
**United States District Court
District of New Jersey**

UNITED STATES OF AMERICA	:	Hon. Edward S. Kiel
	:	
v.	:	Mag. No. 20-15266
	:	
ALFRED TEO, SR.	:	<u>CRIMINAL COMPLAINT</u>

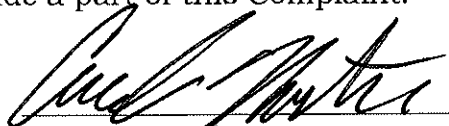
I, Carlo Nastasi, being duly sworn, state the following is true and correct to the best of my knowledge and belief.

SEE ATTACHMENT A

I further state that I am a Special Agent with the Internal Revenue Service – Criminal Investigation, and that this Complaint is based on the following facts:

SEE ATTACHMENT B

continued on the attached pages and made a part of this Complaint.



Carlo Nastasi
Special Agent, Internal Revenue Service –
Criminal Investigation

Attested to me by telephone pursuant to FRCP 4.1(b)(2)(A),
June 16, 2020, in the District of New Jersey

THE HONORABLE EDWARD S. KIEL
UNITED STATES MAGISTRATE JUDGE



Signature of Judicial Officer

ATTACHMENT A

COUNT 1
(Tax Evasion)

From in or about January 2016 to in or about December 2017, in Bergen County, in the District of New Jersey, and elsewhere, Defendant

ALFRED TEO, SR.

knowingly and willfully did attempt to evade and defeat a substantial part of the income tax due and owing to the United States for the tax year 2016 in the approximate amount of \$10 million, in that he: (1) misreported the true nature of his personal income from Alpha Industries Management ("Alpha") on his personal Form 1040; (2) falsely reported income from Alpha on AAST Holding Corporation's Form 1120S; (3) submitted to his Tax Preparer false Cost of Goods Sold expenses in order to reduce AAST Holding Corporation's net business income; (4) caused his personal income to be understated by tens of millions of dollars by including AAST Holding Corporation's fraudulently reduced net business income on his personal Forms 1040; and (5) caused to be submitted to the IRS a personal Form 1040 for 2016 that failed to reflect the Defendant's true income and taxes due.

In violation of Title 26, United States Code, Section 7201.

ATTACHMENT B

I, Carlo Nastasi, am a Special Agent with Internal Revenue Service – Criminal Investigation. I am fully familiar with the following facts based on my conversations with law enforcement agents who have participated in the investigation and my review of documents and other items of evidence. Because this Complaint is being submitted for the limited purpose of establishing probable cause, I have not included each and every fact known to me concerning this investigation. I have set forth only the facts that I believe are necessary to establish probable cause. All conversations and statements described in this affidavit are related in substance and in part, unless otherwise indicated.

1. During the time period relevant to the Complaint:

a. Defendant Alfred Teo, Sr. ("TEO"), who resided in Boca Raton, Florida, was the majority shareholder of a multi-billion dollar plastics manufacturing holding company, Alpha Industries Management with offices in Lyndhurst, New Jersey, and Pompano Beach, Florida.

b. TEO maintained stock trading accounts (TEO's "Brokerage Accounts") at a brokerage with headquarters in St. Louis, Missouri.

c. Alpha Industries Management was an umbrella company that controlled subsidiary companies that manufactured plastics (hereinafter, together with affiliated entities and subsidiaries, "Alpha").

d. AAST Holding Corp. ("AAST") was a corporation formed in Fisher Island, Florida. TEO was the sole shareholder, President, and Director of AAST. AAST was not a subsidiary of Alpha.

e. AAST was organized for purposes of being a holding company and was established as an S Corporation under the Internal Revenue Code. On its U.S. Income Tax Return for an S Corporation, Form 1120S ("Form 1120S"), AAST used business code of 551112, which is used when the purpose of the business filing taxes is to hold securities.

f. As an S Corporation, AAST was required to make and file annually a Form 1120S, reporting, among other items, its ordinary business income ("net business income"). An S Corporation's net business income as reported on Form 1120S is determined by subtracting its total deductions — including any Costs of Goods Sold — from its total income.

g. An S Corporation does not incur any tax liability for any net business income that it may have earned during a given tax year. Instead, an S Corporation is required to allocate its net business income, and other income and deduction items, to its shareholders by issuing each shareholder

a Schedule K-1, which is an Internal Revenue Service ("IRS") tax form issued annually for an investment in a shareholder's interests in a company. A Schedule K-1 is used to report each shareholder's portion of the company's earnings, losses, deductions, and credits.

h. When a shareholder, such as TEO, in an S Corporation, such as AAST, receives a Schedule K-1, the shareholder must report all income and deduction items from Schedule K-1 on the shareholder's U.S. Individual Income Tax Return, Form 1040 ("Form 1040"). Accordingly, AAST was required to allocate all of its net business income to TEO, AAST's sole shareholder, and TEO was required to report AAST's net income on his personal Form 1040.

i. The tax laws of the United States require every citizen and resident of the United States who receives gross income in excess of the minimum filing amount established by law for a particular tax year to make and file annually a Form 1040, wherein a taxpayer reports items including income, deductions, and tax due and owing.

j. Any income earned by TEO in a particular tax year was required to be reported on TEO's Form 1040.

k. A Form 1099 is an informational form generally required to be filed with the IRS to report payments made to an individual or partnership in the course of a trade or business. An individual or partnership was required to report any such payments as "1099 Income."

l. TEO, Alpha, and AAST utilized the tax preparation services of a Certified Public Accountant located in Bergen County, New Jersey (the "Tax Preparer").

