Department of Justice
Tax Division

Enforcement Results
April 2005 to April 2006

Tax Shelter Enforcement Results

- On August 11, 2005, in the Southern District of New York, **Domenick DeGiorgio**, a banker at **Bayerische Hypo and Vereinsbank (HVB)**, pleaded guilty to conspiracy and tax evasion charges relating to his role in the promotion of a tax shelter called bond linked issue premium structures ("BLIPS") that resulted in United States taxpayers claiming more than $1.3 billion in fraudulent tax losses. DeGiorgio admitted that he prepared fraudulent documents to make sham transactions appear to be legitimate to support the tax shelter scheme. DeGiorgio also admitted that he failed to report more than $900,000 in income on the individual income tax returns he filed for 1997-2000. DeGiorgio is awaiting sentencing.

- On August 26, 2005, **KPMG** entered a deferred prosecution agreement with the United States for conspiring to defraud the IRS, to commit tax evasion, and to aid and assist the preparation of false tax returns, in connection with the promotion of a tax shelters. The conspiracy involved four tax shelters which generated $10.9 billion in fraudulent losses and generated fees of $111 million for KPMG. KPMG admitted that its partners took deliberate steps to conceal the tax shelters from the IRS by fraudulently concealing the shelter losses, failing to register the tax shelters with the IRS as required by law, fraudulently concealing the losses on tax returns, and using sham attorney-client privilege claims. The agreement provides that prosecution of KPMG will be deferred until December 31, 2006, if specified conditions are met, including payment of $456 million in fines, restitution, and penalties.

- On February 14, 2006, Germany's second largest bank, **HVB**, entered a deferred prosecution agreement with the United States in connection with its role in facilitating tax shelters marketed by KPMG. The agreement allows HVB to avoid criminal prosecution if it abides by the terms of the agreement. According to the agreement, which lasts 18 months, HVB will pay nearly $30 million to the United States in fines, penalties and restitution stemming from its work on four questionable tax shelters. HVB also agrees to implement substantial compliance improvements, including: (1) agreeing not to obtain any tax services from its audit firm or professionals in that firm; (2) implementing new procedures regarding the review and approval of transactions that have potential tax benefits, the tax department's compliance with IRS opinion standards, registration and list maintenance obligations; and (3) maintaining a training and educational program regarding compliance with tax and banking laws.

- On March 27, 2006, former KPMG partner, **David Rivkin**, pleaded guilty to charges of conspiracy and tax evasion and agreed to prosecute with prosecutors in the case against the other eighteen defendants scheduled to go to trial in September 2006. Rivkin admitted that between January 1999 and May 2004, he conspired with others to prepare and execute false documents so that clients could claim false losses on their tax returns.

Tax Criminals Sentenced

- In April 2005, **Keith Anderson**, a tax scheme promoter, was sentenced to serve 20 years in prison and pay a $62 million fine. Anderson and three co-conspirators were convicted of defrauding the IRS by marketing fraudulent tax shelters through a Hoodsport, Washington-based organization they called Anderson's Ark Associates (AAA). The tax schemes caused AAA clients to wrongly claim $120 million in false income tax deductions. Anderson's co-conspirators were sentenced to prison terms ranging from 8 to 15 years.
- In April 2005, **Dorothea Daraio**, a New Jersey businesswoman, was sentenced to 41 months in prison after a jury convicted her of evading the payment of more than $200,000 in employment taxes for a security business she owned and operated.

- In April 2005, **Monty D. Hundley**, a New York hotel executive, was sentenced to serve 8 years in prison and ordered to pay $111 million in restitution (including $5.4 million in restitution to the IRS). A jury convicted Hundley, together with three other former executives of his hotel company, of conspiracy, tax evasion, failure to timely file tax returns, subscribing fraudulent tax returns, bank fraud and making fraudulent statements to banks, all in connection with a scheme to defraud a dozen creditors out of nearly $100 million. Hundley funneled tens of millions of dollars through offshore accounts in order to avoid taxation.

- In May 2005, Arkansas attorney **Bobby Keith Moser** was sentenced the 15 years in prison and ordered to pay $2.2 million in restitution stemming from his guilty plea to fraud and tax charges. Moser admitted to stealing $2 million from clients and to conspiring to impede the IRS.

