

IN THE UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF FLORIDA  
PENSACOLA DIVISION

UNITED STATES OF AMERICA, )  
)  
Plaintiff, )  
)  
v. ) Civil No. 3:08-cv-00136-RV-EMT  
)  
PINNACLE QUEST INTERNATIONAL et al., )  
)  
Defendants. )

**ORDER GRANTING MOTION FOR SUMMARY JUDGMENT AGAINST  
ARNOLD MANANSALA AND MICHAEL LEONARD**

Upon the United States' motion for summary judgment and for injunctive relief against Arnold Manansala ("Manansala") and Michael Leonard ("Leonard"), the Court makes the following findings of fact and conclusions of law and enters this permanent injunction:

**Findings of Fact**

1. Pinnacle Quest International ("PQI") was an organization that sold and marketed several tax fraud schemes.
2. PQI was controlled by an Executive Council.
3. Manansala and Leonard were members of the a member of PQI's Executive Council. Manansala earned over \$300,000 from the sale of PQI products, and Leonard earned over \$800,000 from the sale of PQI products.
4. PQI was a successor organization to the Institute of Global Prosperity.
5. The Institute of Global Prosperity sold products that falsely assured its customers that they could legally stop paying federal income taxes. In 1998 and 1999, five states' attorneys

general sent cease and desist orders to the Institute of Global Prosperity to stop promoting its fraudulent schemes.

6. PQI sold products similar to those formerly sold by the Institute of Global Prosperity.

7. PQI sold products named Q1, Q2, and Q3. PQI charged its customers over \$1,000 to purchase a Q1. PQI charged its customers over \$7,000 to purchase a Q2. PQI charged its customers over \$18,000 to purchase a Q3.

8. Persons referred to as Qualified Consultants promoted PQI's products. In order for a person to become a Qualified Consultant for either a Q1, Q2, or Q3, that person must have purchased that product and referred two sales of that product.

9. Qualified Consultants paid PQI to serve as Qualified Consultants. Qualified Consultants were entitled to retain a portion of the purchase price for each Q1, Q2, and Q3 they sold.

10. PQI's Q1 included a set of audio compact discs.

11. Speakers on PQI's Q1 audio compact discs make the following false statements:

a. The Sixteenth Amendment to the United States Constitution was not properly ratified, and consequently, direct taxes by Congress upon individual citizens are unconstitutional.

b. The Internal Revenue Code does not require United States citizens to pay federal taxes on income earned from wage labor.

c. IRS employees do not have authority to assess taxes against individuals, and IRS agents are personally liable to taxpayers for taxes they collect from individuals.

d. The IRS establishes federal income tax liabilities against United States citizens by fraudulently recording in internal IRS documents that the citizens reside in a United States territory or engages in excise-taxable activities such as drug trafficking.

e. The Internal Revenue Code does not apply to United States citizens who are not federal employees and who do not live within a federally-administered territory or possession.

12. PQI's Q1 contains false commercial speech advertising Bill Benson's Reliance Defense package, IMF Decoder's decoding services, and frivolous tax arguments presented by Sherry Peel Jackson. (Admission No. 16)

13. PQI's website contained written materials that make the following false statements:

- a. The IRS is not a federal government agency because it was not created by an act of Congress;
- b. United States citizens working within a state of the United States are liable for income taxes only if they complete a Form W-4 with a Social Security number;
- c. Individuals working within the fifty states are liable for federal income taxes only if they are employed by the federal government;
- d. IRS revenue agents and officers are actually employed by the Department of the Treasury for the Bureau of Puerto Rico and are without authority in the fifty states of the union; and
- e. The 16th Amendment to the United States Constitution was not properly ratified, and accordingly, direct taxes upon individuals are unconstitutional

14. Manansala and Leonard marketed PQI's products with the false promise that by purchasing PQI's products a person could be immune to IRS collection actions.

15. PQI organized Q2 and Q3 conferences, that Manansala and Leonard attended, that were held in Mexico, Panama, Malta, and Paris.

16. Vendors marketed and sold fraudulent tax-evasion schemes at PQI's Q2 and Q3 conferences.

17. For example, in 2007, Sherry Peel Jackson presented her frivolous tax-avoidance arguments at a Q3 conference.

18. PQI's Executive Council, including Manansala and Leonard, controlled the operations of PQI, including deciding which vendors could sell its products to PQI's members.

19. PQI, through its Executive Council, used exclusive, mutually beneficial contract with its vendors. PQI required its vendors to not deal with any PQI competitor. PQI's vendors were required to agree that the vendor would not sell its product to persons who had not first purchased Q1 from a Qualified Consultant. PQI assisted its vendors with advertising their products.

20. PQI's Executive Council did not require its vendors to certify that their products complied with existing laws and regulations.

21. Speakers at Q2 conferences falsely told customers that no one ever lost money investing in a scheme or product presented at a Q2 conference.

22. PQI never revoked a vendor's authority to sell to PQI customers on the grounds that the vendor violated or failed to comply with federal tax laws.

