

IRS News Release

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IRS Warns of “Corporation Sole” Tax Scam

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WASHINGTON — The Internal Revenue Service today issued a consumer alert advising taxpayers to be wary of promoters offering a tax evasion scheme that misuses “Corporation Sole” laws. Promoters of the scheme misrepresent state and federal laws intended only for bona-fide churches, religious institutions and church leaders.

"This scheme shamelessly tries to take advantage of special tax benefits available to legitimate religious groups and church leaders," said IRS Commissioner Mark W. Everson. "Unscrupulous tax promoters always look for ways to game the system and prey on unsuspecting victims. Taxpayers should be on the look-out for these and other scams."

Scheme promoters typically exploit legitimate laws to establish sham one-person, nonprofit religious corporations. Participants in the scam apply for incorporation under the pretext of being a “bishop” or “overseer” of the phony religious organization or society. The idea promoted is that the arrangement entitles the individual to exemption from federal income taxes as an organization described in Section 501(c)(3) laws.

The scheme is currently being marketed through seminars with fees of up to \$1,000 or more per person. Would-be participants purportedly are told that Corporation Sole laws provide a “legal” way to escape paying federal income taxes, child support and other personal debts by hiding assets in a tax exempt entity.

While fraudulent Corporation Sole filings have happened sporadically for many years, the IRS has recently seen signs the scam could be starting to spread with multiple cases seen recently in states such as Utah and Washington. The IRS is concerned about this increase and is taking steps to pursue Corporation Sole promoters and participants.

Used as intended, Corporation Sole statutes enable religious leaders — typically bishops or parsons — to be incorporated for the purpose of insuring the continuation of ownership of property dedicated to the benefit of a legitimate religious organization. Generally, creditors of a Corporation Sole may not look to the assets of the individual holding the office nor may the creditors of the individual look to the assets held by the Corporation Sole. Currently, 16 states permit Corporation Sole incorporations. The IRS suggests that individuals considering becoming involved in any kind of tax avoidance arrangement obtain expert advice from a competent tax advisor not involved in selling

the arrangement. Do not rely on legal opinions obtained or provided by the arrangement's promoter. Start by asking the following questions:

- Is the arrangement designed to hide income or assets?
- Is the arrangement designed to evade income taxes?

Answering "yes," or even "maybe," to either of these questions should raise red flags for taxpayers.

Additional information on Corporate Sole and the rest of the "Dirty Dozen" tax scams and schemes is available on IRS.gov.

Tax guidelines for churches and religious institutions can be found in Publication 1828, "Tax Guide for Churches and Religious Organizations".

Taxpayers with specific questions on a tax scheme or who wish to report a possible scheme can call (866) 775-7474 or send an e-mail to irs.tax.shelter.hotline@irs.gov.

Links on IRS.gov:

- IRS Updates the 'Dirty Dozen' for 2004: Agency Warns of New Scams
<http://www.irs.gov/newsroom/article/0,,id=120803,00.html>
- Publication 1828, Tax Guide for Churches and Religious Organizations,
<http://www.irs.gov/pub/irs-pdf/p1828.pdf>

Attached: Statement from Utah and Washington Officials

Statement from State Officials

Mike Ricchio
Director, Corporations Division
Secretary of State's Office
State of Washington

“During the last few years, corporation sole filings have increased dramatically. Unfortunately, many appear to be submitted by the same, small group of people. They're filed on behalf of as many as 20 others at a time, over and over again. These filers are very reluctant to provide any address or identifying information to our staff. When we contact individual filers, we find they often operate under the mistaken impression that simply by filing a corporation sole, they are exempt from taxation and other kinds of debt collection. It's a shame people spend hard earned money on these filings in the belief they will become tax exempt even though they're not legitimate churches.”

Kathy Berg
Director, Division of Corporations and Commercial Code
State of Utah

“Scheme promoters are telling people that by filing a corporation sole they are creating a church or a religious organization. This information is false. A religious organization must already exist before the authority for the organization files the articles of incorporation for the corporation sole. Any legitimate religious organization filing a corporation sole would have no fear of IRS scrutiny or any regulatory filing associated with the corporation sole.

During the last three years, the Utah Division of Corporations/UCC has seen an unprecedented growth in corporation sole filings. It appears that many of the filings are mass-produced, as there are only a few variations in the document content and verbiage. These recent filings are an abuse of the legislative intent of the Corporation Sole Act.