

Consultant Leads Secret Double Life As Internet Sleuth

Assuming Identity of 'Patriot,' Ms. MacNab Helps Undo Several Tax-Shelter Scams

IRS 'Loves' and 'Resents Her'

BY MONICA LANGLEY
STAFF REPORTER OF THE
WALL STREET JOURNAL

When Irwin Schiff, a high-profile promoter of tax avoidance, was sued for back taxes and fraud penalties early this year, his followers ridiculed the government on the Internet. A regular in one online discussion group -- "Libertarian Party Patriot," who described himself as a 44-year-old mechanic from Maine -- sympathized with Mr. Schiff's dilemma and asked about the civil suit and a related criminal case: "Is it true that Irwin is submitting an insanity plea?"

Cindy Neun, Mr. Schiff's girlfriend and co-defendant in the criminal case, responded: "We are sick about having to use this defense. It's ridiculous."

Unbeknownst to Ms. Neun, Patriot was no blue-collar tax protester -- but the assumed identity of Genet "JJ" MacNab, a financial consultant who leads a secret double life as a cybersleuth on tax scams. By day, she analyzes financial plans for rich clients -- and at times provides expert testimony on Capitol Hill. At night, she assumes phony online identities to lure promoters of legally questionable tax shelters into revealing details of schemes that rob the government of billions of dollars in revenue.

In the Schiff case, Ms. MacNab quickly alerted government officials of the e-mail exchange, raising serious doubts about Mr. Schiff's insanity defense. And the co-defendants soon publicly broke up on the same chat room over Ms. Neun's disclosure to Patriot. "I guess [Mr. Schiff] believes that I was his slave for five years just to set him up to destroy his life by writing you," Ms. Neun lamented in one posting.

Ms. MacNab's hobby is roiling the controversial tax-shelter business and the federal agency charged with stopping it.



She has proved instrumental in shutting down a variety of illegal tax shelters, from high-end estate-planning techniques to low-end tax-protester scams, according to current and former officials of the Treasury and Justice departments.

By exposing tax-scam artists, she also has revealed Internal Revenue Service shortcomings. Critics say the IRS, known primarily for scrutinizing tax returns, initially was slow to stop the explosive growth of tax shelters and tax protesters fueled by the Internet. Ms. MacNab is "an early-warning device about tax scams," says Sen. Charles Grassley, chairman of the Senate Finance Committee. She "often seems to know about them before the IRS does."

IRS officials agree. "We don't have the resources...so we've had to rely on tax professionals like JJ MacNab to be our eyes and ears," says IRS spokesman Terry Lemons. Based partly on Ms. MacNab's input, Pamela Olson, former Treasury assistant secretary for tax policy, who had oversight of the IRS until recently, recommended that the tax agency direct more resources to "looking outward -- at what the tax returns are missing completely."

Still, even those who are ostensibly on Ms. MacNab's side aren't always comfortable with her methods. "She's a cross between a gadfly and a whistleblower," says former IRS Commissioner Donald Alexander. "The IRS loves her and resents her." Adds Jay Adkisson, founder of the Web site Quatloos, a tax-scheme watchdog: "If these actions were done by the IRS, it would be entrapment."

Ms. MacNab, a 40-year-old California native who studied weapons policy at University of California-Berkeley, is unapologetic. "I'm not a cop," she says. "I'm not a vigilante either -- I just make sure the right people see the stuff I uncover."

Mr. Schiff, 76, who is appealing the recent loss of his civil case with the government and is awaiting a criminal trial, has a different view. "If she posed as my friend on the Internet and then called me a fraud, she's the fraud," he says.

The daughter of a theater costumer and a nuclear physicist, Ms. MacNab toiled at analytical and technical jobs in the insurance business for a decade. In 1997, she set up shop in San Francisco as an insurance-industry consultant and financial planner, and quickly became an authority on the spread of insurance products designed to accumulate wealth and reduce taxes.

Clients asked her to review or incorporate a rash of brazen tax shelters into their financial plans. Ms. MacNab, a technology buff, searched the Web for information. She found potential scams from scores of promoters -- but there was little evidence the IRS was watching. "The government offered no guidance, no warnings, nothing," Ms. MacNab recalls. "The promoters ruled cyberspace."

Concerned, Ms. MacNab that year took a stash of computer-generated leads to an IRS special agent in the San Francisco office. Her tips seemed to fall on deaf ears, she says. Mr. Lemons, the IRS spokesman, says the agency can't disclose what it does with leads from outsiders under "iron-clad confidentiality laws."

CREATING PRESSURE

Ms. MacNab, who earns about \$200,000 a year from her consulting and financial-planning business, next sought to create outside pressure by taking her findings to Congress and the media. In 1998, she grew suspicious of heavily promoted "charitable split-dollar" life insurance -- a since-invalidated tax shelter that used willing charities to funnel benefits to the heirs of wealthy donors. On the Internet and by phone, Ms. MacNab used her real name to make inquiries on behalf of clients.

Sometimes she would play dumb. Other times, she would prod promoters with technical questions. When she called a leading split-dollar promoter, InsMark Inc. in San Ramon, Calif., Ms. MacNab asked: "Can you really get something for nothing?" An InsMark salesman said the plan would put money in the pockets of her clients, charities and herself for "sell-

ing" the plan, she says. Ms. MacNab recalls rolling her eyes as she remarked: "This is a win-win-win situation...show me how this works." InsMark declined to comment.

She didn't like what she found out about the plan. A rich donor would give property or stock to a friendly charity that agreed to sell the asset to buy a hefty insurance policy and give most of the proceeds to the donor's children. The plan avoided capital gains on the original assets as well as estate or gift taxes on the generational transfer. The donor even got a tax deduction for the "donation."

