California Tried to Seize Millions of This Inventor’s Fortune. He Fought Back. And Won.

Gilbert Hyatt's 25-year legal battle is a story of greed, harassment, anti-semitism, and the abuse of power.

Zach Weissmueller |

- EMAIL
- SHARE
- PRINT

-

In the early 1990s, California tax authorities traveled to Las Vegas in pursuit of Gilbert Hyatt, an inventor who earned a fortune as the patent holder of the microcomputer. They staked out his home, dug through his trash, and hired a private eye to look into his background. He'd moved to Nevada in 1991, but California made a claim that the state was entitled to millions of his recent earnings.

What transpired over the next twenty-five years is a story of greed, harassment, anti-semitism, and the abuse of power. And it wasn't the first time that the California tax agency has strongarmed a former state resident. What's so unusual about Gilbert Hyatt is that he fought back—and won.

California's marginal income tax rates are the nation's highest, driving many wealthy residents to pack up and leave. Hyatt says he moved to Las Vegas because casino billionaire Sheldon Adelson, who had dreams of creating a version of Silicon Valley in Sin City, lured him there during a computer technology conference known as Comdex. No matter the reason, California didn't want to let him go.

The state is often desperate for revenue to cover its out-of-control spending. In 1993, when tax agents began auditing Hyatt, California faced a budget deficit of $3.8 billion, the largest in the nation. The Franchise Tax Board itself faced huge cuts and even possible elimination.

In 1992, Hyatt was contacted by the California Franchise Tax Board. A tax agent had read an article about the possibility of billions in royalties pouring in as electronics companies like Phillips and Sony started licensing Hyatt's technology. The agency launched an investigation.

Ity concluded that his move was a sham and that he owed them more than $13 million in taxes, fees, and interest penalties. Hyatt, who says his father taught him to "never make a deal with an extortionist," decided to fight back and appeal the decision. This was the beginning of a decades-long battle between the wealthy inventor and the largest state tax collection agency in America.

Shortly after the tax board opened the audit, an agent called Hyatt's lawyers and advised him that most people just settle because "wealthy or well-known taxpayers...do not want to risk having their personal financial information made public." Hyatt thinks the tax auditors believed him to be "paranoid" about his privacy because he was protective of the trade secrets contained in his home office. He believes the auditors exploited those privacy concerns to gain leverage.

The Franchise Tax Board hired a private eye to interview Hyatt's former California neighbors, 22 of whom later testified that he did indeed move away after selling his house. They also sent letters of demand to his friends, former colleagues, and even his rabbi—letters that divulged personal information—including his social security number—and made everyone in his social and professional networks aware that he was under investigation for tax fraud.

Two agents even road tripped to Las Vegas, staked out Hyatt's new house, rifled through his trash, and took what a whistleblower later described as a "trophy photo" of his home.

This same whistle blower testified that her colleague, an agent named Sheila Cox, vowed to "get that Jew bastard."

Hyatt ended up fighting a 25-year court battle and spending more than $10 million. The state of California spent more than $25 million in pursuit of Hyatt, according to the tax agency's spokesman.

It all came down to a hearing before the Board of Equalization in August of 2017. Although he has a professional legal team, Hyatt decided to speak for himself.

"I've waited 20 years for this [opportunity]," Hyatt told the board members before beginning his opening remarks at the 13-hour meeting in Sacramento.

The board ultimately ruled in Hyatt's favor on the primary issue of residency. The tax agency claimed that by this time, Hyatt owed roughly $55 million in taxes, fees, and interest penalties. The board ruled he owed the state $1.9 million for appearing to operate portions of his business out of California during the disputed 6 month period, but it confirmed that he was indeed a Nevada resident during this time and was not liable for state taxes on his income.

Hyatt also sued the Franchise Tax Board for fraud and harassment years ago, and a Nevada jury awarded him a $388 million judgment. That amount was later reduced to $50,000 because of a statutory cap on the amount state agencies can be held liable for their conduct.

"Somebody has got to stand up against them," says Hyatt. "As the cliché goes, the power to tax is the power to destroy."

Representatives from the Franchise Tax Board declined to participate in this documentary.

Produced by Zach Weissmueller. Additional Graphics by Brett Raney. Music by Kai Engel.