



**United States Department of Justice
United States Attorney's Office
District of Minnesota**

**Frank J. Magill,
United States Attorney**

David Anderson, Public Affairs Specialist
(612) 664-5684; cell: (612) 730-2251

News Release

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3 men indicted for filing false tax returns

Yesterday was the official deadline for all Americans to file their federal tax returns. The Internal Revenue Service and the United States Attorney's Office remind people to file true and correct returns or face potential criminal charges similar to those filed against three Minnesota men who were indicted today in federal court in unrelated cases involving the filing of false tax returns.

In the first case, Joseph Edward Riley, 62, Morris, was charged with one count of conspiracy to defraud the IRS and two counts of filing a false tax return. Riley's brother, John Thomas Riley, 60, Morris, was charged with one count of conspiracy, one count of procuring a false tax return and one count of filing a false tax return.

Their indictment alleges that beginning before July 5, 1996, through August 2003, the Rileys knowingly and willfully conspired and agreed with one another to defraud the U.S. by impairing and obstructing the IRS's collection of income taxes and to make and file false tax returns.

The Rileys owned and operated Riley Bros. Companies, Inc., a holding company that owned 100 percent of Riley Bros. Construction, as well as all or part of other companies. Riley Bros. Construction was a heavy equipment construction business primarily engaged in the business of road construction for the State of Minnesota and other government entities. The company also performed work for individuals and businesses.

The object of the conspiracy, the indictment alleges, was to conceal from the IRS and the Minnesota Department of Revenue income earned by Joseph Riley and John Riley, Riley Bros. and employees of Riley Bros. The Rileys' plan was to evade the payment of income taxes, social security taxes, medicare taxes and unemployment taxes. A second object of the conspiracy was to defraud the State of Minnesota in the payment of unemployment benefits.

The indictment alleges that Joseph Riley and John Riley converted checks and other payments for work and materials provided by Riley Bros. to their own benefit, or to the benefit of their employees, without reporting the payments to the IRS or Department of Revenue.

Specifically, Joseph Riley and John Riley cashed checks made payable to Riley Bros. for work and materials provided by the companies. Joseph Riley and John Riley used the cash to pay employees bonuses.

The indictment also alleges that Joseph Riley and John Riley arranged for Riley Bros. to pay some of their personal expenses and to treat such payments as legitimate business expenses. Joseph Riley and John Riley allegedly further arranged for Riley Bros. not to report these payments to the IRS and Department of Revenue as payments to themselves. Joseph Riley and John Riley also allegedly failed to report these payments on their individual income tax returns.

Joseph Riley and John Riley allegedly arranged for Riley Bros. to pay employees for work performed while the employees were collecting unemployment payments from the State of Minnesota, and they disguised the payments in order to facilitate the fraudulent unemployment claims and to evade taxes.

As a result of the alleged conspiracy, more than \$500,000 was paid by Riley Bros. to Joseph Riley, John Riley and Riley Bros. employees that was not properly reported.

The indictment also alleges that from 1999 to 2001 Joseph Riley purchased a time share condominium in Cancun, Mexico, and also purchased four motorcycles totaling more than \$70,000. From 1999 to 2002, Joseph Riley and John Riley used currency to pay company employees more than \$95,000 in bonuses that were not recorded in the company's payroll system.

From 1996 to 2003, Joseph Riley and John Riley allegedly directed company bookkeepers to falsely record and disguise the payment of more than \$79,000 of their personal expenses as if they were company business expenses.

If convicted, Joseph Riley and John Riley each face a potential maximum penalty of five years in prison on the conspiracy count and three years on each filing false tax return count. John Riley faces an additional three years on the procuring false tax return count. All sentences are determined by a federal district court judge.

This case is the result of an investigation by the IRS-Criminal Investigation Division and the Minnesota Department of Revenue. It is being prosecuted by Assistant U.S. Attorney Michael L. Cheever.

In the unrelated second case, John Roger Bartels, 58, Roseville, was indicted today on 48 counts of aiding in the preparation and presentation of a false tax return and claim.

His indictment alleges that from March 3, 2003, to April 2, 2005, Bartels willfully aided and assisted in, and procured, counseled and advised, in the preparation of U.S. Individual Income Tax Returns. Bartels operated as a tax return preparer as John's Tax Service, and he had prepared returns for individuals for tax years 2002, 2003 and 2004.

During those tax years, Bartels allegedly advised his married customers to file separately and falsely claim "Head of Household" or "Single" filing status. Forty-eight fraudulent tax returns were filed during those tax years.

If convicted, Bartels faces a potential maximum penalty of three years in prison on each count. All sentences are determined by a federal district court judge. This case is the result of an investigation by the IRS-Criminal Investigation Division and the Minnesota Department of Revenue. It is being prosecuted by Assistant U.S. Attorney David M. Genrich.

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An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by a defendant. A defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.