- In May 2005, tax return preparer **Vanessa Faulk** was sentenced to serve 30 months in prison and ordered to pay more than $850,000 in restitution to the IRS. Faulk, the manager of an H&R Block store in South Florida, pleaded guilty to a 30-count indictment charging her with conspiracy and filing false claims for refund.

- In May 2005, **Wayne C. Bentson**, a self-proclaimed tax expert was sentenced to 4 years in prison and ordered to pay restitution to the IRS in the amount of $1.1 million for assisting his clients to not file returns and pay income tax. A federal jury convicted Bentson of conspiracy and failure to file income tax returns. Bentson, through the Bentson Group and Western Information Network, falsely advised clients that the income tax system only applied to residents of the Virgin Islands, Guam and Puerto Rico. He also falsely advised clients that they were not required to file income tax returns or pay federal taxes.

- In June 2005, **Lynne Meredith**, a well-known tax protestor associated with the organization, "We the People," was sentenced to more than 10 years in prison for promoting bogus trust arrangements that assisted taxpayers in concealing income and assets from the IRS. Over nearly a decade, Meredith and four co-defendants marketed a tax-fraud scheme that enabled the filing of thousands of fraudulent tax returns by people following the defendants' illegal advice. The defendants also personally profited by earning more than $8.5 million from the scheme that they failed to report on tax returns. The government estimated the tax loss from the scheme to be in excess of $20 million.
- In August 2005, **Royal Lamarr Hardy** was sentenced to a prison term of 13 years for promoting a tax evasion scheme that cost the United States Treasury more than $8.6 million. A federal jury convicted Hardy and four co-defendants of conspiracy and other tax offenses for promoting what they called the "Reliance Defense" from 1985 to 2002. Their promotional materials included books and binders filled with materials purporting to show a studied conclusion that the federal income tax laws were "voluntary;" that is, that the laws imposed no legal obligation to file a return or pay a tax.

- In August 2005, two former executives of **Thyssen, Inc. (Thyssen)**, a Detroit steel-processing company, and their attorney were sentenced to lengthy terms of imprisonment for orchestrating a $6.5 million kickback scheme that included tax, conspiracy and money laundering violations. **Kenneth Graham**, the former CEO of Thyssen, was sentenced to 75 months in prison and ordered to pay restitution of $8.8 million, **Kyle Dresbach**, the former Executive Vice President of Thyssen, was sentenced to 58 months in prison and ordered to pay restitution of $8.4 million, and **Jerome Jay Allen**, an attorney and CPA, was sentenced to 34 months in prison and ordered to pay restitution of $8 million.

- In September 2005, **Joseph W. Flickinger**, an Ohio businessman, was sentenced to more than 5 years in prison and ordered to pay more than $3 million in restitution for his conviction of defrauding investors and the IRS. Flickinger hosted seminars during which he falsely told clients they could work and not have income taxes withheld from their pay. He prepared 384 "zero tax returns" for clients, which resulted in a tax loss to the federal Treasury of approximately $3.4 million.

- In October 2005, Hawaii business owner **Michael H. Boulware** was sentenced to serve 5 years in prison for tax evasion. Boulware, the founder of a tobacco, coffee, water and vending machine business that generated $85 million in annual sales, was convicted of evading tax on approximately $10 million in income he diverted from his business.

- In November 2005, high-profile tax protest leader **Larken Rose** was sentenced to 15 months in prison for willfully failing to file income tax returns. A jury convicted Rose, the owner of a medical transcription business, of five counts of willfully failing to file tax returns. Rose is a leading proponent of the so-called 861 position, which incorrectly claims that wages earned by Americans working for domestic companies are not taxable. The federal courts have consistently denounced the 861 position as frivolous.

- In November 2005, **Charles W. Walker, Sr.**, a former Georgia state senator, was sentenced to 12 years in prison for his conviction of conspiracy, fraud, and tax offenses. A jury found Mr. Walker illegally profited from a charity and advertisers of his newspaper, defrauded campaign contributors, and illegally did business with the state through two public hospitals.

