

# **IRWIN SCHIFF'S SUMMARY TAPE TRANSCRIPT**

## **INTRODUCTION & BACKGROUND**

OK, hello boys and girls. What's good about this tape is that it was created as a result of a consultation I had with people who knew nothing about my material. They had actually been following the advice of others in the anti-tax movement and relied upon them to protect them from the IRS. But when that didn't work out, they got to my website and called me. They were in a real panic since the IRS told them that they owed about a million dollars in additional taxes and penalties in connection with traditional returns they had filed. They had gotten to my website, and though they lived on the east coast, they wanted to immediately fly to Las Vegas and consult with me.

I told them that since they knew nothing about my material, that that would be a waste of time, since I would spend most of my time simply explaining material they could learn much cheaper from my books and tapes.

Since they operated a family business, I advised them to get the Businessman's Special, which consisted of the 'Mafia,' the 'Secrets' Tape, and the Internal Revenue Code.

Well, shortly after they received their material, they called me, and again insisted that they really wanted to come to Vegas and personally consult with me. So I said 'OK' and when they got out here, I realized why they were so eager to come. They really believed they faced the possibility of criminal indictment and were worried sick over that possibility. The alleged tax deficiency was the result of their not reporting trust income as 'income,' which they had been led to believe was not taxable to them under the usual IRS tax assumptions. I therefore assured them that they had not really attempted to conceal any income, that they simply had a good faith belief that such 'income' was not taxable. I assured them that under such circumstances the government was really not interested in prosecuting them. What the government really wanted was their money.

Frankly the wife was so fearful of being locked up that when I assured them that there was really no possibility of this, they felt a whole lot better and felt that that alone made the trip to Las Vegas worthwhile. In any case, they went home feeling a lot better than when they arrived.

The next thing that I assured them of was that they really didn't owe the government the money that the government was trying to extort from them. That whatever they had paid the government was too much, and that they were really entitled to a refund of all the money they had actually

paid. But while they had watched the video and run through 'The Mafia,' they really had not studied the material long enough to get a good understanding of what my material was all about.

So when they got to my office, they started to ask questions indicating that I would really have to start from scratch. Naturally, as I do with all my consultations, I made a tape recording for them. After finishing an overview of the income tax in general, as I will cover here, I went into the specifics of their problem and why the IRS thought they owed more money. However, I thought that the initial portion of that interview would actually benefit everybody since I believe that even those who have studied my material over a greater period of time have a good enough grasp of what I am going to cover here. So, I made this tape from their tape. However, I used one of my own employees to represent the couple, and I wanted my employee to interrupt and question me as they did. However they had far more questions and made far more interruptions than on this tape. So with this background, let me get into this reconstructed interview. OK, so here is the interview:

## **THE RECONSTRUCTED INTERVIEW**

(IR: = Irwin, E:= employee)

IR: Now let me tell you what my function is. My function is to teach you the law and give you what I believe are the best procedures for claiming your rights under the law and under the Constitution. But first let me assure you of one thing. You don't owe the government a dime in income taxes! As a matter of fact, whatever money you paid them, you didn't owe and are entitled to a refund for that amount.

If you read the 'Mafia,' you will discover right in the first chapter, that the payment of income tax is voluntary. If you listen to tape 4 of Series 7, that I gave you last night, you know that the House and Senate, when they passed the 1954 Code, said that 'income' is used as is used in the Code, means that 'income' in the constitutional sense, not 'income' in the ordinary sense. Now do you know what 'income' in the constitutional sense means?

E: I believe that means gross income or taxable income

IR: No, it doesn't mean that at all. You are not even close. It means income separated from the source. Income separated from the source. Repeat that over and over so it become second nature to you. Let me teach you what that means.

Now let me just explain something to you. If you wanted a lawyer to handle your problem, he would charge you maybe \$100,000. They base

their charges not on how much work they have to do but what your exposure is. They figure you'll spend \$100,000 to save a \$ million, since if the government gets a million dollar judgment you're going to be a pauper anyway. So they charge you not based upon how much work they do, because if your case only involved \$100,000, the lawyer would charge you less for doing the same amount of work.

So you're going to have to learn this, or lay out a whole lot of money either to lawyers or to the government. Incidentally, after you learn this material, you might want to hire a lawyer to help you, but at least you'll know what he has to do to extricate you from this tax problem, and you won't be misled as to what you really owe the government. And learning that material is really not that complicated.

E: I don't think I can really learn this at my age.

IR: How old are you?

E: I'm 69.

IR: Well, I'm 76. You're just a young whippersnapper. You've got to stop thinking that learning this material is hard. There are many things you learn from your own business that are far more complicated than this. I already told you on the tape that the word 'income' means a corporate profit. Now that's very simple to understand. Would it surprise you if I told you that a corporation that had a million dollars of income but didn't have a profit would pay no income tax?

E: No!

IR: That's not hard to understand. There was a recent article in the Wall Street Journal, only last week, that reported that six out of ten American Corporations pay no income tax. Yet they have 'income.' If they had no income, they couldn't pay their rent or their utilities or their phone bills. Such corporations don't pay taxes because the income tax is imposed on their profit, not on their income.

Now a corporation can have all the income in the world, but if it doesn't have a profit, it pays no income tax. What can be simpler than that? The word 'income' means a corporate profit. Let me show you. You got Series 6. Exhibit G of Tape 2 of Series 6 shows you how the government changed the law when it adopted the 1954 Code. Here is the law as it was in 1939. In 1939 the law said that 'income' included compensation for personal services, salaries and wages. This became Section 61 of the 1954 Code. If you look at the 1954 Code, it says 'compensation for services' is taxable. It doesn't say 'wages or salaries or compensation for PERSONAL services,' as it did in the 1939 Code.

The word 'income' means a corporate profit and I'll show you why in a minute. The reason why 'income' means corporate profit is explained on page 42 of "The Federal Mafia." But it is explained more fully in "The Great Income Tax Hoax" which devotes two whole chapters as to why no one can have taxable income.

Now I point out in Schiff Report 6-2 that the word 'income' is not defined in the Internal Revenue Code. And I provided subscribers with two court decisions: US v. Ballard and US v. Conner which say that the general term 'income' is not defined in the Internal Revenue Code. Now I point out that in the 1921 Merchant's Loan and Trust Co. decision, the Supreme Court said there would seem to be no room to doubt that the word 'income' must be given the same meaning in all of the Acts of Congress that was given to it in the Corporation Excise Tax Act of 1909 and what that meaning is has now become definitely settled by decisions of this court.

So in 1929 the Supreme Court said the word 'income' means a corporate profit. Now the reason that 'income' means a corporate profit is because the Constitution limits the taxing powers in three Constitutional Clauses. The government does NOT have an unlimited power to tax. The Constitution says, as explained in Chapter 2 of 'The Federal Mafia,' representatives and direct taxes shall be APPORTIONED. And then again it says in Article 1 Section 9: No capitation or direct tax shall be laid unless in proportion to a census. Now what does 'apportionment' mean?

