

TESTIMONY OF DALE BROWN

Dear Members of the Senate Finance Committee:

My name is Dale F. Brown. I am 47 years of age and reside in Incline Village, Nevada. Since leaving the U.S. Air Force in 1986, where I served as a B-52G and FB-111A navigator-bombardier for eight years, I have published twenty-two military aviation novels, under my own name and as co-author, seventeen of which are New York Times best-sellers.

In April of 2004 I pled guilty to one count of violating 26 USC 7206 (1), filing a false tax return, in 1998. I listed deductions on my tax return knowing they were not real, and I signed the tax return knowing there were false entries.

With the Chairman's permission, I would first like to tell my family, friends, and fellow Americans that I take full and complete responsibility for my actions; I am truly and sincerely sorry for what I've done; and I promise it will never happen again. I made those false entries because I was greedy, vain, selfish, and took bad advice from financial professionals I trusted. We are all human and humans make mistakes, but I **also** believe that we must all pay for our mistakes as well, and I am prepared to accept any punishment ordered by the Court.

I came to claim those false tax deductions because I participated in an offshore money transfer scheme in which I paid others to form offshore corporations, then transferred money to these entities, claimed those transfers as business expenses, then listed those expenses as legitimate deductions on my tax returns. The purpose of these transfers was to create a pool of money that I could access via loans to myself.

I was introduced to this scheme by my long-time tax preparer, bookkeeper, and financial advisers, Roger and Kim Steele, of Steele Accountancy Inc. of Carson City Nevada. I had been working with the Steeles since 1992 when I was recommended to them to do corporate tax returns after forming a Nevada corporation to produce a television series. I was told that Roger Steele was a CPA and was well-versed in how to take maximum advantage of Nevada corporate and federal tax laws.

Following the Steele's advice, I had formed numerous domestic corporations in the states of Nevada and Wyoming for the purpose of "income splitting," or expensing money between various entities for the purpose of reducing the overall tax liability by taking advantage of lower tax rates and **taking** multiple deductions for business expenses. By 1997 we were transferring money between three Nevada and one Wyoming corporations. Depending on the

amount of money necessary to "expense" and the tax year-end of the particular corporation, the Steeles would direct me to transfer funds between entities. The Steeles prepared all of the corporate and my personal tax returns.

The process seemed simple and I was satisfied with the results and had no reason to believe any of this was improper. I understood and believed that I was not evading taxes but merely deferring the tax liability until some time in the future--the taxes would eventually have to be paid, but the time value of money suggested that I would benefit the longer I delayed paying the taxes. All of the corporations paid taxes and all filed tax returns. I consulted with the Steeles on a regular basis, usually monthly but more often at the end of the year when funds had to be transferred. The Steeles were treasurers of all of the corporate entities and had access to all the corporations' records and bank accounts.

In 1998 I expressed my desire to Roger Steele to pay off my home mortgage. He advised me that it made no tax sense to do so because of the home mortgage deduction and told me of a better way to proceed using a program run by Terry Neal of Portland, Oregon. Mr. Steele provided me with Mr. Neal's books and audiotapes and assured me that he and his program were legitimate and above-board, so in the summer of 1998 I flew Mr. Steele and myself to Portland, Oregon to meet with Mr. Neal.

After meeting and speaking with Mr. Neal, I agreed to pay to form two offshore corporations, Original Concepts Ltd. (OC) and Atlantic Smythe Inc. (AS), both based in Nevis, West Indies. The plan proposed by Mr. Neal and accepted by myself and Mr. Steele was to expense my corporate funds from the U.S. to OC, usually by wire transfer; transfer funds by wire from OC to AS; then borrow the money from AS in the form of a mortgage to which I would pay principal and interest payments like a conventional mortgage. I would then deduct the transfers as business expenses on my tax returns, and deduct the interest paid on the mortgage on my personal tax return. I paid to form the two corporations, paid an annual maintenance fee for each entity, paid wire fees for each transfer, paid the Steeles to prepare the tax returns, paid an attorney to prepare deeds of trust for filing for the home mortgage, and paid fees to a mortgage collection service to collect and disburse the mortgage payments offshore.

