to fill a 2000 sq. foot house 4 inches deep.

- Legos will pass through a four year old's digestive tract, Duplos will not.

- "Play Dough" and "microwave" should never be used in the same sentence.

- The washing machine's spin cycle will not make earthworms dizzy. It will, however, make cats dizzy. Cats throw up twice their body weight when dizzy.