Well there are two kinds of taxes allowed in the Constitution. Direct taxes and indirect taxes. What is a direct tax? That's a tax that you pay directly to the government. Like an income tax. You send your check directly to the government. However, when you buy a pack of cigarettes, you pay tobacco taxes but you don't send the government the money. You pay it to the tobacco company and they relay it to the government. When you pay for gasoline at the pump, you pay gasoline taxes, but you pay the tax to the oil companies and they forward it, eventually, to the government. When you get your phone bill you'll see that there are two federal taxes on your phone bill. So when you pay your phone bill you pay your tax to the phone company and the phone company in turn sends it to the government. That is why these taxes are referred to as INDIRECT taxes since you pay them indirectly to the government.

All Direct taxes, that are paid directly to the government, according to the Constitution, have to be apportioned to each state according to that state's population. Now the first time this was done was in 1798. You can see the actual law on page 439 of "The Great Income Tax Hoax." The tax was imposed on dwellings and slaves. Now I've talked to real

estate agents and they are even surprised to learn that the government at one time put a tax on real estate. But it was a direct tax. And the whole bill, as I've said, is reproduced in "The Great Income Tax Hoax." The tax was for 2 million dollars and it was apportioned to the original 13 states according to their population. The amount apportioned to Massachusetts was \$260,435.31 and two mils. To New Hampshire, the amount apportioned was \$77, 705.36 and two mils. They assigned a portion of the 2 million to each state according to that state's population. And that's what the government still has to do today if it wants to impose a direct tax, notwithstanding the 16th Amendment.

Now I'm not going to go on about how complicated this is. But when the government puts on a tax on cigarettes or on liquor, the government doesn't have to apportion that tax. It simply lays the tax on cigarettes or on liquor and whatever the tax brings in, it brings in. But if it wants to collect a DIRECT TAX, such as a gift tax or an inheritance tax, it has to apportion the tax. But it is impossible for the government to do this today. So to get around the apportionment provisions of the Constitution, the government fraudulently imposed a federal estate tax and gift tax as EXCISE taxes. The fraudulent character of how these taxes are imposed so as to circumvent the apportionment provisions of the Constitution is covered in "The Great Income Tax Hoax"

Now when they first imposed an income tax, at the outbreak of the Civil War, it was attached to a tax on real estate. It was only four pages, as shown on page 456 of "The Great Income Tax Hoax" And the government claimed that it was an excise tax which of course it wasn't. But again they called it an excise tax to get around the apportionment provisions of the Constitution. So the government collected the first income tax as an excise tax. And the tax was enforced from 1861 to about 1871 when it was repealed.

Now in 1893 the government had its first deficit since the Civil War. It was caused by the Panic of 1893. Every year from the Civil War until 1893, the government had a surplus. It was not used to having a deficit like we have every year today. So they passed a new tax in order to cover the deficit. The income tax of 1894 was a resurrection of the tax we had during the Civil War and it was called the Income Tax Act of 1894. But this time the Supreme Court declared that tax unconstitutional for want of apportionment. There was a whole chapter in "The Great Income Tax Hoax" which discusses the Pollock decision and the chapter is called "The Supreme Court Declares An Income Tax Unconstitutional." Again, it was declared unconstitutional because it violated the apportionment provisions of the Constitution.

Now the country, as said, is so big today it is impossible for the government to comply with the apportionment provisions of the

Constitution. So Congress passed the 16th Amendment in order to get around the apportionment provisions of the Constitution. But it failed in doing so. Under our current income tax laws, everybody pays the same percentage of income tax regardless of where they live; whether they live in California or Connecticut. However, according to the Constitution, here's what the government has to do if it wants to collect an income tax in accordance with the Constitution.

It would first have to establish a specific amount of tax it wanted to collect. Say, \$2 trillion. Once it had collected that amount, it would have to enact a new law in order to collect an additional amount. Then they would have to apportion a specific percentage of that amount to each state. Say Massachusetts had 1 percent of the population. The people of Massachusetts would have to pay 1 percent of that \$2 trillion, or \$20 billion. Suppose Alabama had the same population as Massachusetts. Well, Alabama would have the same \$20 billion apportioned to it. But let's assume the people of Massachusetts had twice the income of the people of Alabama. Then tax rates in Alabama would be twice as high as the rates in Massachusetts. This would mean that somebody in Alabama earning \$20,000 would pay twice the income tax as someone having the same amount of income living in Massachusetts. Do you think that would be unfair to the people of Alabama? Well, if Alabama's Congressional Representatives thought so, they should have voted against the tax. As it now stands, Alabama's Congressmen vote for federal income tax because they know that the tax falls disproportionately on those citizens of other states where the average income is more than the people earn in Alabama, which is what the apportionment provisions of the Constitution were designed to prevent.

But in any case, this is what the government would have to do if it wanted to collect an income tax legally. They would have to do that each and every year. And taxes would vary from state to state. Obviously having to collect income taxes in this manner would be impossible. So thank God for the apportionment provisions of the Constitution! If we ever had a Constitutional Convention, the very first thing the government would try to do is eliminate the apportionment provisions of the Constitution, which is why we have to oppose a Constitutional Convention. Again, it is because of the apportionment provisions of the Constitution that the federal government is unable to legally put a tax on wages, on alimony, interest, dividends; because a tax on such individual items would have to be apportioned.

Of course the government now taxes those items but it does so **ILLEGALLY** because the law itself, as you will see, does not put a tax on those items.

The government knew that it couldn't tax income because of the Pollock

Decision, however the people of this country wanted an income tax and they were angry with the Supreme Court for declaring the Income Tax Act of 1894 unconstitutional.

STUDENT: Why would they be angry with the Supreme Court for declaring the Income Tax unconstitutional?

SCHIFF: Because the government had sold the income tax to the American Public as being a tax on the rich. Because both the 1894 tax and the 1913 tax started at \$4000 per family, when the average family income was under \$500 a year. So the public didn't think that an income tax would fall on them. It would only fall on the rich. So eventually Congress passed the 16th Amendment which presumably gave the government the right to tax income without apportionment. Here is what the 16th Amendment said:

"Congress shall have the power to lay and collect taxes on income from whatever source derived without apportionment among the several states and without regard to any census or enumeration."

So Congress thought they were amending the Constitution to give themselves the power to put a tax on income without apportioning the tax. Now note the 16th Amendment says Congress can tax 'INCOME.' It doesn't say it can put a tax on wages, on dividends, on alimony. Only on 'income.' But the question is 'What is income that Congress can tax without apportionment?' The Internal Revenue Code does not define what "income" is. However Congress thought that when they passed the 16th Amendment they had given themselves the power to tax specific items that they believed fell within the meaning of 'income,' such as wages, salaries, interest, dividends, and fees. So these items were listed as constituting 'income' in the original act of 1913, and remained in the law up until the adoption of the 1954 Code. And that is what we have in force today. The 1954 Code, though there have been changes in that Code, the current Internal Revenue Code is still referred to as the 1954 Code.

However, after the income tax was enacted, which was in 1913, and presumably in accordance with the 16th Amendment, the Supreme Court ruled in 1915, in the Brushaber vs. Union Pacific RR decision, that the word "income" as used in the 16th Amendment, meant a corporate profit. The Supreme Court also ruled in that decision that the 16th Amendment did NOT amend the Constitution nor give the Congress any new taxing powers. What the Supreme Court said in that decision, was that the effect of the 16th Amendment was to allow the government to impose an EXCISE TAX on corporate profit, a form of taxation that Congress had already adopted in passing the Corporate Excise Tax Act of 1909.

