IRS Criminal Investigation

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IRS Criminal Investigation Mission

In support of the overall IRS Mission, Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.
IRS Criminal Investigation

- 4,200 employees worldwide
  - 2,700 Special Agents
- IRS CI is the only agency with jurisdiction over Federal tax violations
  - We focus on tax laws and tax convictions
- CI has special agents assigned to 26 field offices across the U.S. and in 10 foreign countries including Colombia, Mexico, Great Britain, Germany, Canada, China, Barbados, China, Australia, and Panama.
CI Field Structure

Chief & Deputy Chief

- Director, International
- Director, North Atlantic
- Director, Southeast
- Director, Midstates
- Director, Pacific

10 Foreign Posts

Special Agents In Charge
26 Field Offices

- Investigate tax and other financial crimes
- Evaluate and prioritize case leads according to National Compliance Strategy
- Manage case mix and local distribution
- Link with Operating Divisions to ensure quality case referrals
- Link with external stakeholders to coordinate case referral and prosecution priorities of both parties

IRS-CI Statutory Jurisdiction

- IRS CI is the only agency with jurisdiction over Title 26 violations – tax violations
- Title 31- Bank Secrecy Act
- Title 18 – Money Laundering & Conspiracy
AUTHORITY GRANTED

Authority to investigate, execute, and serve search warrants and arrest warrants, serve subpoenas and summonses, make arrests without warrant, carry firearms, make seizures of property subject to forfeiture and to require and receive information, as to all matters relating to such laws and regulations.

FY 2011 YTD IRS-CI Statistics

<table>
<thead>
<tr>
<th></th>
<th>FY 2010 YTD</th>
<th>FY 2011 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigations Initiated</td>
<td>2,188</td>
<td>2,339</td>
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<tr>
<td>Prosecution Recommendations</td>
<td>1,440</td>
<td>1,540</td>
</tr>
<tr>
<td>Information/Indictments</td>
<td>1,201</td>
<td>1,405</td>
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<tr>
<td>Total Convictions</td>
<td>1,055</td>
<td>1,036</td>
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<tr>
<td>Total Sentenced</td>
<td>1,096</td>
<td>1,079</td>
</tr>
<tr>
<td>Percent to Prison</td>
<td>81.5%</td>
<td>82.4%</td>
</tr>
<tr>
<td>Average Months to Serve</td>
<td>47</td>
<td>45</td>
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FY11 YTD Direct Investigative Time

<table>
<thead>
<tr>
<th></th>
<th>FY09 YTD</th>
<th>FY10 YTD</th>
<th>FY11 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Source</td>
<td>52.5</td>
<td>53.0</td>
<td>51.4</td>
</tr>
<tr>
<td>Illegal Source</td>
<td>34.8</td>
<td>34.3</td>
<td>35.5</td>
</tr>
<tr>
<td>Narcotics</td>
<td>11.3</td>
<td>11.3</td>
<td>11.7</td>
</tr>
</tbody>
</table>

DIT for Counterterrorism was 1.5% in FY11 YTD

IRS Strategic Plan

Strategic Plan 2009 - 2013

- Improve service to make voluntary compliance easier
- Enforce the law to ensure everyone meets their obligation to pay taxes
- Invest for high performance – people and technology
FY 2011 Areas of Focus

- International/Off Shore Enforcement
- Return Preparer Fraud
- Corporate Fraud
- Employment Tax
- Abusive Tax Schemes
- Non-Filers
- Money Laundering / BSA
- Narcotics
- Counterterrorism

Legal Source Tax Crimes

- Our Primary Focus Area
- Involves legal industries and occupations
- Involves legally earned income
- Fraud referrals - working closely with the IRS operating divisions to identify and refer fraud
Illegal Source Financial Crimes

- Individuals who commit crimes for financial gain employ various illegal methods such as money laundering to disguise their illicit proceeds so they can benefit from their criminal activity
- Income derived from any source is taxable
- Money laundering crimes are directly related to and support tax administration

