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**IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE**

UNITED STATES OF AMERICA,	)	
	)	Civil No.
Plaintiff,	)	
	)	
v.	)	
	)	<b>COMPLAINT FOR PERMANENT</b>
RITA I. JOHNSON, individually and d/b/a	)	<b>INJUNCTION AND OTHER</b>
Equity Preservation Association,	)	<b>EQUITABLE RELIEF</b>
	)	
Defendant.	)	

The United States of America, plaintiff, for its Complaint states as follows.

**Nature of Action**

1. The United States brings this complaint to enjoin Rita I. Johnson, individually and doing business as Equity Preservation Association or through any other entity, and any other persons in active concert or participation with her, from directly or indirectly:

- (a) Organizing, promoting, marketing, or selling any tax shelter, plan or arrangement that advises or assists customers to attempt to violate the internal revenue laws or unlawfully evade the assessment or collection of their federal tax liabilities, including her corporation sole program;
- (b) Making false statements about the allowability of any deduction or credit, the excludability of any income, or the securing of any tax benefit by the reason of participating in any tax shelters, plans or arrangements;
- (c) Instructing, advising or assisting others to violate the tax laws, including to evade the payment of taxes;
- (d) Engaging in conduct subject to penalty under 26 U.S.C. § 6700, *i.e.*, by making or furnishing, in connection with the organization or sale of an shelter, plan, or arrangement, a statement the defendant knows or has reason to know to be false or fraudulent as to any material matter under the federal tax laws;

1 (e) Engaging in any conduct that interferes with the administration and enforcement  
2 of the internal revenue laws; and

3 (f) Engaging in any activity subject to penalty under the Internal Revenue Code.

4 2. An injunction is warranted based on Johnson's continuing conduct as a promoter of a  
5 tax-fraud scheme. If not enjoined, Johnson's continuing actions will result in the Internal  
6 Revenue Service having to devote scarce resources to attempt to locate and investigate Johnson's  
7 customers, who by participation in Johnson's scheme have erroneously stopped filing accurate  
8 federal income tax returns and paying their federal income taxes. Johnson's actions, if not  
9 stopped, may result in penalties and other civil and criminal sanctions being imposed on those  
10 customers.

### 11 **Jurisdiction and Venue**

12 3. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345, and §§ 7402(a)  
13 and 7408 of the Internal Revenue Code of 1986 (26 U.S.C.) ("Code").

14 4. Venue is proper in this Court pursuant to 28 U.S.C. § 1391.

### 15 **Authorization**

16 5. This action has been requested by a delegate of the Secretary of Treasury and  
17 commenced at the direction of a delegate of the Attorney General of the United States, pursuant  
18 to Code §§ 7402 and 7408.

### 19 **Defendant**

20 6. Rita I. Johnson resides and works in Gig Harbor, Washington.

### 21 **Defendant's Activities**

22 7. Johnson conducts business through an entity known as Equity Preservation  
23 Association.

24 8. Johnson markets a program or arrangement known as a "corporation sole" as a means  
25 to evade the reporting and payment of federal income taxes, as well as a means to conceal assets  
26 and thereby evade estate and inheritance taxes and IRS collection efforts.

1 9. Corporations sole are authorized under the laws of some states to enable religious  
2 leaders to hold property and conduct business for the benefit of the religious entity (as opposed  
3 to the benefit of the office holder, or entity creator, himself). Rev. Rul. 2004-27, 2004-1 C.B.  
4 625, 626. Title to property that vests in the office holder as a corporation sole passes to the  
5 successors to the office by operation of law (not to the office holder's heirs). The purpose of a  
6 corporation sole is to ensure continuity of ownership of property dedicated to the benefit of a  
7 religious organization.

8 10. Corporations sole do not bestow a special tax status on their creators. However,  
9 Johnson falsely tells customers that her corporations sole provide significant tax advantages and  
10 can eliminate or reduce customers' federal tax liabilities. Johnson markets her corporation sole  
11 program as a tax dodge.

12 11. In order to receive special tax status, an entity must independently qualify as a  
13 religious or charitable organization under Code § 501(c)(3). Johnson falsely tells customers that  
14 her corporations sole do not have to qualify under that statute in order to enjoy tax-exempt  
15 status.

16 12. Johnson falsely advises customers that they can treat their corporations sole as a  
17 "church" with no tax-return filing requirement, and yet can control and use the assets and income  
18 of the corporation sole for their own personal benefit.

19 13. Johnson falsely advises participants that corporations sole that are used for the  
20 participants' personal benefit are tax exempt, do not need to file tax returns of any kind, and do  
21 not need to keep records.

