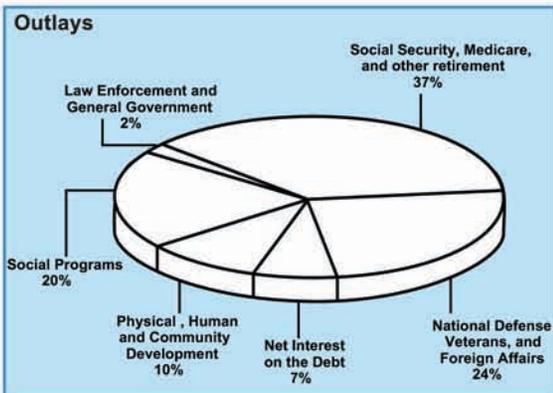
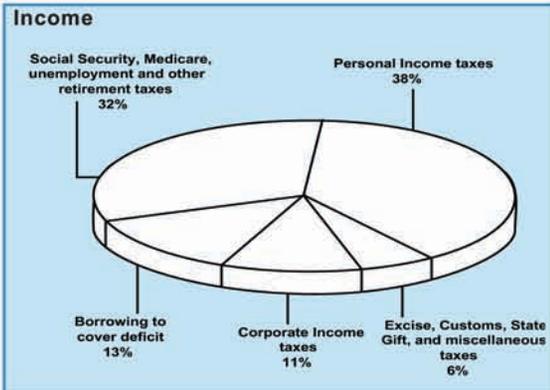


Taxes Benefit Everyone

How are your tax dollars used to benefit the citizens of the United States? Which of these services have you or your family used lately or will use in the future?

Major Categories of Federal Income and Outlays for Fiscal Year 2005

Income and Outlays: These pie charts show the relative sizes of the major categories of federal income and outlays for fiscal year 2005.



What does the IRS do to address willful noncompliance with U.S. tax laws?

1. Encourage taxpayers to self-correct their returns and comply with their tax obligations.
2. Vigorously apply both civil and criminal sanctions, including prosecution and prison sentences, against those who persist in violating the tax laws.

Report individuals or companies not complying with the tax laws to the IRS. For instructions, visit IRS.gov. Under "I need to..." select "Call or Contact the IRS." Then select "How Do You Report Suspected Tax Fraud Activity?"



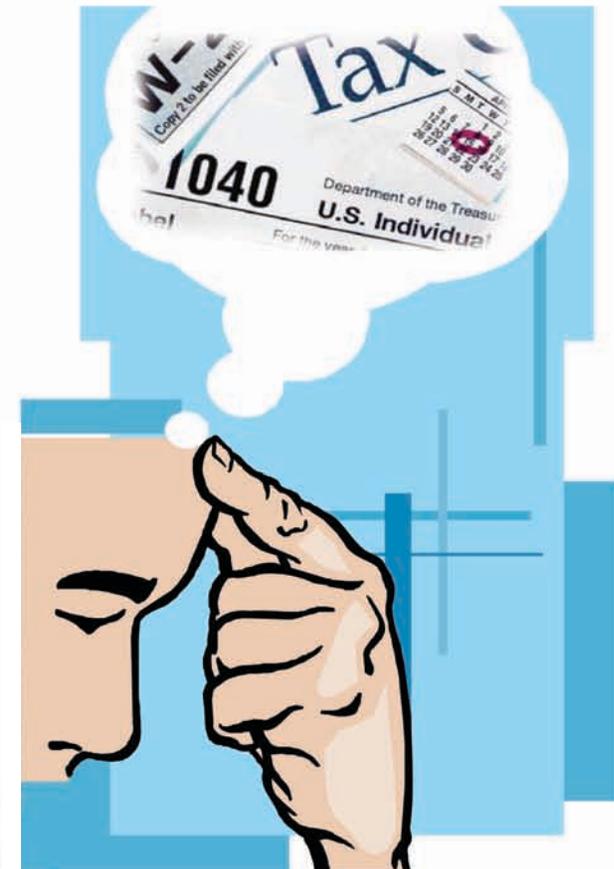
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Why Do I Have to Pay Taxes?