- In January 2006 and December 2005, **Paul D. Harris** and **Lester Retherford**, Colorado-based promoters of a $3 million offshore tax evasion scheme, were sentenced to prison for 5 and one-half years and 4 years, respectively. A jury convicted Harris and Retherford of conspiracy and aiding and assisting in the preparation of fraudulent tax returns. The defendants used sham trusts, offshore debit cards, false invoices, and false option agreements to surreptitiously move clients' money offshore, primarily to the Turks & Caicos Islands, to avoid the scrutiny of the IRS.

- In December 2005, **John J. Rizzo**, a former Arizona municipal court judge, was sentenced to 43 months in prison for promoting a tax fraud scheme at offshore seminars hosted by the Institute of Global Prosperity. At the seminars, Rizzo marketed written materials that he called the "Millennium 2000 Reliance Defense Program," which were designed to provide taxpayers a good faith reliance defense against potential criminal tax prosecutions.

- In December 2005, **Ronald Bailey**, a former manager of a nursing home in Northern Virginia, was sentenced to 51 months in prison and ordered to pay restitution of $ 1.4 million to the IRS, in connection with his conviction for tax evasion and filing false tax returns. From 1991 through 1996, Bailey failed to pay over the employment taxes for the nursing home. In addition, Bailey filed false and fraudulent tax returns for 1992 through 1995, on which he understated his income and falsely claimed that taxes had been withheld from that income, resulting in no tax due.

- In January 2006, **Jerome Harris**, a City of Houston Public Works employee, was sentenced to 57 months in prison for preparing false tax returns for clients that claimed nearly $1.3 million in fraudulent refund claims.

- In February 2006, **Max C. Lloyd**, a California-licensed CPA, was sentenced to 21 months in prison for preparing false returns for clients who used a fraudulent trust scheme that caused a tax loss of more than $150,000 to the federal Treasury.

- In March 2006, four promoters of a $22 million fraudulent offshore trust tax scheme were sentenced in Portland, Oregon to prison terms. **Terry Neal**, the lead defendant, was sentenced to five years in prison and ordered to pay a fine of $50,000 for his role in the operation of the scheme. Co-defendants **Aaron Scott Young**, and **Lee E. Morgan** were each sentenced to 18 months in prison and James A. Fontano was sentenced to 12 months and a day in prison for their respective roles in the scheme.

Parallel Civil-Criminal Resolutions

- **Irwin Schiff, Cynthia Neun (D.NV.).** Defendants promoted an abusive tax scheme – the so-called "zero income" scheme – representing to customers that they would be exempted from federal taxation. Promotional materials included Schiff's book entitled "The Federal Mafia." The government filed suit to enjoin Schiff and Neun from promoting this scheme. In June 2003, the district court permanently enjoined them. In August 2004, the Court of Appeals for the Ninth Circuit affirmed the injunction, rejecting Schiff's First Amendment challenges. Promotion of this scheme has involved over 3,000 individuals and an estimated $56 million in attempted tax evasion. The government also filed a suit to reduce Irwin Schiff's personal tax liabilities to judgment and in July 2004, the district court entered judgment for the government, finding that Schiff owed over $2 million in unpaid taxes, interest and penalties for the 1979-1985 tax years.

  In September 2004, Schiff and Neun were indicted on charges of conspiracy to defraud the IRS, evasion, failure to file return, false returns or other documents, aiding or assisting in false or fraudulent documents. In October 2005, they were convicted on all counts. On February 24, 2006, Schiff was sentenced to a total of 163 months in prison — 151 months for tax fraud and an additional 12 months for contempt of court. In addition, Schiff was ordered to pay more than $4.2 million in restitution and to serve three years of supervised release. On February 23, 2006, Neun was sentenced on to 68 months in prison and ordered to pay $1.1 million in restitution. On February 3, 2006, Lawrence Cohen, a third defendant in the case who had been convicted of aiding and assisting other taxpayers in the filing of false tax returns, was sentenced to 33 months in prison.

- **Walter "Al" Thompson, d/b/a Cencal Sales Co. (E.D. CA).** Walter "Al" Thompson failed to withhold federal taxes from employees' wages, pay employment and unemployment taxes, and file returns and W-2 wage statements. In September 2003, the court entered a preliminary injunction requiring Thompson to withhold taxes and to file returns and wage statements. In January 2005, he was convicted 13 of 14 counts of filing false returns. In April 2005, he was sentenced to 6 years in prison and fined $7,500.