22 14. Johnson falsely advertises that customers who have a corporation sole can assign  
23 their income to the entity and thereby transform taxable individual income into nontaxable  
24 income of the corporation sole.

25 15. Johnson falsely states that a corporation sole can be engaged in any occupation,  
26 business or profession, and that all earnings therefrom are tax exempt, and that no tax return  
27 need be filed.

1 16. Johnson touts participating in her corporation-sole program as a mechanism that  
2 enables participants to conceal assets and income from creditors.

3 17. Johnson's promotional literature lists the following purported benefits of the  
4 corporation-sole program:

- 5 • You can legally generate income without any reporting requirements.
- 6 • A corporation sole is recognized by the IRS as a Section 508 non-profit entity.
- 7 • You can eliminate any interference with inheritance and can pass on all your  
8 assets to your family without probate or taxation.
- 9 • You can protect your assets from unnecessary government interference and  
10 taxation.
- 11 • Your corporation sole can be used to hold all your property (including homes,  
12 automobiles and RV's) and protect it from liens, levies, seizures and confiscation  
13 from events arising as a result of your personal actions.

14 18. Johnson's statements about the tax benefits associated with the corporations sole are  
15 false or fraudulent.

16 19. The effect of Johnson's corporation-sole promotion is that participants live in the  
17 same residence and operate the same business, as they did before joining the program. Under the  
18 program participants' living expenses are paid from the participants' earnings just as they were  
19 before creating the corporation sole. Participants receive the full benefit of, and have full control  
20 over, all corporation-sole funds. The only substantive change in the participants' regular  
21 business and lifestyle activities is the purported benefit of no taxation.

22 20. The corporations sole that Johnson markets are operated for the benefit of the owner,  
23 are devoid of economic substance and are shams for federal tax purposes. The program  
24 constitutes an improper assignment of income and a fraudulent transfer of assets.

25 21. Johnson markets the program through word of mouth and in personal meetings with  
26 customers. She charges customers \$2,500 to \$3,500 to purchase her corporation-sole program.  
27 The IRS has identified over 100 persons who have either purchased or participated in Johnson's  
28 program.

1 22. Johnson has promoted her corporation-sole program for at least the past four years.  
2 Johnson has continued to promote her program despite after being notified that she is subject to  
3 an Code §§ 6700 and 7408 investigation. She has refused to cooperate in the investigation.

4 23. The corporation-sole program is identified in the IRS's annual consumer alert of tax  
5 scams that taxpayers are urged to avoid. (*See*  
6 <http://www.irs.gov/newsroom/article/0,,id=136337,00.html>.)

7 24. Johnson is affiliated with Joseph O. Saladino and Richard M. Blackstock. Saladino  
8 and Blackstock have been permanently enjoined from promoting similar corporation-sole  
9 programs, by orders entered on January 25, 2005 (*United States v. Saladino*, case no.  
10 2:04cv2100-FMC, U.S. Dist. Ct., C.D. of California), and March 21, 2005 (*United States v.*  
11 *Blackstock*, case no. 04cv253-TCK, U.S. Dist. Ct., N.D. of Oklahoma), respectively. Those  
12 court orders are available at <http://www.usdoj.gov/tax/txdv05030.htm> and  
13 <http://www.usdoj.gov/tax/txdv05142.htm>.

14 **Count I**  
15 **Injunction under Code § 7408 for violations of Code § 6700**

16 25. The United States incorporates by reference the allegations contained in paragraphs 1  
17 through 24.

18 26. Code § 7408 authorizes a court to enjoin persons who have engaged in conduct  
19 subject to penalty under Code § 6700 from engaging in further such conduct or any other  
20 conduct subject to penalty under the Code.

21 27. Code § 6700 imposes a penalty on any person who organizes or sells a plan or  
22 arrangement and in connection therewith makes a statement with respect to the allowability of  
23 any deduction or credit, the excludability of any income, or the securing of any tax benefit by  
24 participating in the plan or arrangement that the person knows or has reason to know is false or  
25 fraudulent as to any material matter.

26 28. Johnson organizes and sells a tax-fraud program. In organizing and selling her  
27 program, Johnson makes statements regarding the tax benefits associated with participation in

1 the program that she knows are false or fraudulent as to material matters within the meaning of  
2 Code § 6700.

3 29. Unless enjoined by this Court, Johnson is likely to continue to organize and sell her  
4 corporation-sole program and other tax-fraud programs.

5 **Count II**  
6 **Injunction under Code § 7402**

7 30. The United States incorporates by reference the allegations contained in paragraphs 1  
8 through 29.