International Enforcement

- Commissioner’s commitment is to increase international compliance
- CI’s focus – identify taxpayers who commit tax evasion by using offshore accounts and abusive schemes
- Pursue all violations including tax and FBARs
- Use all investigative avenues
- New International Operations Division
- Expanded international presence
International Tax Fraud Example

Father and Son Miami Beach Hotel Developers Sentenced for Tax Fraud
Mauricio Cohen Assor and his son, Leon Cohen-Levy

- Both sentenced to **120** months in prison
- Convicted of conspiring to defraud the United States and filing false tax returns
- Cohen Assor was ordered to pay $9,379,849 in restitution and Cohen-Levy was ordered to pay $7,761,959 in restitution.
- Father and son concealed more than $150 million in assets, including Miami Beach mansions, yachts, luxury automobiles, helicopter, and bank accounts containing tens of millions of dollars.
- Failed to report more than $49 million in income to the Internal Revenue Service (IRS).
- Nominees and shell companies were formed in the Bahamas, the British Virgin Islands, Panama, Liechtenstein and Switzerland, to conceal their assets and income from the IRS.
- New York hotel sold - $33 million. Proceeds transferred to a bank account at HSBC in Switzerland that was opened in the name of a Panamanian bearer share company.
Voluntary Disclosure Program

- CI is the entry point for noncompliant taxpayers to get back into the tax system
- Over 15,000 voluntary disclosures were made during the 2009 special program.

Refund Crimes

Includes two emphasis areas:

- Return Preparer Fraud

- Questionable Refund Program
  - Schemes to file fraudulent returns using false documents, and in some cases, identity theft
Return Preparer Fraud

- Unscrupulous Return Preparers:
  - Build up their clientele by adding false deductions to decrease tax liability, resulting in refunds or a smaller balance due
  - Charge significant fees to assist clients in avoiding taxes
- The preparers' clients may or may not know about the false expenses, deductions, exemptions and/or credits shown on their tax returns.

Corporate Fraud

- 97.4% Conviction Rate
- Indictments are up
- Average sentence is 36 months
Employment Tax

• Common Schemes
  – Pyramiding
  – Employment Leasing
  – Paying Employees in Cash
  – Filing False Payroll Tax Returns or Failing to File Payroll Tax Returns

Abusive Tax Schemes

• Schemes are usually complex involving multi-layer transactions for the purpose of concealing the true nature and ownership of the taxable income and/or assets
• Parallel Civil & Criminal Investigations
Non-Filers

• Non-Filers
• Frivolous Arguments
  – For both individuals and business employment taxes
• 94% Conviction Rate

Money Laundering/Bank Secrecy Act (BSA)

• Money Laundering
  – Tax Evasion in Progress
  – Hide untaxed income from illegal sources
• Bank Secrecy Act
  – Joint effort with IRS SB/SE
• CI is largest user of BSA data
Money Laundering Investigations

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2009</th>
<th>FY 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigations Initiated</td>
<td>1597</td>
<td>1341</td>
<td>1422</td>
</tr>
<tr>
<td>Prosecution Recommendations</td>
<td>1240</td>
<td>1048</td>
<td>1305</td>
</tr>
<tr>
<td>Indictments/Informations</td>
<td>1066</td>
<td>936</td>
<td>1200</td>
</tr>
<tr>
<td>Sentenced</td>
<td>751</td>
<td>753</td>
<td>686</td>
</tr>
<tr>
<td>Incarceration Rate*</td>
<td>83.8%</td>
<td>85.9%</td>
<td>84.7%</td>
</tr>
<tr>
<td>Average Months to Serve</td>
<td>69</td>
<td>72</td>
<td>67</td>
</tr>
</tbody>
</table>

Money Laundering Example

New Jersey Man Sentenced to 71 Months in Prison for Scamming Victims with Phony Real Estate, Film and Television Investments

Martin Gevers

- Sentenced to **71 months** in prison
- Scheme sought investments purportedly for real estate, film, and television ventures.
- Funds used for personal expenditures.
- Pleaded guilty to one count each of wire fraud and money laundering.
- Investors were told they would receive returns ranging from twenty-five to seventy percent, or more.
- **Fraudulently obtained more than $1.5 million** dollars as a result of the scheme.
- In addition to the prison term - sentenced to three years of supervised release and ordered to pay a total of $1,190,272 in restitution to 11 victims of his scheme.
Who is Viewing BSA Forms?