- **David Stephenson (W.D.WA.).** Stephenson promoted an abusive trust scam in which customers set-up a series of trusts that allegedly made income non-taxable and converted personal expenses into deductions. In March and June of 2004, the court entered a preliminary and permanent injunction against him. Estimated harm to the federal Treasury is more than $43 million. On February 21, 2006, Stephenson was convicted of conspiring to defraud the United States and willful failure to file income tax returns in connection with his promotion of his trust tax evasion scheme.
- **Daniel and Brenda Meyers Fisher and The Structured Advantage (N.D. TX).** The defendants promoted a scam involving sham partnerships and employment agreements. In January 2004, the court entered permanent injunctions, barring them from promoting this scheme. The estimated tax harm resulting from this abusive scheme is approximately $5.65 million. In July 2004, Brenda Meyers-Fisher pled guilty to one count of bank fraud and one count of making a false statement in connection with a loan application. In December 2004, he was convicted on 34 counts of aiding and assisting in the preparation and presentation of false and fraudulent tax returns; one count of bank fraud; one count of making a false statement in connection with a loan application; and one count of perjury. In November, 2005, he was sentenced, to 235 months in prison and ordered to pay a $1,000,000 fine.
- **John Justice, Sandra Justice, Barbara Justice, Judith Shakespeare, and Byron Shakespeare (D. UT).** John Justice promoted a scheme where his customers would file false Forms 1065 (partnership returns) for nonexistent partnerships. The government filed an injunction complaint in September 2005. The court entered permanent injunctions against the defendants in November and December, 2005, barring them from promoting this scheme. The estimated harm resulting from this promotion is over $12 million. John Justice pled guilty to one count of preparing false tax returns. He was sentenced in July, 2005 to 21 months in prison and 12 months of supervised release and he was ordered to pay $107,653 in restitution.

- **Oscie K. Parker, dba Fastest Tax Refund Service (M.D.N.C.)** Parker prepared tax returns with false Schedules C and false entries for exemptions, earned income credits, and head-of-household status. Although the IRS revoked Parker's electronic filing privileges, he continued to prepare returns using the privileges of his daughter-in-law and another individual. The Court granted a permanent injunction that barred him from preparing false returns in August, 2005. The estimated tax harm resulting from his conduct is $807,000. That month, Parker also pled guilty to one count stemming from his fraudulent return preparation. In July, 2005, he was sentenced to 13 months and three years of probation.

- **Salvador G. Ruiz (D. Ohio).** In July, 2005, Ruiz pled guilty to aiding and assisting in the preparation or filing of false federal tax returns. He admitted to preparing at least 32 false returns with an estimated tax loss of $134,430. In January 2006, Ruiz was sentenced to 12 months in jail and 12 months of supervised release. As part of his sentence, Ruiz is barred from preparing federal income tax returns for others during the period of his supervised release. On February 28, 2006, in a civil injunction case brought by the government, the court permanently barred Ruiz from preparing federal income tax returns for others. The government alleged that over the past several years, Ruiz prepared at least 47 returns claiming deductions for fabricated charitable contributions, business losses and expenses. In addition to the $134,430 loss identified by the government in the criminal case, the government identified an additional 15 false returns which resulted in an additional estimated tax loss of $120,000.

- **Robert Mosher (D. MI).** Robert L. Mosher promoted a tax scheme involving sham trusts and prepared fraudulent returns understating his customers' tax liabilities. On March 27, 2003, the government filed an injunction action against to stop his abusive promotion and fraudulent return preparation. On October 27, 2003 and March 15, 2004, the court entered preliminary and permanent injunctions, respectively, enjoining Mosher from providing tax services for compensation and acting as an income tax return preparer. The estimated harm taxes owed by Mosher's clients exceeded $13,000. On May 17, 2005, Mosher was indicted on seven counts of criminal contempt for his alleged violation of the court's injunction orders. Mosher pled guilty to one contempt count on November 16, 2005. On February 16, 2006, he was sentenced to 105 days in prison.