Department of the Treasury

Know the Law

There have always been individuals who argue taxes are illegal. They use false, misleading, or unorthodox tax advice to gain followers. The courts have repeatedly rejected their arguments as frivolous and routinely impose penalties for raising such frivolous arguments. Make sure you "**Know the Law**":

The United States Constitution, Article 1, Section 8, Clause 1, states, "The Congress shall have the Power to lay and collect Taxes, Duties, Imposts and Excises to pay the Debts and provide for the common Defense and general Welfare of the United States."

The Sixteenth Amendment to the Constitution, ratified on February 3, 1913, states, "The 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."

Congress used the power granted by the Constitution and Sixteenth Amendment, and made laws requiring all individuals to pay tax.

Congress has delegated to the IRS the responsibility of administering the tax laws- known as the Internal Revenue Code (the Code) and found in Title 26 of the United States Code. Congress enacts these tax laws, and the IRS enforces them.

Sources of taxable income are identified in the Code under Section 61, Gross Income Defined. The list of sources under this section is not all inclusive.

Section 6702 of the Code authorizes the IRS to impose a **\$5000** penalty against persons who submit frivolous tax returns or other documents.

Don't Fall for These Frivolous Arguments

While taxpayers have the right to contest their tax liabilities in the courts, taxpayers do not have the right to violate and disobey tax laws. Unscrupulous individuals and promoters advocating willful noncompliance with the tax laws have used a variety of false or misleading arguments for not filing and paying taxes. Here are some of the most common arguments:

Constitutional Myths: Filing a Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Filing also violates the Thirteenth Amendment right against involuntary servitude and First Amendment rights based on moral or religious beliefs.

Truth: The courts have consistently held that disclosure of the type of routine financial information required on a tax return does not incriminate an individual or violate the right to privacy. Also, courts have consistently found that the First and Thirteenth Amendments do not provide rights to refuse to comply with federal tax laws.

Internal Revenue Code Myths: The filing and paying of tax is voluntary, or the Code doesn't apply to me because I am neither a government employee nor a resident of a sovereign state.

Truth: The term voluntary compliance means that each of us is responsible for filing a tax return when required and for determining and paying the correct amount of tax. The tax law is found in Title 26 of the United States Code. Section 6012 of the Code makes clear that only individuals whose income falls below a specified level do not have to file returns. While our tax system is based on self-assessment and reporting, compliance with tax laws is mandatory. State citizenship does not negate the applicability of the Code on individuals working and residing in the United States.

Frivolous Credit Myths: African and Native Americans can claim a special tax credit as reparations for slavery and other oppressive treatment.

Truth: There is no provision in the Code that allows taxpayers to claim reparation credits. Unless specifically provided for in the Code, no deduction or credit will be allowed.

Compensation Myths: Wages, tips, and other compensation received for personal services are not income because there is no taxable gain when a person "exchanges" labor for money.

Truth: This argument has been consistently dismissed by the courts. Sources of taxable income are identified in the Code under Section 61, Gross Income Defined. Congress has determined that all income is taxable unless specifically excluded by some part of the Code. The list of sources under this section is not all inclusive.

Fictional Legal Basis Myths: Taxpayers are not required to file a federal income tax return because the instructions and regulations associated with the Form 1040 do not display an OMB control number as required by the Paperwork Reduction Act.

Truth: The courts have uniformly rejected this argument on different grounds. Some courts have simply noted that the PRA applies to the forms themselves, not to the instruction booklets, and because the Form 1040 does have a control number, there is no PRA violation.

Trusts Myths: Forming a business trust to hold your income and assets will avoid taxes. A family estate trust will allow you to reduce or eliminate your tax liability.

Truth: Establishing a trust, foreign or domestic, for the sole purpose of hiding your income and assets from taxation is illegal and will not absolve you of your tax liability.