CBRS QUERY ACTIVITY
POST 9/11

93% LAW ENFORCEMENT 4,742,920
IRS 3,085,682
DEA 296,188
FBI 163,669
FINCEN 641,273
OTHER LAW ENF 508,881
ICE (US CUSTOMS) 49,247

6% REGULATORS 304,854
FDIC, OFF OF THRIFT, NATL CREDIT UNION, SEC, ETC.

1% OTHER 18,423
DOJ, BOUSA, INS, INSPE, TREAS, INS, GEN, ETC.

TOTAL: 5,066,197

Bank Secrecy Act Example

Owner of Residential Roofing Company Sentenced for Illegally Structuring Cash Deposits

Karl Gagnon

- **Sentenced to 12 months and one day** in prison to be followed by two years of supervised release.
- Pleaded guilty to charges of structuring cash transactions for the purpose of evading federal reporting requirements.
- Currency Transaction Report (CTR) required for transactions that exceed $10,000.
- Self-employed general contractor - deposited approximately **$277,306 at various banks making 29 separate cash deposits in amounts equal to or less than $10,000.**
- No federal income tax returns filed from 1999 to 2006.
Narcotics-Related Financial Crimes

- Target the profit and financial gain of drug traffickers and money launderers
- Participate in joint agency task forces
- Direct Investigative time is reimbursed through our partnership with OCDETF (Organized Crime Drug Enforcement Task Force) at the Department of Justice

JOINT TASK FORCES

- National Joint Terrorism Task Force
- Organized Crime Drug Enforcement Task Force (OCDETF)
  - Federal Bureau of Investigation
  - Drug Enforcement Administration
  - U.S. Postal Inspection Service
  - Bureau of Immigration & Customs Enforcement
  - U.S. Marshalls Service
  - Alcohol Tobacco & Firearms
  - IRS Criminal Investigation
  - U.S. Coast Guard
  - State & local law enforcement
Narcotics Example
Lawrence Man Sentenced to 48 Months for Laundering $315,000 in Drug Money
Freddy Arias-Cartagena
- Sentenced to 48 months in federal prison
- Plead guilty to seven counts of laundering drug money - laundered $315,000 in drug money.
- Joint IRS/DEA investigation
- Extensive use of a cooperating witness (CW).
- Shipping business was used to wire drug money to the Dominican Republic.
- DEA undercover agent picked up money in the Dominican Republic (minus fee)

Counterterrorism
- CI works closely with local Joint Terrorism Task Forces (JTTF) using its financial skills to combat terrorism financing.
- Our Garden City Lead Development Center is solely focused on identifying financial activity associated with terrorism.
Primary Tax Violations Enforced

- 26 USC § - 7201, Tax Evasion
- 26 USC § - 7203, Failure to File
- 26 USC § - 7206(1), False Statements
- 26 USC § - 7206(2), Aid in False Statements
- 18 USC § - 287, False Claims
- 18 USC § - 286, Conspiracy with Respect to False Claims

26 USC § - 7201, Tax Evasion

- 3 Elements to be proven:
  - Attempt to evade/defeat the assessment or payment of tax
  - Additional tax due and owing
  - Willfulness

- 5 years imprisonment and $250,000 fine
26 USC § - 7203, Failure to File

- 3 Elements to be proven:
  - Required by law to file
  - Failure to file at the time required
  - Willfulness

