

/ TRUST v IRS

Case Number USTC

	1999	2000	TOTAL	Reference
Adjustment per original STAT NOTICE	5,217,834.00	5,890,560.00	11,108,394.00	
Tax & Penalty	2,309,423.00	2,487,842.00		
Interest	1,177,806.00	1,268,799.00		
TOTAL ASSESSMENT 90-DAY LETTER	3,487,229.00	3,756,641.00	7,243,870.00	TAB "D"
Adjustments per Offer from Appeals Office	1,329,199.00	762,906.00		
Tax & Penalty	588,303.00	321,946.00		
Interest	305,906.00	212,681.00		
Total Offer	894,209.00	534,627.00	1,428,836.00	TAB "G"
Adjustments per final settlement	160,999.00	(88,881.00)		
Tax	62,792.00	-		
Penalty	6,279.00	-		
Interest	37,715.00	-		
TOTAL SETTLEMENT 01-29-07	106,786.00	-	106,786.00	TAB "H"
Total reduced from Appeals Offer	(787,423.00)	(534,627.00)	(1,322,050.00)	
Contingent fee at 15% (Normal is 25%)	(118,113.45)	(80,194.05)		
FEES I would have charged any client	118,113.45	80,194.05	198,307.50	
Out of pocket expenses	6,270.00	6,270.00	12,540.00	
Total Client fees I would have charged	124,383.45	86,464.05	210,847.50	
Comments				
Case began on July 9, 2003				
Case Settled on January 29, 2007				
Total case duration was 41 months				
Direct time involved was 268.5 hours				
Indirect time involved was 435.5 hours				

Internal Revenue Service

Department of the Treasury

Date: NOV 18 2004

Taxpayer Identifying Number:

Person to Contact: Notices Clerk
Contact Telephone Number:
(949)

Last Date to File a Petition with
the Tax Court: FEB 16 2005

CA:

CERTIFIED MAIL

Penalty Code Sections

Tax Year Ended	Deficiency	6662(a)
December 31, 1999	\$1,924,519.00	\$384,904.00
December 31, 2000	\$2,073,202.00	\$414,640.00

Dear Taxpayer:

NOTICE OF DEFICIENCY

We have determined that you owe additional tax or other amounts, or both, for the tax year(s) identified above. This letter is your Notice of Deficiency, as required by law. The enclosed statement shows how we figured the deficiency.

If you want to contest this determination in court before making any payment, you have 90 days from the above mailing date of this letter (150 days if addressed to you outside of the United States) to file a petition with the United States Tax Court for a redetermination of the amount of your tax. The petition should be filed with the United States Tax Court, 400 Second Street, NW, Washington, DC 20217, and the copy of this letter should be attached to the petition. The time in which you must file a petition with the Court (90 or 150 days as the case may be) is fixed by law and the Court cannot consider your case if your petition is filed late. If this letter is addressed to both a husband and wife, and both want to petition the Tax Court, both must sign and file the petition or each must file a separate, signed petition.

If you dispute not more than \$50,000 for any one tax year, a simplified procedure is provided by the Tax Court for small tax cases. You can get information about this procedure, as well as a petition form you can use, by writing to the Clerk of the United States Tax Court at 400 Second Street, NW, Washington, DC 20217. You should do this promptly if you intend to file a petition in the Tax Court.

If you decide not to file a petition with the Tax Court, we would appreciate it if you would sign and return the enclosed waiver form. This will permit us to charge your account quickly and will limit the accumulation of interest. The enclosed envelope is for your convenience. If you decide not to sign and return the waiver and you do not timely petition the Tax Court, the law requires us to bill you after 90 days from the above mailing date of this letter (150 days if this letter is addressed to you outside the United States).

If you have questions about this letter, please write to the person whose name and address are shown on this letter. If you write, please attach this letter to help identify your account. Keep the

24000 Avila Road, Stop 5916
Laguna Niguel, CA 92677-3405

Letter 902 (DO)
Cat No. 91976H

Exhibit A

copy for your records. Also, please include your telephone number and the most convenient time for us to call if we need additional information.

If you prefer, you may call the IRS contact person at the telephone number shown above. If this number is outside your local calling area, there will be a long distance charge to you.

You may call the IRS telephone number listed in your local directory. An IRS employee there will be able to help you, but the contact person at the address shown on this letter is most familiar with your case.

Thank you for your cooperation.

Sincerely yours,

Mark W. Everson
Commissioner
By

Technical Services Territory Manager

Enclosures:
Copy of this letter
Waiver
Envelope

MEMO

DATE: 8/30/2006
TO:
FROM:
RE: MEETING WITHIRS

Today, I had a conference with the IRS at the appeals office with
and an auditor. They told me the records that we had provided were grossly
inadequate to substantiate the deductions. However, they did make me a settlement offer.