- **Samuel DeAngelo, DeAngelo Tax Service/Western Tax Service, et al.** (C.D. CA). The defendants prepared false returns misstating allowable amount of charitable contribution and business expense deductions resulting in $47 million in refunds. In June 2003, the Court entered a permanent injunction against defendant, Gordon Shields, and a partial injunction against the remaining defendants. In August 2003, the civil proceedings were stayed.

  On February 7, 2006, DeAngelo pled guilty to conspiring to defraud the IRS and aiding and assisting in the filing of false tax returns. DeAngelo and his employees prepared tax returns that claimed false deductions. For instance, DeAngelo and his preparers asked questions designed to cause the taxpayers to falsely claim that they made charitable contributions amounting to 10 percent of their income. The estimated tax loss is more than $15 million in unpaid taxes for the 2000 tax year.

Civil Injunction Results

- Two Florida tax preparers, **Jean-Marie Boucicaut** and **Marie Thelemarque**, and their company, **Tax Review Corporation**, were barred from preparing federal income tax returns for others. The government complaint alleged that their scheme targeted immigrants from Haiti in Broward and Miami-Dade Counties.

The court found that the defendants had continuously and repeatedly prepared and filed tax returns claiming credits and deductions to which the customers were not entitled and that the defendants had retained some or all of the erroneous tax refunds claimed on at least 593 tax returns.

- **Guadalupe Valdez**, of Rockford, Illinois, was permanently barred from preparing federal income tax returns for others. According to the government's court filings, Valdez prepared approximately 159 amended federal income tax returns, claiming refunds for customers based on Bosnian refugee status, although federal tax law does not allow any exemption from income tax for refugees. The complaint also alleged that Valdez underreported customers' taxes by claiming false head-of-household filing status and false dependent exemptions.

- A federal court also ordered **Angelique Tinder** of Houston, Texas, formerly of Rockford, Illinois, to stop preparing federal income tax returns for others. Government papers filed in the case alleged that Tinder filed amended tax returns for Bosnian immigrants and others claiming refunds based on fictitious or inflated deductions for such things as charitable contributions, business expenses, and medical expenses. The suit also alleged that Tinder falsely advised her Bosnian-immigrant customers that they can claim as dependents persons overseas to whom they send support payments. The complaint alleged that the IRS believes that Tinder had understated her customers' tax liability by at least $2.6 million for the years 2000–2002.

- **Derrick Sanders**, of Atlanta, Georgia, was prohibited from promoting a tax-fraud scheme involving false claims that his customers were members of a fictitious tribal organization— the so-called Yamassee Native American Tribe—and were exempt from federal income tax. Native Americans living in the United States generally are not exempt from federal income tax, and the court found that Sanders is or should be aware that the Yamassee Native Americans are not recognized as an Indian tribe by the federal government. Sanders is required to post a copy of the court's order on the website where he promotes the scheme.

- **John R. Bartels**, who operated **John's Tax Service** in St. Paul, was enjoined from preparing federal income tax returns for others. The government complaint alleged that Bartels prepared federal income tax returns claiming false deductions and improper filing statuses, such as claiming head-of-household tax filing status for married customers. In the complaint, the government stated that Bartels had prepared over 7,000 tax returns since January 1, 2002 and had caused an estimated harm of over $9million to the United States.

- The court ordered **Nash Sonibare**, who operated **Liberty Financial Group** in St. Paul, to stop preparing federal income tax returns for others. The government complaint alleged that Sonibare, a Nigerian immigrant, repeatedly prepared returns for his African-immigrant customers containing false or inflated credits and deductions.

- **Richard Standring**, of Cincinnati, and his business, **VIP Sales**, was barred from marketing, selling, or promoting a sham Internal Revenue Service (IRS) “Document Decoder” tax scam. The court held that Standring falsely informed his customers that they could use his “Document Decoder” service to prove to the IRS that they are not legally obligated to file federal income tax returns or to pay federal income taxes. Standring and VIP Sales marketed this scheme nationwide at seminars and on several websites.

- **Pierre Gauthier** of Longwood, Fla., and his father, Jean Jay Gauthier of Daytona Beach Shores, were permanently barred from promoting an alleged tax-fraud scheme in which they helped customers set up offshore trusts and corporations to conceal income and assets from the IRS, while using offshore debit or credit cards to repatriate the funds.