9 31. Code § 7402 authorizes Courts to issue injunctions as may be necessary or  
10 appropriate for the enforcement of the internal revenue laws.

11 32. Johnson, through the actions described above, has engaged in conduct that interferes  
12 substantially with the administration and enforcement of the internal revenue laws.

13 33. Johnson's conduct results in irreparable harm to the United States and the United  
14 States has no adequate remedy at law. Johnson's conduct is causing and will continue to cause  
15 substantial revenue losses to the United States Treasury, much of which may be unrecoverable.

16 34. Unless Johnson is enjoined, the IRS will have to devote substantial time and  
17 resources to identify and locate her customers, and then construct and examine those persons'  
18 tax returns and liabilities. The burden of pursuing individual customers may be an  
19 insurmountable obstacle, given the IRS's limited resources.

20 35. If Johnson is not enjoined, she likely will continue to engage in conduct that  
21 obstructs and interferes with the enforcement of the internal revenue laws.

22 **Relief Sought**

23 WHEREFORE, the United States prays for the following relief:

24 A. That the Court find that Johnson has engaged in conduct subject to penalty under  
25 Code § 6700, and that injunctive relief is appropriate under Code § 7408 to prevent Johnson, and  
26 any business or entity through which she operates, and anyone acting in concert with her, from  
27 engaging in further such conduct;

1 B. That the Court find that Johnson has engaged in conduct that interferes with the  
2 enforcement of the internal revenue laws, and that injunctive relief against Johnson, and any  
3 business or entity through which she operates, and anyone acting in concert with her, is  
4 appropriate to prevent the recurrence of that conduct pursuant to the Court's powers under Code  
5 § 7402(a);

6 C. That the Court, pursuant to Code §§ 7402 and 7408, enter a permanent injunction  
7 prohibiting Johnson, individually and doing business through Equity Preservation Association or  
8 any other entity, and her representatives, agents, servants, employees, attorneys, and those  
9 persons in active concert or participation with her, from directly or indirectly:

- 10 (1) Organizing, promoting, marketing, or selling any tax shelter, plan or arrangement  
11 that advises or assists taxpayers to attempt to violate the internal revenue laws or  
12 unlawfully evade the assessment or collection of their federal tax liabilities,  
including her corporation sole program;
- 13 (2) Making false statements about the allowability of any deduction or credit, the  
14 excludability of any income, or the securing of any tax benefit by the reason of  
15 participating in any tax shelter, plan or arrangement;
- 16 (3) Instructing, assisting, or advising or assisting others to violate the tax laws,  
17 including to evade the payment of taxes;
- 18 (4) Engaging in conduct subject to penalty under Code § 6700, *i.e.*, by making or  
19 furnishing, in connection with the organization or sale of an abusive shelter, plan,  
20 or arrangement, a statement Johnson knows or has reason to know to be false or  
fraudulent as to any material matter under the federal tax laws; and
- 21 (5) Engaging in any other conduct that interferes with the administration and  
22 enforcement of the internal revenue laws; and
- 23 (6) Engaging in any activity subject to penalty under any other section of Code.

24 D. That this Court, pursuant to Code § 7402, enter an injunction requiring Johnson to  
25 contact by mail (or by e-mail, if an address is unknown) all persons and entities who have  
26 previously purchased her corporation-sole scheme or any other tax shelters, plans, arrangements  
27 or programs, and inform those persons and entities of the Court's findings concerning the falsity  
28 of Johnson's prior representations and attach a copy of the permanent injunction against  
Johnson, and to file with the Court, within 20 days of the date the permanent injunction is  
entered, a certification signed under penalty of perjury stating that she has done so;

1 E. That this Court, pursuant to Code § 7402, enter an injunction requiring Johnson to  
2 produce to counsel for the United States her complete customer list, including the names,  
3 addresses, e-mail addresses, telephone numbers, and social security or tax identification  
4 numbers, of all persons and entities who have purchased her corporation-sole scheme or any  
5 other tax plans, arrangements or programs, and to file with the Court, within 20 days of the date  
6 the permanent injunction is entered, a certification that she has done so;

7 F. That this Court order that the United States is permitted to engage in post-judgment  
8 discovery to ensure compliance with the permanent injunction;

9 G. That this Court retain jurisdiction over this action for purposes of implementing and  
10 enforcing the final judgment; and

11 H. For such other and further relief as this Court may deem proper and just.

12 Dated: December 14, 2005.

13  
14 JOHN MCKAY  
United States Attorney

15  
16 /s/ Martin M. Shoemaker  
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