23. Southern Oregon Resource Center Educational Service ("SORCE") was a PQI vendor.

24. SORCE sold a tax-fraud scheme.

25. SORCE promoted the use of sham entities to hide assets from the government.

26. SORCE falsely told customers that income generated by the sham entities was not taxable and falsely told its customers that they could opt out of their federal income tax obligations by revoking their social security number.

27. SORCE promoted its tax fraud product at PQI events.
28. IMF Decoder was a PQI vendor.
29. IMF Decoder was a PQI vendor and sold a fraudulent tax scheme.
30. IMF Decoder sold a multi-phase program that falsely claimed that (1) customers are not required to pay federal income taxes unless they are living in a United States territory and (2) United States residents can be taxed only by a federal excise tax and only if they are involved in an excise-taxable enterprise. IMF Decoder further falsely tells customers that in order to subject citizens to a tax, the IRS fraudulently misidentifies citizens as residents of a U.S. territory such as the U.S. Virgin Islands and/or misidentifies their occupations as an enterprise subject to an excise tax, such as firearms manufacturing or narcotics trafficking.
31. IMF Decoder falsely advised customers that they could use documents retrieved from FOIA requests to show that they are not obligated to file a federal income tax return.
32. PQI's Executive Council approved the inclusion of IMF Decoder and SORCE as PQI vendors.
33. PQI's Executive Council allowed Bill Benson to sell his tax fraud products to PQI customers. Bill Benson promoted his tax fraud scheme on PQI's Q1 audio compact discs. Bill Benson falsely assured PQI customers that they were not required to file federal income tax returns based on his false claim that the Sixteenth Amendment to the United States Constitution was not properly ratified.
34. Sherry Peel Jackson was another PQI vendor. Sherry Peel Jackson sold material to PQI customers that fraudulently purport to help customers avoid federal tax. Sherry Peel Jackson promoted her scheme on PQI's Q1 audio compact discs.

35. Manansala and Leonard had reason to know that PQI's vendors sold tax-fraud schemes.

36. PQI assured customers that PQI has thoroughly investigated the products that the vendor will offer.

37. PQI's schemes and the schemes of PQI's vendors harmed the government by helping customers evade federal taxes and helping customers hide assets and income from the IRS.

38. PQI, through its team of over 800 Qualified Consultants, sold its products to over 11,500 customers. PQI received gross receipts of \$16 million between 2002 and 2006.

39. IRS audits of IMF Decoder's customers uncovered a total loss of revenue of approximately \$4.9 million caused by IMF Decoders' customers failing to file tax returns and pay income taxes.

40. The IRS has also had to devote substantial resources to processing frivolous FOIA requests submitted by IMF Decoder customers.

41. In addition to forgone revenue, the United States is harmed because it must dedicate scarce resources to identifying and auditing PQI and PQI's vendors' customers. Given the vast scope of the PQI scheme, auditing all present and future PQI customers may be impossible, which would result in a permanent loss to the United States Treasury. Customers are harmed because they have paid for erroneous tax advice, as a result of which many individuals have not filed federal income tax returns, thereby subjecting themselves to possible penalties and interest.

42. Manansala and Leonard were indicted on August 21, 2008, for conspiring to defraud the government as a result of their participation on PQI.

43. Manansala was convicted on March 31, 2010, and sentenced on August 7, 2010.

44. Leonard was convicted on March 31, 2010, and sentenced on August 7, 2010.

45. The three primary leaders of Global Prosperity, Daniel Andersen, David Struckman, and Lorenzo Lamantia, were indicted in 2004 and have all pled guilty or been convicted of conspiracy to defraud the government in connection with the fraudulent tax schemes they promoted through Global Prosperity.

46. David Struckman, in fact, was the founder of PQI and even while Struckman was in Panama to avoid trial in the United States on charges of conspiring to defraud the government, he was an active member of PQI's Executive.

#### **Conclusions of Law**

47. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1340 and 1345 and 26 U.S.C. §§ 7402(a).

48. Venue is proper in this Court under 28 U.S.C. §§ 1391 and 1396.

49. I.R.C. § 7408 authorizes a district court to enjoin any person from engaging in conduct subject to penalty under I.R.C. § 6700 if injunctive relief is appropriate to prevent recurrence of that conduct.

50. Section 6700 imposes a penalty on any person who organizes or participates in the sale of a plan or arrangement and in so doing makes or furnishes a statement with respect to the allowability of any deduction or credit, the excludability of any income, or the securing of any tax benefit by participating in the plan or arrangement which that person knows or has reason to know is false or fraudulent as to any material matter.

51. Manansala and Leonard organized two similar tax-fraud arrangements. First, they sold customers the Q1 audio course that contained false statements about the internal revenue laws, but also provided exclusive access to PQI-approved vendors of tax fraud schemes, such as IMF Decoder, SORCE, and Bill Benson.

52. Second, Manansala and Leonard organized Q2 and Q3 conferences at which PQI allowed tax-fraud promoters to hawk their wares. This is a plan or arrangement within the meaning of 26 U.S.C. § 6700 because PQI and its Executive Council (including Manansala and Leonard) approved vendors to promote fraudulent tax products at the conferences, sold customers admission to the conferences, and received a portion of the proceeds.