- **Lou Ann Palermini Moser**, of Kailua, Hawaii, was permanently barred from preparing federal income tax returns. The court found that Moser organized and sold tax-fraud schemes and prepared federal income tax returns, actively marketing her schemes to military personnel. According to the court order, Moser engaged in a variety of misconduct, including falsely claiming to be a certified public accountant and an attorney, preparing returns with inflated or fabricated deductions, and improperly advising her customers to obstruct and delay IRS audits. The court said she caused over $4 million in tax losses for the 2003 tax year alone.

- **Michael Lee Yohe** and two companies, **Ag-Mart Services, Inc.** and **Mancat, Inc.**, were barred from promoting an employment tax-fraud scheme involving purported in-kind payments of milk to workers. According to the government complaint, Yohe-of Newberry Springs, California-and the Idaho-based corporate defendants helped dairy farms in Idaho, California, Arizona, and Oregon disguise cash wages paid to farm workers as purported in-kind payments of milk so as to avoid paying federal employment taxes. The defendants allegedly prepared phony commodity statements that falsely reported that workers were paid in milk and arranged to have these statements distributed to workers in lieu of wage and earnings statements. The defendants’ scheme is estimated to have caused more than $12 million in employment tax and income tax losses.

- **Anthony McBryde**, a City of Norfolk (Viriginia) code inspector, was barred from preparing federal income tax returns for others. According to court filings, McBryde prepared for customers federal income tax returns containing improper deductions that fraudulently eliminated or reduced customers’ reported taxable income. He allegedly prepared at least 187 returns containing deductions based on the so-called “claim of right” doctrine, which courts have rejected as frivolous. He also advised his clients to claim deductions for nondeductible personal expenses, such as residential gas and electricity bills.

- **Ella Mae Peterson**, of St. Louis, Missouri, was barred from preparing federal income tax returns. The government's complaint alleged that Peterson formerly worked at a local H&R Block office, where she prepared federal income tax returns containing fictitious or inflated deductions and overstated tax exemptions. She also allegedly forged customer signatures on various IRS forms. The complaint alleged that the government identified 1,751 tax returns Peterson prepared for tax years 2000-2003, and estimated that the returns Peterson prepared for those years have cost the federal Treasury more than $6.5 million.

- **Glen Stoll**, of Edmonds, Washington, and two of his businesses, "Nonprofit Commercial Enterprises" and "Director and General Counsel for Remedies at Law," were from selling tax-fraud schemes that use sham trusts to help customers evade federal income taxes. The court found that Stoll, who falsely claimed to be a lawyer, and his businesses sold a fraudulent "corporation sole" and "ministerial trust" scheme, falsely telling customers that conducting their business activities and funding their lifestyles through a so-called ministerial trust eliminates their obligations to file federal tax returns and pay federal tax.

- Jacksonville, Florida resident **Larry Baxter** and his firm, Baxter and Associates Office of Accountancy, have been permanently barred from preparing federal income tax returns for others. The order was entered after a two-day trial in Dothan, Alabama at which dozens of customers testified that Baxter made up phony information on their tax returns, such as falsely listing customers as owning day care businesses when they had no such businesses. The court found that Baxter engaged in a pattern of filing fraudulent tax returns, inflating or fabricating business income and expenses, and falsely reporting charitable contributions and employee-expense deductions in order to obtain unwarranted higher tax refunds for his customers. Baxter and Associates prepared income tax returns at offices located in Jacksonville, Florida, and in Dothan, Alabama. In a separate order entered earlier in the case, the judge also barred Dothan, Alabama resident Anita Dawkins, a former Baxter employee, from preparing federal income tax returns for others.

- **Nicholas P. Magalhaes**, of Altamonte Springs, Florida—formerly of Smithtown, New York—was barred from promoting a tax plan for employers that violated federal tax laws. Magalhaes and his businesses—**Asset Accumulation, Inc.; Pinnacle Wealth Group, L.L.C.; Strategic Ventures, Inc.;** and **Pinnacle Wealth Concepts, Ltd.**—sold plans that Magalhaes falsely claimed qualified as voluntary employees' beneficiary association (VEBA) plans. The suit alleged that the plans were actually tax-fraud schemes designed to enable employers to deduct non-deductible deferred compensation for select high-level employees, by disguising the deferred compensation as employee benefits.