Now "The Great Income Tax Hoax" devotes a whole chapter to the Income Tax Act of 1909. And in 1921 the Supreme Court Case of Merchant's Loan and Trust Co. which is referred to on page 42 of "The Federal Mafia" - the Supreme Court in that decision clearly stated that 'INCOME' MEANS THE SAME THING IN ALL OF THE INCOME TAX LAWS ENACTED BY CONGRESS AS THE WORD 'INCOME' MEANT IN THE CORPORATION EXCISE TAX ACT OF 1909.

This

meant that from 1913 to 1954, the tax law was written illegally, because the law was written as to allow the government to lay a tax on specific items of income, such as wages, interest, dividends, etc. when the Supreme Court had ruled that the word 'income as used in the 16th Amendment meant a corporate profit and that a tax on individual items had to be apportioned.

For some reason in 1954, Congress got pangs of conscience and decided to bring the law into conformity with what the Supreme Court had ruled "income" meant, which was a corporate profit.

Also, the Supreme Court had ruled that the effect of the amendment was to place an income tax in the category of an excise tax so as not to run afoul of the apportionment provisions of the Constitution since excise taxes did not have to be apportioned.

Congress, however, realized that they could not impose the income tax as an excise tax because excise taxes are taxes imposed on licenses, privileges, and on the manufacture of products, such as alcohol, tobacco and firearms. They couldn't put an excise tax on wages since individuals have a right to work. And they couldn't apportion the tax either because that is too difficult. So there was no way that Congress could impose an income tax legally and in conformity with the original Constitution AND the 16th Amendment.

SO WHAT THEY DID WAS TO TAKE OUT ALL THE ENFORCEMENT PROVISIONS IN CONNECTION WITH THE INCOME TAX since an income tax without enforcement provisions cannot be unconstitutional. And they simply relied on the corruption of the courts and the lying character of the Department of Justice attorneys and the gullibility of the American public to enable the government to collect a tax that no one by law had to pay. I know that's unbelievable but it's true.

Congress changed the meaning of 'income' to conform to what the Brushaber court and earlier Supreme Court said it was. And I'm going to show you how they did it.

Whereas under the 1939 Code, as shown in these exhibits taken from Schiff Report 6-2, it says 'there shall be levy collected and paid.' They REMOVED that provision from the '39 Code and replaced it with a provision that only said 'there is hereby imposed on the taxable income.' But they didn't say who is made liable for the tax imposed nor who might be required to pay it. They also removed from the '39 Code all references to the Commissioner of the Internal Revenue and the IRS as such references appeared in the '39 Code but NO such references appear in the 1954 Code.

STUDENT: 'You mean to tell me that there's no references to the IRS in the '54 Code?'

SCHIFF: Well, there's absolutely no reference to the internal revenue in Subtitle A which deals with income tax but towards the end of Subtitle F there are some few references to the IRS. But in the Internal Revenue Code there is absolutely no authority given to the IRS to assess taxes, to audit you, to do anything. No, there's no mention of the IRS in the Code.

And the government was able to fool the public because they said that the income tax is imposed in Section 1. And the public is misled by tax lawyers, by accountants and the IRS into thinking that the mere imposition of the tax also makes them liable for the tax and requires them to pay it even though no such additional provisions are contained in the law itself as are found in other laws which apply to other federal taxes which contain provisions that both impose the tax and then contain provisions explaining who is liable and who must pay the tax imposed.

If you went to a tax lawyer and said that Irwin Schiff said that there is no law that requires you to pay income taxes they would go to Section 1 and say 'See, Section 1 says that there is hereby imposed on the taxable income etc etc' and they would say 'that means you have to pay the tax.' Tax lawyers do this all the time. Especially when I debate with them on radio or television. However they never point out the law that makes anyone liable for income taxes. So the public is led to believe that because the tax is imposed, this is the equivalent of saying that persons are liable for the tax and required to pay it.

For example, Section 4401a imposes the federal wagering tax, which is the tax paid by bookmakers. It's not a tax on wages, it is a wagering tax. But section 4401c says that each person who is engaged in the business of making a wager shall be liable for it, shall pay the tax. So don't tell me about the income tax being IMPOSED. Show me where the law says that I am LIABLE for it and shall pay such a tax.

Another example is Section 5703d of the Internal Revenue Code. It says

the manufacturer of tobacco products shall be liable for the tax imposed by Section 5701. In other words, 5701 imposes tobacco taxes but Section 5703 says who is liable and who shall pay such taxes.

Now there is no provision in the Internal Revenue Code, a similar provision that is, with respect to the income tax.

In addition, what the government did when it came out with the 1954 Code, and this is the important part, IT CHANGED THE MEANING OF 'INCOME.' Now if I told you that the Code does not intend to tax such things as wages, dividends, interest and that the Code does not even define 'income,' and if you went to a tax lawyer and said 'Mr. Schiff told me that the Code doesn't define 'income' and that the Code doesn't attempt to tax wages and dividends and interest' the lawyer would say 'Well Schiff is nothing but a con man, a charlatan and a liar.' And then he would take the Internal Revenue Code and turn to Section 61 and he would say 'See, look what it says! And Mr. Schiff says that the income tax isn't defined. Code 61 is specifically captioned, "Gross Income Defined" and it says right here, "Gross Income means income from whatever source derived including the following... and you see where it specifically mentions "compensation for services such as salaries and wages and lists such items as interest, rents, dividends, as being taxable. And Schiff told you that 'income' is NOT defined in the Code and that these items are not made taxable - how could anybody be more wrong?' And that lawyer could actually convince you into thinking that Section 61 really defines 'income' and that Section 61 really makes all those items taxable. And he would be dead wrong. And so let's analyze Section 61 a little more fully.

#### SECTION 61 AND 'INCOME'

Look at what Section 61 says. "Gross Income Defined. Gross Income means all income from whatever source derived." No I learned way back in the 8th grade that you can't define a word by using the same word in its definition. Let's assume I was going to tell you what a big flidgelet is. And I told you that a big flidgelet is a flidgelet only bigger. Would you now know what a big flidgelet is? No, you would first have to know how big an ordinary flidgelet was. So Section 61 says that 'gross income' means 'all income' but if the code doesn't define 'income' itself, how can you know what 'gross income' means? Then it says that 'gross income means all income from whatever source derived.' Again, but what does 'income' mean? The Code doesn't define it. So if 'income' is not defined, neither is 'gross income' nor is 'net income' nor 'taxable income.' But the key word in Section 61 is the word "FROM." What is taxable is "INCOME FROM" these listed sources. THE TAX IS NOT IMPOSED ON THE LISTED SOURCES THEMSELVES THOUGH THE SECTION APPEARS THAT THEY ARE. If Section 61 sought to tax

those sources shown as interest, rents, dividends, the section would say "there is hereby imposed a tax ON dividends, ON rent, ON compensation. But what is allegedly taxed is INCOME FROM those sources. THE TAX IS NOT IMPOSED ON THE SOURCES THEMSELVES.

So again the question is "What is income that is being generated from those sources?" The only thing that Section 61 claims to tax is 'income from sources.' But again, the tax is not placed on the sources themselves, though again, Section 61 makes it APPEAR like that. But a careful reading of the section shows it doesn't do so. The key word again is "FROM." And the word 'on' is not there.