At the time this scheme made complete sense. To me, it was simply a more sophisticated extension of the income splitting routines we had already been doing for many years. I understood and believed that the taxes would eventually have to be paid on all the funds I sent offshore, but they would be paid sometime in the future when I brought the funds back into the U.S.

outside of a mortgage or other loan. I never believed that I was evading taxes. As before, the Steeles oversaw and directed when and how much money should be "expensed" offshore depending on what numbers they needed for the tax returns; as before, they prepared all of my corporate and personal tax returns.

It was explained to me by Mr. Neal and backed up by Mr. Steele that using anonymous offshore corporations was more private, secure, and free of regulatory or government examination versus domestic corporations. No tax returns were due on the foreign entities. My name was not on any bank or corporate ownership records, which meant I did not own or control any foreign bank accounts and was therefore not required to report anything on my tax returns.

I was instructed, and took great care, to be sure that I serviced each mortgage and loan I made with AS. Although I was well aware that nothing would happen to me if I failed to pay (the mortgage collection agency would charge a small late fee), I was told in no uncertain terms that it was vital to pay each loan regularly and promptly in order to maintain the appearance of a conventional loan.

This program continued from 1998 through most of 2002. Roger Steele had personal problems and left the accounting firm in 2000, but his (now ex) wife Kim continued doing all of the books and tax returns and advising me on a wide range of financial matters, including the offshore scheme. I terminated my relationship with Kim Steele and stopped making payments offshore when I learned I was the target of a criminal investigation in December 2002.

Upon the advice of legal counsel and my wife Diane, I decided immediately to cooperate with the government. In the winter of 2003 I met with the Assistant U.S. Attorney from Portland and the IRS and answered their questions on my involvement in the offshore money scheme. In the spring of 2003 I signed a plea agreement with the government and testified before a federal grand jury that indicted Terry Neal. By July 2003 I had paid all of the taxes owed on all of the money I had transferred offshore, plus paid all interest and penalties assessed by the IRS. Also in 2003 I supplied information to the IRS to assist them in their investigation of the Steeles, and in the spring of 2004 met with the IRS to answer more questions about the Steeles. I have also supplied information to the government on other matters relating to offshore banking schemes.

Along with all of the above, I have retained a new CPA firm to handle all of my business and personal financial matters. The new firm has wound up and dissolved all of the questionable schemes and entities established by the

Steeles over the past several years, and I consult with them regularly on all matters relating to money, finances, investments, and business.

This incident has left me and my family in a serious financial situation and may have ruined my writing career. I liquidated my savings and pension accounts and got a second mortgage on my home to pay the taxes, interest, and penalties due. My latest publishing contract has been canceled; I may be forced to pay back advance money I received on two unpublished books that the publisher now says he will not publish; and the publisher is currently retaining money due me from a previous contract until the matter is settled.

The scheme did not save me one cent—in fact, I paid more in interest and penalties than I did in taxes owed, a total of almost one million dollars, not to mention almost two years of attorneys' fees, potential loss of income, adverse publicity, enormous stress on myself and my family, and all of the penalties associated with being a convicted felon. I have humiliated myself in front of my family, friends, and neighbors, and lost an incalculable amount of business and personal trust and goodwill that may never be recoverable.

I am currently awaiting sentencing in federal court in Portland.

Here are my lessons learned from this nightmarish debacle:

I unfortunately re-learned the old adage "if it sounds too good to be true, it probably is." I knew that the expenses were not real, but I went ahead and made them anyway. I made myself believe this scheme was legitimate because I was greedy, because I didn't think I'd get caught and I didn't think I'd go to prison if I did get caught, and because I never thought about the consequences to my family and to my personal and business life if I did get caught.