Armed with sales documents, Ms. MacNab went to Washington in 1998. "Charities aren't supposed to be in the business of enriching donors, especially at taxpayers' expense," Ms. MacNab says she told congressional aides and reporters. Before year end, Congress passed a law to ban the practice. In 1999, the IRS issued its own ban against the split-dollar policies.

That same year, she moved to Washington in hopes of shaping government policy. And she soon crossed into the cyberworld inhabited by promoters -- and began using aliases.

Worried about "white supremacists, anarchists, militia and other paranoid and angry types," Ms. MacNab says she assumed the name of a character from a favorite book: Andrew Wiggin, hero of the science-fiction cult hit "Enders Game." Taking steps to protect her real Web address, Ms. MacNab joined a few dozen Internet discussion groups.

Nestled in a large sunroom in her home in suburban Washington, with her computer, three cats and tanks of exotic fish, she immersed herself in the intricacies of the tax shelters, as well as the "quirks, personalities, dances and rituals" of its players.

As Wiggin, Ms. MacNab began asking tough questions ("Are you prepared to go to jail for following this program?") and made sarcastic quips ("Aren't you all a bunch of tax cheaters?"). Soon, Wiggin was thrown out of many of the Internet discussion groups.

The setback led to the creation of "Libertarian Party Patriot," with a bogus profile "that fit into their right-wing-leaning groups," Ms. MacNab says. When several bulletin boards asked for specifics, she reinvented herself as a 44-year-old married man in a blue-collar automotive job in Maine. Patriot's hobby? Politics. More important, Patriot demonstrated his affinity with the antitax groups by calling

IRS agents "jackboot thugs" and referring to the "evil government persecuting freedom-loving Americans."

'JUSTICE IS INTERESTED'

Her new identity was soon paying off. In 2001, "Patriot" logged onto a Web site for the Joy Foundation, a tax-protest group. For a fee, Joy provided consumers information on how to have their employers stop withholding taxes. Its Web site argued that paying federal income taxes is "voluntary" and that wages are not income. Patriot received data on the program -- then passed it to the IRS's criminal division. "Justice is interested," an IRS agent e-mailed back.

Eight months later, the Justice Department sued the Joy Foundation, its founder and others to halt what it called a "fraudulent income tax scheme," and sought fines for the promoters. Last year, a federal court permanently enjoined the defendants from promoting and selling their plans. The Web site now says it's "temporarily unavailable."

That April, Ms. MacNab worked with the Senate Finance Committee to put together a hearing called "Taxpayer Beware: Schemes, Scams and Cons." Ms. MacNab was a leading witness, as lawmakers dubbed her the "scam lady."

Ms. MacNab finally had gone public, but she never revealed her use of sleuthing aliases. She embarrassed the IRS by pointing out that most of the scams could be found with a "simple two-hour search on the Internet." Sen. Grassley strongly suggested the tax agency meet with her.

"Her testimony was very helpful," says Mr. Lemons of the IRS. "Tax scams quickly became an emphasis for us in enforcement and public outreach." Indeed, the IRS soon placed on its Web site warnings and technical advice about many of the tax abuses identified by Ms. MacNab.

The following month, Ms. MacNab handed the IRS two more leads. With her phony Internet identities, she had electronically infiltrated violent, antigovernment tax protesters and promoters -- and had found that some of them had identified undercover IRS agents charged with tracking the groups. She alerted the IRS to the names of the groups. Soon after, a Web site displaying what it called "Criminals in Government Clothing" disappeared.

Ms. MacNab also handed IRS investigators everything she had unearthed on Innovative Financial Consultants, a group selling \$10,500 packages to place income and assets in off-shore trusts as a way to avoid income taxes.

Nearly two years later, IFC founders Dennis O. Poseley and Patricia Ann Ensign were indicted for conspiring to defraud the IRS, after they had sold some 3,000 of the allegedly sham trusts. A trial is scheduled for April. Several IFC salesmen, along with its accountant Frank C. Williams, have pleaded guilty to tax fraud and are awaiting sentencing. Government investigators credit Ms. MacNab with helping to put IFC's practices on their radar screen.

Last year, Ms. MacNab -- using the Patriot alias -- came across veiled threats of violence against U.S. tax officials on one antitax Web site.

Ms. MacNab alerted Ms. Olson, then a Treasury assistant secretary, who was being lambasted online for speaking out against tax shelters and scams. At a breakfast quickly arranged by Ms. Olson, Ms. MacNab showed the Treasury official e-mails prodding the tax protesters to harass and stalk her. Ms. Olson says she immediately arranged to receive Secret Service protection. Impressed with Ms. MacNab's sleuthing skills, Ms. Olson urged the IRS to hire her. "She would be ideal for the IRS to find what's going on out there," Ms. Olson says. "I just wish the government could harness JJ, but she's a bit controversial."

Ms. MacNab, whose husband, Tim Hanford, is a tax lawyer and lobbyist, justifies her subterfuge as the only way to directly warn potential victims. "It takes the government five years to discover scams and two years to investigate before deciding to prosecute," Ms. MacNab says. "That's just not excusable in consumer fraud when thousands of middle-income Americans are falling into the promoters' traps."

This summer she worked with the Senate Finance Committee to stage another hearing to highlight tax abuses promoted on the Internet. Her latest fear: Tax schemes are no longer the wild appeals of the past -- they either appear professional enough to come from high-level law firms and financial-services companies or are in fact from such firms.

At a July hearing, she detailed a new practice of setting up companies in the U.S. Virgin Islands to hide income.

Two days later, the IRS pronounced the offshore shelters "dubious arrangements," and warned of civil and criminal penalties against taxpayers and promoters. In October, Congress passed a special provision to outlaw the abusive tax shelter and President Bush signed it into law.