Now Section 62 takes "gross income" and it adjusts it to "net income." And Section 63 adjusts 'net income' to arrive at 'taxable income.' But all these definitions are dependent on the word "income" itself, which is NOT defined. So neither the terms 'gross income,' 'net income,' nor 'taxable income' are defined in the Internal Revenue Code.

#### MEANING OF 'INCOME'

So what does 'income' mean? It means corporate profit. Here is a corporation's profit and loss statement. Now this is the profit and loss statement of the Ajax Real Estate Corporation, and this was included with the material in the 'Secrets' tape and in the 5 1/2 cassette seminar which you already have. And it shows that gross commissions, that Ajax has, that gross commissions of \$200 thousand, rental income of \$100 thousand and consulting fees of \$15 thousand. So this corporation had total income of \$395 thousand (sic) from all of these sources. Now it deducts from this income all of its expenses. The corporation goes through its checkbook and everything in its checkbook gets deducted - insurance, employees' salaries, interest it pays, the cost of automobiles, transportation, everything gets deducted. So this corporation deducts all of its expenses it has a gross profit of \$1000.00. What would the corporation pay the tax on? On the \$1000 of profit or on its \$395,000 of income? Suppose the corporation had to carry forward loss of \$1000? That would wipe out its profit. So now it has a zero profit. How much income tax will it pay? NOTHING! In other words, it doesn't pay a tax on commissions, it doesn't pay a tax on its rental income, because it doesn't have a gain FROM THESE SOURCES. Is that hard to understand, even at 69?

STUDENT: I guess not.

SCHIFF: Now, that's not hard to understand. Now if you look at

Section 61, it says "Gross income means income from whatever source derived." Gains from increase source derived (sic) Now this corporation, if it had to carry forward loss of \$1000 has no gain from all of its sources. Therefore it has no taxable income.

Now let's compare this to how the government would tax an individual, such as Mary Brown. Her wages are \$25 per week, or \$13,000 a year (sic) She had interest income from stock given to her by her grandfather and she won money in the office football pool. So her total income is \$13,050. Now the IRS would tell her that she would have to pay a tax ON this \$13,050 of income less allowances for personal deductions. But she is not allowed to take any business deductions. Can she deduct her rent? No! Can she deduct her clothing? No! Can she go to work naked? Of course not! Can she deduct her automobile expenses? No! Or her bus fare two and from work? Not that either! But how can she earn any money if she doesn't get to work? So how can her cost of getting to work not be a business expense? Can she deduct her medical expenses? Of course not! The government says 'No.' But if she didn't take care of her health, would she be able to sell her labor? I don't think so. But the government says that these a personal expenses.

Now if Mary Brown were a corporation, she could deduct her rent, her automobile expense, just like corporations do.

Now when I put on seminars, I ask someone, 'Are you in business for yourself?' I do it quickly so they're startled. And they immediately say, 'No.' Then I say, 'Well if you're not in business for yourself, who are you in business for?' Then they think for a moment and usually give me a broad smile and say, "Well, I guess I am in business for myself." Which proves then, of course, that if they are a bookkeeper, the difference between them and who they work for is that they sell their labor to one buyer, while the firm they work for generally sells their products or services to many buyers. But because you sell your labor to one buyer does not mean that you're not in business for yourself. Who is the government to tell you that because you sell your labor to one buyer, you are not in business for yourself. Some people have three jobs. They have two jobs during the week and a third job during the weekend. So they sell their labor to three buyers.

If I made these eyeglasses here and were to sell them for \$10, does the government say I have to pay the tax on the \$10 I get for these glasses? No! Because the government realizes that there is a cost to making these glasses. So the government allows me to deduct the cost of making these glasses, such as the cost of the materials that went in to them, the labor cost, my rent, my transportation, my insurance, my advertising. In other words, there is a cost basis to these eyeglasses, which I will be allowed to recover before I am required to pay the tax

on the GAIN I make from selling these eyeglasses.

But suppose I am in the business of selling my labor, which is what all employees are. They sell their labor. They sell their labor, and not eyeglasses. Isn't there a cost basis to their labor? And shouldn't they be allowed to recover the cost of their labor before they pay a tax on the gain they get from selling their labor? How about the rent? Their transportation cost? Their clothing, their utilities, their medical bills? If I were to sell you my labor for \$10 an hour, what is the cost of my labor? Can I deduct my food? No! Well, if I don't eat, I would be too weak to sell my labor. Can I deduct the rent on my apartment? Evidently not. But if I didn't have a place to sleep, could I go to work sleepy and still sell my labor? They wouldn't keep you there long. As a matter of fact, if someone applied for a job and they indicated that they lived in a shelter, or in a tent at the edge of town, they wouldn't even get hired. So you need to pay rent just to be able to get hired in order to sell your labor. And the government tells you that all these costs are not business related. That's nonsense.

So let's look at Mary Brown as an example...

(Re: 'Mary Brown' example)

She has clothing expenses, medical expenses, automobile expenses which the government says she can't deduct. However, if she were a corporation, she could deduct all of these items. So her profit from her labor is not the \$13,000 that the government says she has to pay taxes on, but on the \$2000 that she has gained as a result of selling her labor.

STUDENT: Doesn't seem fair at all.

SCHIFF: But the law IS fair because the law says that Mary Brown doesn't have to pay a tax on her labor at all. But she gets screwed by the government because the government enforces the law in violation of the law itself. The government cons her and intimidates her into thinking that she has to pay a tax on her 'income' and not on the profit derived from selling her labor. Again, if she were a corporation, she would pay no taxes. This is how the government screws working Americans.

CODE SECTION: "INCOME" DEFINED

Now there is nothing in the Code that says wages - oh you think the Code

is unfair? No! Because there is NOTHING in the Code that says that wages or salaries or any of the other sources of income are taxable under our income tax laws. If you were to make that statement to the average tax lawyer or CPA, they would say "Section 61 makes wages and salaries taxable." When I go on those radio or TV talk shows I always have my code book sitting in my lap. Especially if I'm debating with an accountant or a lawyer. So I open it to Section 61 and I say, "OK, where in Section 61 does it say that wages and salaries are taxable?" And they always fall into the trap. And they always say that it says "Compensation for services, and that includes wages and salaries."

Of course the audience wouldn't know that it USED to say SPECIFICALLY in the 1939 Code "wages and salaries and compensation for personal services." So I expose these charlatans by saying "Are you telling me that 'compensation for services is the same thing as salaries and wages?" And they invariably say, "Yes." And then I say, "Can a corporation receive compensation for services?" They say "Yes," And then I say, "But can a corporation receive a salary? Can a corporation receive a wage?" And then they have to say, "No." So then I'm able to say "So compensation for services ISN'T the same thing as salaries and wages." And this exposes how they were lying, because there's nothing in the law that says that you have to pay taxes on salaries and wages. What the law says is that you have to pay a tax on income FROM various sources but not on the sources themselves.

Now I am also giving you here, and I want you to pay particular attention to the Congressional Reports which were taken from Schiff Report 7-4, which shows the intent of Congress in using 'income' in its constitutional sense and not in its ordinary sense. When Congress adopted the 1954 Code they said that income as used in the 1954 Code means income used in its constitutional sense. Here is where they said the word 'income' is used in its constitutional sense.