For 2000 they would disallow:

Rent	\$470,977
Cost of Goods, Lease	480,000
NOL	355,505
Bad debt	<u>22,717</u>
Total	1,329,199

For 1999 they would disallow:

Equipment lease	360,000
NOL	396,861
Bad debt	<u>6,045</u>
Total	762,906

If the offer is accepted the case will be complete. If the offer is rejected and you want to have an audit, we will need all of the records to do a complete audit. It will not be an audit of just the disallowed deductions for the offer. If you wish to go this route, I need to arrange for the audit ASAP. If you reject the offer and do not provide any more documentation, the case will go to trial and I have nothing to substantiate most of the deductions and the situation will be far worse than this offer. The service told me that do not care about the business entity and that is not at issue. The only thing at issue is substantiating the deductions.

Please let me know as soon as possible what you wish to do.

CONFIDENTIAL

CONFIDENTIAL

Income Tax Examination Changes

(Rev. March 2005)

Page of

Name and Address of Taxpayer		Taxpayer Identification Number		Return Form No.
TRUST				1041
		Person with whom examination changes were discussed.	Name and Title	
1. Adjustments to Income		Period End 12/31/1899	Period End 12/31/2000	Period End
a. Schedule C Bad Debt Expense		6,045.00	22,717.00	
b. Schedule C Cost of Goods Sold			185,627.00	
c. Net Operating Loss Deduction		124,092.00	355,505.00	
d. Schedule C Land Rental Expense		388,387.00		
e.				
f.				
g.				
h.				
i.				
j.				
k.				
l.				
m.				
n.				
o.				
p.				
2. Total Adjustments		516,504.00	563,849.00	
3. Taxable Income Per Return or as Previously Adjusted		(355,505.00)	(652,730.00)	
4. Corrected Taxable Income		160,999.00	(88,881.00)	
Tax Method				
Trust				
5. Tax		62,792.40	#N/A	#N/A
6. Additional Taxes / Alternative Minimum Tax				
7. Corrected Tax Liability		62,792.40	#N/A	#N/A
8. Less Credits	a.			
	b.			
	c.			
	d.			
9. Balance - (Line 7 less total of Lines 8a through 8d)		62,792.40	#N/A	#N/A
10. Plus Other Taxes	a.			
	b.			
	c.			
	d.			
11. Total Corrected Tax Liability - (Line 9 plus Lines 10a through 10d)		62,792.40	#N/A	#N/A
12. Total Tax Shown on Return or as Previously Adjusted				
13. Adjustments to:				
	a.			
	b.			
14. Deficiency - Increase in Tax or (Overassessment - Decrease in Tax) - (Line 11 less line 12 adjusted by lines 13a plus 13b)		62,792.40	#N/A	#N/A
15. Adjustments to Prepayment Credits - Increase (decrease)				
16. Balance Due or (Overpayment) - (Line 14 adjusted by Line 15) Excluding interest and penalties		62,792.40	#N/A	#N/A

Income Tax Examination Changes

(Rev. March 2005)

Page of

Name and Address of Taxpayer		Taxpayer Identification Number		Return Form No.
				1041
Penalties	Code Section	Period End 12/31/1999	Period End 12/31/2000	Period End
a.	IRC 8862(a)	6,279.24		
b.				
c.				
d.				
e.				
f.				
g.				
h.				
i.				
j.				
k.				
l.				
m.				
18. Total Penalties		6,279.24		
Underpayment attributable to negligence: (1981-1987) A tax addition of 50 percent of the interest due on the underpayment will accrue until paid or assessed.				
Underpayment attributable to fraud: (1981 - 1987) A tax addition of 50 percent of the interest due on the underpayment will accrue until paid or assessed.				
Underpayment attributable to tax motivated Transactions (TMT): The interest will accrue and be assessed at 120% of the underpayment in accordance with IRC § 6621(c).				
J. Summary of Taxes, Penalties and Interest				
a.	Balance due or (Overpayment) of Taxes - (Line 16, Page 1)	82,792.40	#N/A	#N/A
b.	Penalties (Line 18) - computed to	6,279.24		
c.	Interest (IRC § 6601) - computed to 01/31/2007	37,715.00		
d.	TMT Interest - computed to on TMT underpayment			
e.	Amount due or (refund) - (sum of Lines a, b, c and d)	106,786.64	#N/A	#N/A

Other Information

Examiner's Signature		01/29/2007	
Name	Employee ID	Office	Date

The Internal Revenue Service has agreements with state tax agencies under which information about federal tax, including increases and decreases, is exchanged with the states. If this change affects the amount of your state income tax, you should amend your state return by filing the necessary forms.

You may be subject to backup withholding if you underreport your interest, dividend, or patronage dividend income and do not pay the required . The IRS may order backup withholding (withholding of a percentage of your dividend and/or interest income) if the tax remains unpaid after has been assessed and four notices have been issued to you over a 120-day period.