53. Manansala and Leonard made false statements about the tax benefits to be derived from these arrangements in two ways. First, the Q1 audio course contained false and fraudulent statements about the internal revenue laws and the benefits that can purportedly be derived from using vendors' products. Second, Manansala and Leonard, as members of PQI's Executive Council, organized fora at which vendors of tax fraud schemes were knowingly allowed to present false and fraudulent statements about the benefits that can purportedly be derived from using their schemes.

54. Manansala and Leonard knew or had reason to know that these statements are false or fraudulent.

55. Under 26 U.S.C. §6700, a court may infer the knowledge a reasonable person in the defendant's position would have discovered, Estate Preservation Servs., 202 F.3d at 1103, and may impute to the defendant knowledge "commensurate with the level of comprehension required by the speaker's role in the transaction," United States v. Cambell, 897 F.2d 1317, 1321-22 (5th Cir. 1990). A reasonable person in Manansala's and Leonard's



position—promoters of products they claimed to investigate thoroughly—would discover that schemes purporting to allow U.S. citizens to stop paying federal income taxes are not legal.

56. The false statements made by Manansala and Leonard were “material” within the meaning of section 6700. If a particular statement has a substantial impact on the decision-making process or produces a substantial tax benefit to a taxpayer, the matter is properly regarded as “material” within the meaning of section 6700. United States v. Buttorff, 761 F.2d 1056, 1062 (5th Cir. 1985). Customers could, and in fact did, rely on false statements made on PQI’s Q1 audio course and statements made by PQI vendors in deciding to not file federal income tax returns and to not pay federal income taxes.

57. Based on the history of Global Prosperity, and the disregard PQI and its Executive Council have shown for the internal revenue laws, an injunction against Manansala and Leonard is necessary and appropriate to prevent a recurrence of the conduct.

58. An injunction is also appropriate under 26 U.S.C. § 7402. A district court may grant an injunction under 26 U.S.C. § 7402 if it is necessary or appropriate for the enforcement of the internal revenue laws. Injunctions can only issue under section 7402 if the traditional bases for equitable relief are also satisfied.

59. The traditional bases for issuing equitable relief are (1) irreparable injury during the pendency of the suit unless the injunction issues immediately; (2) the threatened injury to the movant outweighs whatever damage the proposed injunction may cause the opposing party; and (3) if issued, the injunction would not be adverse to the public interest. Alabama v. U.S. Army Corps of Engineers, 424 F.3d 1117, 1128 (11th Cir. 2005).

60. The United States has met these equitable factors. An injunction is necessary and appropriate to ensure that Manansala and Leonard do not continue to market and promote tax-fraud schemes.

61. Manansala and Leonard will not suffer any hardship by being ordered to obey the law. They have no First Amendment interest in using false or misleading commercial speech. Greater New Orleans Broadcasting Ass'n v. United States, 527 U.S. 173, 183-84 (1999). An injunction prohibiting the use of false or misleading commercial speech to promote tax-fraud schemes is not adverse to the public interest.

For the foregoing reasons, it is therefore,

A. ORDERED that pursuant to 26 U.S.C. §§ 7402 and 7408, Arnold Manansala and Michael Leonard are permanently enjoined, from directly or indirectly by means of false, deceptive, or misleading commercial speech:

(1) Organizing, promoting, marketing, or selling (or assisting therein) any tax shelter, plan, or arrangement, including but not limited to those described in this order, or any other tax shelter, plan or arrangement that incites or assists customers to attempt to violate the internal revenue laws or unlawfully evade the assessment or collection of their federal tax liabilities or unlawfully claim improper tax refunds;

(2) engaging in activity subject to penalty under 26 U.S.C. § 6700, including making, in connection with the organization or sale of any plan or arrangement, any statement about the securing of any tax benefit that Manansala and Leonard know or have reason to know is false or fraudulent as to any material matter,

including but not limited to the statements in the Q1 materials and other false statements described in this order; and

(3) engaging in conduct subject to penalty under any provision of the Internal Revenue Code, or engaging in any other conduct that interferes with the proper administration and enforcement of the internal revenue laws.

B. ORDERED that a copy of this order be displayed on all websites over which Leonard or Manansala have control that pertains in any way to PQI, products or services offered by PQI vendors; and

C. ORDERED that the government is authorized to engage in post-judgment discovery to monitor the Manansala's and Leonard's compliance with this injunction order.

It appears that the claims against all of the named defendants (both corporate and individual) have now been resolved. It is hereby ORDERED that the case shall be administratively closed; subject to the court retaining jurisdiction to deal with any post-judgment discovery disputes and, upon motion of any party within six (6) months from the date of this order, to re-open the case for good cause shown.

DONE AND ORDERED this 21<sup>st</sup> day of September, 2011

s/ Roger Vinson \_\_\_\_\_  
ROGER VINSON  
Senior United States District Judge