TEO's Tax Evasion Scheme

2. In addition to operating Alpha, TEO traded heavily in the securities markets. Between in or around January 2016 and in or around December 2019, TEO directed the transfer of funds from a revolving line of credit that Alpha held at its bank to trade and to pay off margin calls. Alpha transferred the funds directly into TEO's Brokerage Accounts. During this timeframe, TEO diverted approximately \$600 million from Alpha's line of credit to TEO's Brokerage Accounts.

3. When TEO had sufficient funds in his Brokerage Accounts, TEO returned funds to Alpha. A review of TEO's Brokerage Accounts shows that TEO repaid approximately half of the diverted funds to Alpha. TEO did not report the remaining amount as income on his personal Forms 1040 returns. Instead, a significant portion of TEO's income from Alpha was recorded as 1099 Income to AAST.

4. According to AAST's Forms 1120S, AAST received 1099 income from Alpha of approximately \$26,886,288.19, \$52,711,203.17, and \$88,350,360.46 in 2016, 2017, and 2018, respectively, for a total of approximately \$167,947,851.82.

5. In reality, AAST bank records show that Alpha did not provide AAST with those amounts of income in 2016, 2017, and 2018. The money Alpha recorded as salary to AAST was instead money provided for the benefit of TEO and included money that Alpha sent directly to TEO's Brokerage Accounts and other trading accounts that TEO controlled.

6. Instead of reporting the over approximately \$167,947,851.82 of income from Alpha on his personal Form 1040s for tax years 2016, 2017, and 2018, and paying taxes on that income, the income was reported on AAST's Form 1120S for those tax years. TEO then provided false deduction information to the Tax Preparer in order to artificially reduce his income and evade the income taxes due and owing.

AAST's Fictitious Cost of Goods Sold

7. AAST was organized for purposes of being a holding company, not for selling goods. In particular, its articles of incorporation indicate that AAST's purpose was as a "holding company." Its principal place of business and mailing address was TEO's personal residence in Florida. TEO was listed as President and Director, and he was the only officer or director listed.

8. Consistent with AAST's articles of incorporation, on its Forms 1120S for 2016, 2017, and 2018, AAST used business code 551112, which indicated that AAST's purpose was to hold securities.

9. A review of AAST's bank account records does not reveal tens of millions of dollars in Cost of Goods Sold, as listed in AAST's 2016, 2017, and 2018 Forms 1120S. Indeed, the bank account records do not show purchases of material, equipment, inventory, or other purchases consistent with the sale of goods or products.

10. In addition, AAST's bank account records do not include deposits that would reflect the millions of dollars in receipts that AAST reported on its tax forms for those three years.

11. In 2016, 2017, and 2018, TEO's Tax Preparer provided draft AAST Forms 1120S to TEO for his review. TEO then returned the Forms 1120S to his Tax Preparer with handwritten notes that indicated AAST had tens of millions of dollars of Costs of Goods Sold. TEO did not provide any support to his Tax Preparer for these claims of tens of millions of dollars in Cost of Goods Sold.

12. For example, in 2016, the draft Form 1120S prepared by the Tax Preparer included \$27,148,788 for Line 1 Gross Receipts, *i.e.*, earnings. Line 2,

Cost of Goods Sold, was empty. TEO returned the form with the amount "\$26,900,200" handwritten into the empty line for Cost of Goods Sold.

13. TEO's Tax Preparer used the information that TEO provided to report AAST's Cost of Goods Sold on AAST's Forms 1120S in the amounts of approximately \$26,900,198, \$51,210,060, and \$87,062,212 for 2016, 2017, and 2018, respectively.

Teo's Use of AAST as a Vehicle to Hide Personal Income

14. By submitting fraudulent Cost of Goods Sold expenses to his Tax Preparer for inclusion on AAST's Forms 1120S, TEO used AAST to avoid paying tens of millions of dollars of income taxes. Specifically, TEO reduced AAST's net business income by approximately \$165 million for tax years 2016, 2017, and 2018 combined.

15. TEO's personal Forms 1040 for 2016, 2017, and 2018 included AAST's net business income — as reduced by approximately \$165 million in AAST's false Cost of Goods Sold — as income to TEO. As a result, TEO understated his personal income in 2016, 2017, and 2018 by approximately \$165 million.

16. Because TEO's personal Forms 1040 for 2016, 2017, and 2018 included AAST's net business income, TEO's fraudulent reduction of AAST's net business income with purported Cost of Goods Sold expenses resulted in a tax loss of approximately \$10 million, \$20 million, and \$31 million in 2016, 2017 and 2018, respectively, for a total tax loss of approximately \$61 million.