Now anytime you have a confrontation with the IRS, if they say, "Well, you have income" you ask, "Are you using 'income' in the constitutional sense or are you using 'income' in the ordinary sense?" What are they going to say? When they send you a bill saying you owe income tax, they use the word 'income' in the ordinary sense and seek to tax you based on 'income' received in the ordinary sense, and not on 'income' received in the constitutional sense. Remember, 'income' received in the ordinary sense would have to be apportioned, since the tax would be imposed on the individual items which go into producing income in the ordinary sense. However, in order for Congress to bring the revenue laws into conformity with what the Supreme Court said 'income' meant, they had to hide this meaning of 'income' from the public. They did not want the American public to know that the 1954 Code changed the meaning of 'income' so that only a corporate profit would fall within that meaning.

Suppose Congress said, "OK people, we're changing the meaning of 'income' in the tax laws so that the word 'income' means a corporate profit." Then everybody would know that they don't have to pay income tax. So instead of saying 'income means a corporate profit,' they said "we're using 'income' in the constitutional sense." They were technically correct but they knew full well that nobody would know what that meant. So now they made 'income' to conform in the law to what the Supreme Court said it meant, without the public being aware of the changes that they had made. And of course federal judges, and the Department of Justice lawyers have been lying ever since.

You might remember the Robert Downey show, I believe it was called 'The Big Mouth.' I was on that show in 1999 while I was still on parole. The government had sought to prevent me from getting on that show, but that's another story. The point is that while I was on that show, I was debating with two tax lawyers, why you didn't have to pay income tax. Now I baited these lawyers by saying "We don't even have an income tax." One of them eagerly said to Robert Downey 'See, he's crazy! What does he mean we don't have an income tax?' I said, "No, we don't have an income tax and it won't take more than two minutes for you to agree with me." (This was really adding insult to injury) So he took the bait and said, "Go Ahead, you got two minutes." So I immediately said to him, "Isn't it a fact that if a corporation has a million dollars in income but doesn't have a profit, it pays no income taxes?" He had to agree with that. I then said, "But if the corporation had a hundred dollars of profit and a million dollars of income on what would it pay the tax? On its million dollars of income or on its hundred dollars in profit?" There was a little hesitation as I saw fear creep into his eyes, but he was compelled to say, "On the 100 dollars in profit." So I said, "Well, if the tax is on its profit, and not on the income, what kind of a tax is it?" He was reluctant to answer. But everyone now knew what the answer was. So I said, "Well, obviously you have a profits tax if the tax is on the profit and not an income tax because the tax isn't on its income." And then I looked at my watch and then I said "And that didn't even take me two minutes!" See how simple it is?

Now the word 'income' in the constitutional sense, actually means income separated from the sources that produced the income. And the only place that that occurs is in a corporation profit and loss statement. So instead of the Supreme Court saying that the word 'income' means a corporate profit, they said 'income' means 'income separated from the source,' which means profit, again, since this is the only place where income is separated from its source.

Now if the Ajax Corporation were to pay income taxes on its \$1000 of profit, would we know what specific sources produced the profit?

STUDENT: No

SCHIFF: What portion of that profit was produced by consulting fees?

STUDENT: You wouldn't know.

SCHIFF: What portion by rental income?

Bond interest? The best cost accountants in the country couldn't answer that question. But here is the real key. Look at the definition of 'income' in Section 61. Does it say that 'income' means one thing - here, take a look. Look at Section 61. Does it say that 'income' means one thing for corporations and another thing for individuals? Do you see corporations even mentioned in Section 61/

STUDENT: No

SCHIFF: Well then, so there's only one definition of 'income' and that has to apply both to individuals and to corporations, is that right?

STUDENT: Correct

SCHIFF: So whatever income means for corporations, it must mean the same thing for individuals. And since corporations don't pay a tax on their income, neither do individuals. What could be simpler than that?

But before you mention Code Section 63, which is captioned "Taxable Income Defined" see if it says in that section that income means one thing for corporations and another thing for individuals. Does it say that? No! So whatever taxable income means for corporations, it means the same thing for individuals.

Now I showed you the tax return I filed last year. I put an attachment to my return which stated 'I had no income in the constitutional sense.' Now in going from the 1939 Code to the 1954 Code, the House and Senate Reports say that the Code uses 'income' in the constitutional sense and I attached those House and Senate Reports to my return. Now did you receive any income last year in the constitutional sense and in those years for which the government says you owe them another 1 million?

STUDENT: No

SCHIFF: So you had no income that was taxable. Income in the constitutional sense means income separated from the source which means a corporate profit. It can't mean income in the ordinary sense. There has to be a difference between 'income in the ordinary sense' and

'income in the constitutional sense' otherwise those Congressional Reports would not have made the distinction. It did! And if there was no difference between Section 22 of the 1939 Code and Section 64 of the 1954 Code would not be worded so differently. So when the government says you owe income taxes, how were they using the term 'income?'

STUDENT: In the ordinary sense

SCHIFF: EXACTLY! So they would be lying, wouldn't they?

STUDENT: Yes

SCHIFF: And you have to know this material well enough and be confident enough to throw those lies right back at them.

Now did you generate a profit from your work? The answer is 'No.!' Because one of the biggest components of corporate profit, in a profit and loss statement, is depreciation. Now when your business bought a piece of equipment, you estimated its life and then wrote off its cost every year over its useful life. Didn't you?

STUDENT: Yes of course I did

SCHIFF: Yes you did, it's common business practice. In that manner you wrote off the cost of all your income producing assets.

Now as far as an individual is concerned, what is the most valuable income producing asset he has? Himself! Sure, everybody, every worker, his income producing asset is himself. Will the government allow workers to depreciate themselves?

STUDENT: No

SCHIFF: Well, look at a prizefighter. He might have a useful life as a prizefighter for 15 years. But can he depreciate himself over a 15 year period? No. So how can he arrive at a realistic and truthful profit and loss figure? That in itself is proof that no individual can have a profit and loss within the meaning of that term.

In addition, in determining a profit, a corporation goes through its checkbook and deducts EVERYTHING it spends money on, before it arrives at a profit. It deducts its rent, its automobiles expenses, its insurance expenses, its advertising.. in short, it deducts everything for which it writes a check, except for the dividends it might pay and

capital expenditures which it recovers via depreciation charges. But everything left over is profit.

Now if you went through YOUR checkbook could you deduct your food? Your rent? Your medical bills? Your insurance? So therefore you cannot show a profit as that term is applied to corporations and remember Sections 61, 62, and 63 do not make a distinction between individuals and corporations. And under those sections, corporations pay no tax on their income. And so what does that mean? YOU have to pay no taxes on YOUR income. Is that hard? Is that hard to understand?

Now, before I ran across these congressional reports, in my zero return attachment, I would say that 'income' means a corporate profit and used as my primary source the Merchants Loan and Trust Company Case, though I did add on other court decisions. Now we should no longer say that income means a corporate profit. We should ALWAYS SAY "I have no income in the constitutional sense," and use as our authority not a court decision, but these Congressional Reports.