I learned that I must deal with the real world, not just the imaginary worlds that I create for my novels. I learned I must pay closer attention to all of my affairs, gather information from more than one or two sources, and not be swayed or make decisions based on information from the first person I meet, or someone who can shmooze or flatter me the best. I should have interviewed more than one firm when choosing a financial adviser; I should have asked more questions from neutral third parties before agreeing to participate in the offshore scheme.

I have also learned to trust others in my business decisions and not think I know it all. My wife Diane is a retired Sacramento police lieutenant and is a keen judge of character. The Steeles did not pass her "smell test" early on. But I had worked with the Steeles for many years before I knew Diane, and I

chose to ignore her warnings. I have since learned to trust others with all decision-making, and to especially seek advice from those who have more than just a financial relationship with me.

With the Chairman's indulgence, the following is my primary recommendation to the Committee regarding my involvement in the offshore scheme. I do not make this recommendation as a way to assign blame or make excuses, but as a possible avenue to resolve similar issues more efficiently:

As I mentioned above, I should have sought advice from neutral, licensed, disinterested third party professionals before retaining the unscrupulous financial advisers and signing up for this bogus scheme. But if I had known at any time that Terry Neal or this offshore scheme was under investigation by the government, I would have terminated my involvement on the spot.

Obviously I would not have received such a warning from my own financial advisers, since they were involved in the scheme all the way and were probably receiving some sort of commission from Terry Neal the whole time. I suspect that would be the case in most situations. I now understand from the Assistant U.S. Attorney as well as my attorney that the IRS had been examining Terry Neal since 1998, the year I subscribed to the offshore scheme!

I subscribed to this scheme because of the reasons already mentioned: greed, vanity, selfishness, and taking bad advice from bad persons. But I do not believe I'm a bad guy: I think I'm a good and law-abiding guy who listened to a bogus sales pitch from unscrupulous persons and was shmoozed, flattered, and conned into signing up for something I knew was not right. I heard only one message, and it was the wrong one.

If the objective of the IRS and Justice Department's investigations are to put guys like me in prison, then they are doing what they need to do: keep the investigations secret and deter others by widely publicizing those that are successfully prosecuted or have pled guilty to an offence.

But if the government wants to efficiently recover lost revenue and provide the maximum level of deterrence, it seems to me that they should widely publicize their investigations early on using media outlets that guys like me watch or listen to every day. If I had been watching "America's Most Wanted," "The O'Reilly Factor," MSNBC, or "Larry King Live" and heard that the IRS had started an investigation on a program even remotely resembling the one I was involved with, I'd be on the phone instantly to a lawyer and another accountant, wanting to get out FAST.

I believe that if the government had a regular TV or radio show or a segment in "Parade" magazine (the Sunday paper insert) listing its current investigations, guys like me who think they're getting away with it will turn themselves in or take steps to undo whatever they're doing. The government may offer an amnesty program, but I don't think that would be necessary for most offenders--just the HINT that I might be under the gun would cause me to jump for the phone as soon as I read or heard about it.

The only downside to this idea is that it might cause the organizers of the scheme to close up shop and disappear once the word got out that they were being investigated, so the "big fish" might get away and the efforts and resources of the investigators up to that point might be considered wasted. But it's the ultimate objective that needs to be addressed: if the government is seeking maximum revenue, maximum compliance, and maximum deterrence from normally honest and law-abiding guys like me, they should widely publicize their investigations and do everything possible to compel offenders to turn themselves in. As in the U.S. Air Force Strategic Air Command nuclear war fighting game that I was involved in for eight years, deterrence only works if the other side knows what nuclear weapons you have and you make them believe as clearly as possible that you will use them.

I would like to conclude by thanking the Committee for allowing me the opportunity to make this statement, and I pledge to continue doing everything I can to atone for the wrongs I have done and to earn back the faith and trust of my family, friends, and fellow citizens.

Respectfully submitted,

Dale F. Brown
Incline Village, NV
25 June 2004