

The “Daily Plan-It”™

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Suspicious Tax Shelters Dupe the Wealthy

It's a common assumption that if you're savvy enough to become a billionaire, you're savvy enough to have good people handle your money. Time and time again, however, there are stories of wealthy people being lured unknowingly into fraudulent schemes in order to avoid paying taxes.

Riches and roguery in Tampa

One of the wealthiest men in Tampa is Howard Jenkins, who gained his riches through the Publix Supermarket chain. As a man with considerable assets, he always kept his eyes open for ways to reduce his tax bite.

In 1998, he received a cold call from life insurance agent, Gary Kornman, who convinced him to meet to discuss estate planning strategies. Even though Jenkins knew nothing about Mr. Kornman, he was impressed with his ideas. Clearly he was the ultimate salesman.

Gimme shelter

According to Jenkins, “Kornman boasted that he was a master at finding legitimate loopholes in the Internal Revenue Code” in the form of tax shelters. This one was too juicy to refuse. The strategy would allow Jenkins to sell \$300 million in Publix stock, and ‘legally’ avoid paying any capital gains taxes on the profits. But if it sounds too good to be true...

Knock, knock, it's the IRS

Allegedly, the type of shelter that Kornman was selling was similar to the “Son of Boss” shelters, which were popular in the late 1990s and 2000. In this scheme, taxpayers basically create a paper loss, which offsets the gain from a stock sale. The IRS took action against that particular scheme in 2004, and gave taxpayers an opportunity to settle before any legal action was taken against them. Ultimately, 85 percent of taxpayers chose to settle.

Fighting back

Luckily for Jenkins, he never claimed the tax shelter on his tax return, so he never actually did anything illegal. He's suing Kornman for return of a \$15 million fee that he paid him for his advice.

Lessons learned

If you're investigating tax shelters, be careful who you deal with. Always have a trusted Certified Public Accountant review the documents to ensure their legality with the tax laws. If you're enticed by a cold caller, take a little time to check the person's credibility before you warm up to him. Understand the details of the tax shelter. (Jenkins claimed that the deal was so complex, he didn't understand it all.)

If it could happen to a billionaire with a team of advisors managing his money, it could happen to anybody—including you and your clients.

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