Now we should be able to explain that income in the constitutional sense means income separated from its source, as in a corporate profit, as is CONFIRMED by the Merchants Loan and Trust Company Case and in all of those cases shown in my motion to dismiss now posted on my website [www.paynoincometax.com](http://www.paynoincometax.com)

No matter what the IRS tells you, NOTHING CAN TAKE PRECEDENT OVER THESE CONGRESSIONAL REPORTS. They might say that the courts have ruled that wages and salary and dividends are taxable, and courts HAVE ruled that way. But obviously those judges were lying. BUT NO COURT DECISION, NOT EVEN A SUPREME COURT DECISION CAN TAKE PRECEDENT OVER THE INTENT OF CONGRESS. Remember that CONGRESS under the Constitution makes our laws, not the courts, although the courts by using such terms as 'case law,' has sought to suggest to the public that the courts themselves make law, and frankly in many cases they do, but when they do it, it's illegal. And these Congressional Reports show the will and intent of Congress and they cannot be circumvented by any court decision.

Now the only Supreme Court Decision, because lower court decisions are meaningless, but the only Supreme Court Decision they might suggest where they indicate that wages and salaries are taxable was the decision of Glenshaw Glass, and as I explained in Schiff Report 7-4, that case was decided under the 1939 Code before the law was changed in the 1954 Code so Glenshaw Glass, which was always a thorn in our side, now we know, no longer applies to the 1954 Code.

If you ask an IRS Agent, "Are you using the word 'income' in its constitutional sense or in its ordinary sense?" what do you think they're

going to say?

STUDENT: They'll say they are using it in the constitutional sense.

SCHIFF: No they won't! They won't even know what you are talking about, unless they are a subscriber to my material. They'll probably say, "Well, what's the difference?" At this point, you won't tell them. You want to lead them into error. So you will say, "Well, obviously you determined my income in the ordinary sense, didn't you? You simply added up my wages, my dividends, my bank interest, and you arrived at some total. So you determined my income in the ordinary sense, didn't you?" And what are they going to say? Wait for an answer. If you can get it on tape and in front of a witness, all the better. But they are obviously going to have to say, "Well yeah, we determined it in the ordinary sense." At that point you say, "Well, you determined it wrong, because only income in the constitutional sense I taxable, as shown in these congressional reports. Now shown him those reports and if he now asks "Well what is income in the constitutional sense?" .. tell him! But start off by saying that income in the constitutional sense means income...

STUDENT: Suppose he says he uses income in the constitutional sense?

SCHIFF: He won't say that. Because he won't even know what the term means. But if he did say that, ask him how he determined income in the constitutional sense and how that determination was different from how he would have determined it in the ordinary sense. But he will never say that because in every case he determined his income in the ordinary sense of that word. Of course if he admits right off the bat that he determined your income in the ordinary sense, you got him right off the bat. And you can immediately show him those congressional reports and say "In that case you determined my income incorrectly since only income received in the constitutional sense is taxable under the income tax laws.

Now here is some additional basic proof that constitutionally the government cannot impose and collect an income tax as it now does. And this can be used by you to prove to your skeptical friends and relatives that the government cannot constitutionally collect income tax in the manner it now does.

All of the government's constitutional powers are contained in Article 1 Section 8 of the Constitution.

OK boys and girls, I have come to the end of this side of the tape so you can turn the tape over and we'll listen to side B

(Begin Side B)

Now, all the government's constitutional powers are contained in Article 1 Section 8 of the Constitution. There are 18 clauses in that section, giving congress such powers as the right to borrow money. Incidentally, although the Constitution gives congress the right to borrow money, you won't find any provision authorizing the government to lend money, which means that all student loan programs, FHA financing, small business loans, giving money to the World Bank; they're all illegal, because NOWHERE in the United States Constitution is the federal government given the authority to lend money,

But anyway, Article 1 Section 8, gives the government the right to establish post offices, to provide punishment for counterfeiting, to declare war, etc.

Now see if you can find ANYPLACE in Article 1 where congress was given the power to compel Americans to report to the government each year, whether they are working or not, how much they earn when they do work, how much money they have in the bank, whether they own stocks, whether they are married or not, how many children they have, who their doctor is, whether they give to charity or not, whether they receive alimony or pay alimony; can you find any such authority in the Constitution conferred on the federal government? The answer is "No!"

Well, let's forget the income tax for a moment. Suppose the government said, "OK, we want all Americans to fill out this sheet in which you tell us, again, whether you're married or not, whether you're working or not, how much money you have in the bank, whether you sell stock at a profit, at a loss; it has nothing to do with the income tax. Let's just assume that they just wanted the information and they wanted you to supply it to them under penalty of perjury. Is there anyplace in the Constitution where the government is authorized to do that?"

STUDENT: No, no.

SCHIFF: Well, then, how can they make you put it on the 1040? You know, the funny thing is this, when the census, I think it was the 1990 Census, when the last census came out a couple of years ago, the census forms and the 1040 forms came out at the same time. And there was a huge cry, an outcry, the people were complaining that the census form

was intrusive, it violated their privacy, it asked all these intrusive questions. They were discussing this on radio talk shows, newspaper articles. Now at the same time that the public got these census forms, they got their 1040's and of course the 1040 is far more intrusive and they want you to give the information under penalty of perjury, in far more detail. And nobody raised a peep about the information the government was asking you to put on the 1040 and they raised a hue and cry about the census forms. So apparently when it comes to income tax, the average American is filled with some kind of drug. He's walking around in a fog when it comes to income tax.

For example, when you drive into a gasoline station and fill up a tank of gasoline, you pay gasoline taxes, don't you?

STUDENT: Of course.

SCHIFF: Do you compute the tax? When you pay for the gasoline, do you swear under penalty of perjury that you paid the right amount of taxes? Do you give the government the right to prosecute you if you didn't pay the right amount of taxes? No? But you realize that when you fill out a tax return, the government wants you to compute the tax, pursuant to a law that nobody understands, and then sign the document under penalty of perjury, that it's true and correct and complete and conforms to a law ... did you ever read the Internal Revenue Code? ... Never! So how could you swear, under penalty of perjury, that your tax return conforms to a law that you never read, and that you wouldn't understand even if you DID read it?

Now how about the city? You pay property taxes, right? Does the city tell you that they want you to figure out their property taxes so that you have to hire a number of appraisers at your own expense to help you do it? NO! They send you a bill, which you can either pay or contest. They don't ask you to swear under penalty of perjury to ANYTHING! You just pay your property tax bill or you contest it. Now did you know that the income tax laws are based on the same principle? This is covered in Chapter 4 of "The Federal Mafia." Income taxes have to be assessed just like property taxes.

## SELF-ASSESSMENT & VOLUNTARY COMPLIANCE

Now the first chapter of "The Federal Mafia" explains what is known as the self-assessment nature of the income tax. For instance, it states over and over again, government documents, "Our tax system is based on self-assessment and voluntary compliance." And although the American Public is told over and over again in government documents that the

income tax is based on self-assessment, they still don't understand what that means. It means, obviously, that you assess yourself! But suppose you don't want to assess yourself? Well, obviously, if it's based on self-assessment and you don't want to assess yourself, you can't owe the tax, because the government is not authorized in the law to assess you unless you decide what you owe, yourself. I'll explain that in greater detail pretty soon.

But document after government document admit that income tax is based on self-assessment and voluntary compliance. Here, in the mission statement, shown on page 13 of "The Federal Mafia," it says, "The mission of the IRS is to encourage the highest possible degree of voluntary compliance." Now what does 'voluntary compliance' mean? It means that compliance is voluntary. What does the word 'voluntary' mean? It means something done of your own free will, without compulsion. If the income tax WASN'T voluntary, why would they say it? Why would they even use the word 'voluntary'?