- 1 year imprisonment and $100,000 fine

26 USC § - 7206(1), False Statements

- 4 Elements to be proven:
  - Make or Subscribe a Return
  - Written declaration under penalty of perjury
  - Belief it is not true to every material matter
  - Willfulness

- 3 years imprisonment and $250,000 fine
26 USC § - 7206(2), Aid in False Statements

- 3 Elements to be proven:
  - Aid in the preparation of false document
  - Document was false as to a material matter
  - Willfulness

- 3 years imprisonment and $250,000 fine

18 USC § - 287, False Claims

- 3 Elements to be proven:
  - Making or presenting a claim
  - The claim was false, fictitious or fraudulent
  - Knowledge the claim was false

- 5 years imprisonment and $250,000 fine
18 USC § - 286, Conspiracy with Respect to False Claims

- 2 Elements to be proven:
  - An agreement or conspiracy to defraud the U.S.
  - By obtaining payment of any false claim

- 10 years imprisonment and $250,000 fine

Primary Non-Tax Violations Enforced

- 18 USC § - 1956, Money Laundering (Transaction)
- 18 USC § - 1957, Money Laundering (Spending)
- 18 USC § - 1960, Unlicensed MSB
18 USC § - 1956, Money Laundering (Transaction)

- 5 Elements to be proven:
  - Conducts or attempt to conduct
  - A financial transaction
  - Knowing property is SUA proceeds
  - Transaction in fact involves SUA proceeds
  - With the intent to promote the SUA, engage in Tax Evasion, conceal ownership or avoid a CTR
- 20 years imprisonment and $250,000+ fine

18 USC § - 1957, Money Laundering (Spending)

- 4 Elements to be proven:
  - Knowingly
  - Engage or attempt to engage in
  - A monetary transaction
  - In criminally derived property of a value greater than $10,000 and derived from a SUA
- 10 years imprisonment and $250,000+ fine
18 USC § - 1960, Unlicensed MSB

- 3 Elements to be proven:
  - Knowingly
  - Conducts, directs or owns all or part of
  - An Unlicensed Money Transmitting Business by operating without a State license; failing to comply with MSB registration requirements or; transferring funds criminally derived or to promote an UA.
- 5 years imprisonment and forfeiture

Income Methods of Proof

- Direct Method
  - Specific Items Method

- Indirect Methods
  - Bank Deposits Method
  - Expenditures Method
  - Net Worth Method
Specific Items Method of Proof

• Specific transactions in which a subject engaged during the year were not completely reflected in his income tax return, with the result that income was understated.
• This method offers the most direct method of proving unreported income.

Bank Deposits Method of Proof

• The theory of the bank deposits method is that there are only three things that can be done with money once received:
  - Spend it,
  - Deposit it, or
  - Hoard it. (Cash on Hand)
• Accounting for areas considers all funds available. Eliminating non-income sources, the remaining funds plus increases to cash on hand and cash expenditures will equal gross income.
Expenditures Method of Proof

• Used when a significant extravagant living expenses of a subject are apparent.
• Taxable Income is determined by calculating total expenditures then eliminating non-taxable income, itemized/standard deduction, and personal exemptions.
• If the subject’s expenditures have exceeded his sources of income, and all non-taxable funds have been identified, then it may be concluded that the individual failed to report income on his tax return.

Net Worth Method of Proof

• Used to determine, through the subject’s net worth, whether the subject is purchasing assets, reducing liabilities, or making expenditures with funds not reported as taxable income.
• Similar to balance sheet in its presentation.
• Formula can be broken down into four steps:
  - Calculate change in net worth.
  - Adjust change for personal living expenses, nondeductible losses, and non-taxable items to arrive at corrected AGI.
  - Subtract itemized/standard deductions and exemptions to arrive at corrected taxable income.
  - Compare taxable income to amount reported.
Case Study:

**Alphonse Capone**

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**Q & A Panel Session**

[www.IRS.gov](http://www.IRS.gov)

Keyword: Criminal Enforcement