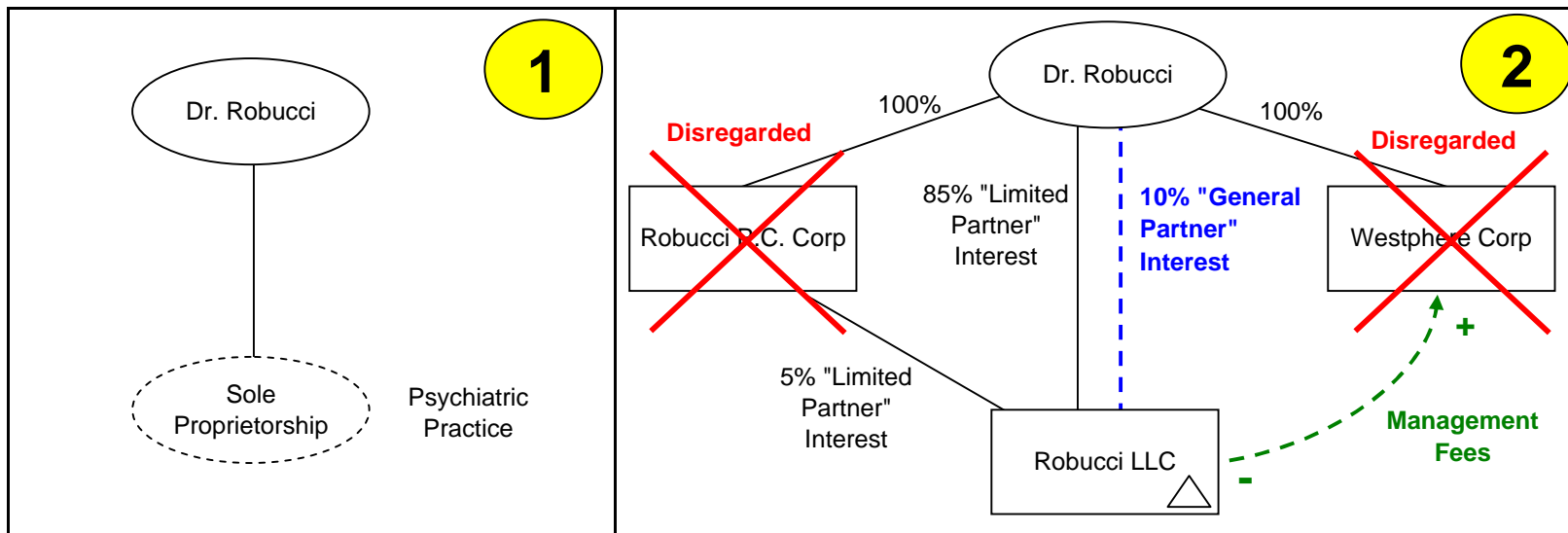


Sham Entities with No Significant Purpose or Function Other Than Tax Avoidance

Initial Structure

Revised Structure



△ Means "flow-thru" for U.S. tax purposes

The IRS argued and the Court held that (1) the corporations were created solely for the purpose of reducing Dr. Robucci's tax liability and, more specifically, to help him avoid income and self-employment taxes; (2) the taxpayer did not offer any credible explanation of the business purpose for forming the corporations; and (3) the taxpayer did not demonstrate that either corporation engaged in any business activity after it was formed. Because Robucci P.C. and Westsphere served no significant purpose or function other than tax avoidance, the court held that they should be disregarded. The dramatic reduction in Dr. Robucci's self-employment taxes, was too good to be true.

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