In the IRS's Annual Report, we reproduced on page of "The Federal Mafia," the IRS's own commissioner states over and over again that individuals voluntarily report. They use the word 'voluntary' over and over again. In the news stories that come with the documents in the "Secrets" tape, and in the 5-hour cassette seminar, you saw where the former commissioner, Margaret Milner Richardson, when she resigned, is quoted as saying "I worry that the continued bashing of the IRS will interfere with the voluntary payment of the tax and with our self-assessment system." And Senator Kerry (Cary?) in the article from the USA Today says that Americans pay their taxes voluntarily. Don't you think that Kerry and Margaret Milner Richardson know what the word 'voluntary' means? Would they say the income tax is voluntary if it weren't voluntary?

Suppose the Commissioner of the Motor Vehicles said that our motor vehicle laws are based on voluntary compliance. When you get a driver's license, there is a manual you have to study for the written portion of the driver's test. Suppose the front of the manual said that "these motor vehicle laws are based on voluntary compliance." What would that tell you? It would tell you that even though you're supposed to do 60 miles an hour, that's based on voluntary compliance. If you want to do 80, it's up to you. We suggest you do 60, but it's based on voluntary compliance.

Suppose that when Moses came down from Mt. Sinai with The Ten Commandments, he thought that they were based on voluntary compliance. The Bible would have referred to those stone tablets as The Ten Suggestions.

The strongest support for this is found in the "Privacy Act notice contained in the 1040 booklet as shown on page 32 of "The Federal Mafia." It tells you that you only have to file for taxes that you are **LIABLE** for. So if you go to the index of the Code, under the caption 'liable for tax' ('liability') it lists a number of federal taxes but an income tax is not among them. Sometimes people will ask, "Where in the law does it say that the payment of the income tax is voluntary?" Well, it doesn't say that in the law. **IT IS THE ABSENCE OF MANDATORY PROVISIONS IN THE LAW THAT MAKES THE PAYMENT OF INCOME TAX VOLUNTARY,** which is why all those government documents refer to the voluntary compliance nature of the income tax. As you can see in the index of the Code, there is no reference to penalty provisions with respect to income taxes as there are for all the other federal taxes. So all those criminal prosecutions with respect to income taxes were obviously illegal, which really reveals the corruption and criminality of our courts and the Justice Department lawyers who have prosecuted and sent people to jail for crimes that don't exist.

The government says it's voluntary. Senator Kerry, as shown in those news stories, says it's voluntary. 'If people don't perceive the income tax system to be fair, they will not voluntarily comply.' Why would he say that the income tax is voluntary if it were not?

Now here is how you would use the Code if you manufactured alcohol products and wanted to be sure you complied with the law. You would go to the index of the Code and look up 'alcohol taxes.' And it would show you which statutes relate to the liability, payment, and penalties, in connection with alcoholic products. So if you manufactured alcohol, you sold alcohol products, you would have no trouble finding out what law makes you liable for alcohol taxes, what law requires you to pay alcohol taxes, and what penalties you might incur if you fail to pay those taxes. The same holds true for tobacco taxes. You look under the tobacco section, you'll see entries for liability for and penalties.

However you are concerned with income taxes. So let's take a look at the index for 'income taxes.' You won't find any entries for payment, liability or penalties in the income tax section, which is why of course, I sell the Internal Revenue Code which is the quickest and easiest way to prove for yourself that there is no law that requires you to file or pay income taxes. You won't find any provision in the Internal Revenue Code that requires you to keep books and records. As a matter of fact, in the index you can actually go to a section entitled "Books and Records." And you will see all kinds of references to various kinds of taxes, but the income tax is not shown in that section of the index where it lists taxes for which you have to keep books and records.

You look at the people who have so many books and records in their garage that they don't even have room for their automobile. Yet NOWHERE in the Internal Revenue Code is there any provision for keeping books and records in connection with income tax, which, of course, is additional proof that there is no law requiring you to pay income taxes, because if there WERE a law requiring you to pay income taxes there would be a law requiring you to keep books and records because they would have you keep books and records to prove that you computed the income tax correctly.

Now incidentally, we're going to go to page 33 of "The Federal Mafia," this has to do with turning over books and records and I want you to read from the IRS's own manual where it says "An individual may" - read what it says right here

"An individual taxpayer may refuse to exhibit his or her books and records for examination, on the grounds that compelling him or her to do so might violate his or her right against self-incrimination."

So it says right there that you can't be required to turn over your books and records to the IRS, isn't that correct?

STUDENT: That's what I just read, yes.

SCHIFF: Now if the IRS admits that you can't be required to turn over books and records, can you be required to turn over a SUMMARY of your books and records?

STUDENT: Evidently not.

SCHIFF: Well, isn't a 1040 merely a summary of your underlying books and records? So if you can't be required to turn over your books and records, how can you be required to turn over a summary?

But you don't use this, you don't use this if you filed a tax return. You can use this as a method of not turning over your books and records because you see if you FILE a tax return, already, and you showed deductions and gross income, if you claim your constitutional rights and refuse to turn over books and records, they will disallow all your deductions and hit you with a higher tax. Once you waive your constitutional rights and gave the government information on the 1040, you are forced to waive your constitutional rights again in order to justify your deductions.

Now we have a different way to avoid turning over your books and records. And that is explained in great detail in tape 4 of Series 7. The point want to make is - if the government admits that you can't be

required to turn over books and records, because it would violate the Fifth Amendment, it obviously would be a violation of the Fifth to require you to give information on the 1040. OK

But getting back to the issue of voluntary compliance: When we point this out to tax lawyers, or the IRS or other tax practitioners, we say, "Wait a minute, the income tax is based on voluntary compliance, so why do we have to volunteer?" What these people usually say is "Well, 'voluntary compliance' isn't used in that sense. It's used in the sense that the government doesn't send somebody down and force you to file a tax return. You do that voluntarily." And that's how they explain the meaning of 'voluntary compliance' of course, but that's nonsense! That would mean that ALL the laws, even murder, and drug laws, are based on voluntary compliance. Anybody is free to take a gun and walk outside and shoot somebody. However do the police claim that statutes outlawing murder are based on voluntary compliance?

Suppose the Attorney General officially announce that America's drug laws are based on voluntary compliance. Wouldn't that mean that the public was free to sell drugs or not as they chose? You know, as I said before, suppose that traffic laws were based on voluntary compliance. This would mean that everybody is free to obey traffic laws or not as they wanted to. So the joke is on... Sometimes when somebody is on the radio - I heard a tax lawyer on the radio say that income tax was based on voluntary compliance. I was able to get through. So I said, (I didn't let him know who I was, I didn't mention my name. I indicated that I wasn't sure about the laws, this is how I was able to get through the screener) I said I didn't understand, I just saw a reference to the Commissioner of Internal Revenue that income taxes are based on voluntary compliance. I said if it's based on voluntary compliance then why do we have to volunteer? And of course he gave me that explanation, that it's voluntary only in the sense that they don't send anybody down to force me to file. So I said, 'So what you're saying is that income tax is not actually based on voluntary compliance, they're really based on compulsory compliance. Is that what you're saying?' Now I saw there was a little hesitation in his voice before he answered me, because he never saw any reference to income tax being based on compulsory compliance. They're always referred to as being based on voluntary compliance. But based on what he said to me, when I said 'so that what you're saying is that income tax is based on compulsory compliance' he had to say, "Well, yes" that they're really based on compulsory compliance. So then I said, "OH! So when the government says that income taxes are based on VOLUNTARY compliance, they REALLY mean they're based on COMPULSORY compliance. Is that what you're saying?"

Well, now he realized that he was in deep doo-doo and he didn't know what

to say and now the talk show host was trying to get me off the air because the guy was sounding like an idiot. And I said, "Well, if it's based on compulsory compliance, why don't they just SAY it's based on compulsory compliance? Why do they even USE the term 'voluntary' if it really means 'compulsory'? And that's what tax lawyers do of course.

Now, again, any time you meet with somebody from the IRS who claims that you owe more in income taxes than you say you owe, you say, are you saying that 'income' in the constitutional sense or 'income' in the ordinary sense? These House and Senate Reports are proof that 'income' is used in the constitutional sense. I'm giving you these reports and this is tantamount to the actual law, because 'income' is not defined in the Internal Revenue Code.

## LIABILITY

Now let me again stress the importance of the word 'liability.' Who told you that you have to pay income tax? Who told you that you had to pay income tax?

STUDENT: I guess, nobody.

SCHIFF: Just because your father paid income tax. Yes yes. Because your father did. Did the government ever tell you that you had to file and pay an income tax? Did your congressman ever tell you you had to pay income tax?

You know, by law, the government is supposed to tell you whether you have to file and pay income taxes and it's supposed to do that right in the Privacy and Paperwork Reduction Act which is contained in the 1040 booklet. It is listed in the index of the 2003 1040 Booklet under the heading of 'Disclosure Privacy Act and it's shown on page 77 of the 1040 booklet.

Now the government knows that nobody reads the Privacy Act Notice. In the hundreds of seminars I have given over the years, I have never met ONE person who had read the Privacy Act Notice yet the Notice is the ONLY official portion of the 1040 booklet. It is actually designed to mislead the public. Notice that the Notice says that the IRS must tell you their legal right to ask for the information. This is simply not true. There is nothing in the law that says that they have to tell you their legal right to ask for information. First of all, the government has a legal right to ask you for anything it wants. The question is, 'Are you legally obligated to supply them with the answer?' And the answer is "No!"

Can I ask you anything I want? Even the most personal and intimate of

questions? Do I have a legal right to ask you? ...Sure! But you're under no legal obligation to give me any answers. So here the government is seeking to mislead and confuse the public by implying that since they have the legal right to ask for information, the public is obligated to supply the information asked for.

Then it says 'we must also tell you what can happen to you if we do not receive it and whether your response is voluntary required to obtain a benefit or mandatory under the law' That's a bunch of doubletalk. The law says they merely have to tell you whether giving the information is voluntary or mandatory. But they can't say it's mandatory because it's not and they don't want to come out and say it's voluntary. So notice what they say. The Notice says that it's 'required if you want to obtain a benefit.' Well, what benefit? So they're telling you right there, you're only required to file in order to obtain a benefit. Well, I don't want any benefit. I don't want any benefit. Well if I don't want the benefit, they're telling me, whatever that is, I'm not sure what it is, but if I don't want the benefit, I'm not required to file.

Now the 1040 is further designed to mislead you by using such terms as 'should' and 'must' and 'may' while avoiding the term 'required' as explained in Chapter 2 of "The Federal Mafia." Now in both my 'Secrets' video and the 5 1/2 hour cassette seminar, I compare the 1040 Privacy Act Notice, which is used for bookmakers in connection with the federal wagering tax with the 1040 Privacy Act Notice as it appears in the 1040 booklet. You should review that material since I'm not going to spend any time on it here. You can also note that I also make a comparison of both Notices in the Memorandum of Law I filed in connection with my Jurisdictional Claim in connection with my indictment. And it's in my Jurisdictional Claim, you can read it because it's now posted on my website.

## SUMMARIZING

Summarizing, you should now know the following material cold. Cold!

The difference between 'income' in the constitutional sense and 'income' in the ordinary sense. The fact that there are no laws making anyone liable for income taxes or requiring anyone to pay or keep records in connection with income taxes and how you can easily prove it by using the Internal Revenue Code itself. And you should know how you can shoot down any claim that 'voluntary compliance' means anything but compliance with income tax laws is strictly voluntary. OK that covers most of the material that I covered in that discussion with those two people who came here wanting a consultation.

But now I'm going to cover something that is also basic and that I cover in Schiff Report 5-4. But I want to nail it down here because I have talked to people who have Schiff Report 5-4 and they still don't have the concept down as clearly and as solidly and as sharply as they should. Because 5-4 deals with the very heart of the whole income tax scam. And you should know it cold. And it should get you out of all your income tax problems. Now in saying that, I again want to remind you that in dealing with the federal government, you are dealing with the federal mafia and when you are dealing with the federal government, you are dealing with outright criminals. Now criminals don't obey the law. I can tell you what the law is, but I can't make the government obey it. All I can do is explain the law to you as I understand it and provide you with procedures that I think will enable you to avoid paying a tax that no law requires you to pay and which the Constitution BARS the government from collecting in the manner it now does. However, you are advised to read the law as shown in the Internal Revenue Code and in the court decisions I refer to and make your OWN determination, or run my conclusions by legal professionals and get THEIR opinion. If you decide to use this material, you do so at your own risk. I believe that all the information I supply you is legally correct but apparently the government doesn't think so since it sent me to jail twice in the past based upon my income tax beliefs and has now indicted me on a number of counts which, if I am found guilty, at my age, would result in a life sentence.

But I'll point out to you that when I was prosecuted in the past, the government used as a basis for those prosecutions the fact that I had not filed. However for the last 14 years, I have filed zero returns and up until April 14, they have left me alone. And I think I'm going to beat these latest charges. And with your support I should be able to do it.

So if you use this material, it's not because you're relying on what I say, but you are using what I say to do your own independent research and coming up with your own independent conclusions based upon that research.

Now the entire basis of the income tax is actually contained in three lines as shown on page 61 of "The Federal Mafia." It is subsection A (1) of Code Section 6201 which deals with taxes shown on returns and taxes payable by stamp, which is covered in paragraph 2a. Notice that Section A (1) say

**"THE SECRETARY SHALL ASSESS ALL TAXES DETERMINED BY THE TAXPAYER OR BY THE SECRETARY AS TO WHICH RETURNS OR LISTS ARE MADE UNDER THIS TITLE"**

Now THESE THREE LINES tell the whole story about the federal income tax and how the government legally collects it. These three lines say three specific things about the federal income tax that few Americans know about.

The first thing it says is "THE SECRETARY SHALL ASSESS ALL TAXES." How many Americans know that all federal taxes have to be assessed, just like property taxes. Now can you owe an income tax before it's assessed? If so, what purpose would the assessment serve? So when people send in their tax returns on April 15, has the income tax for that year been assessed? No! It will not be assessed until the government takes what you say you owe and then enters that amount on the assessment rolls of the government. But if the income tax has not been assessed on April 15 when you send in your tax return, why would you send in any money with your returns since if you hadn't been assessed you don't owe them any money. So the first thing we know is that before you can owe an income tax, there has to be an assessment.

Now the next part of that phrase is very significant. Because it says the taxes to be assessed can be determined by the taxpayer or the Secretary. So the law allows you to determine the amount of taxes you owe.