


IRS Criminal Investigation

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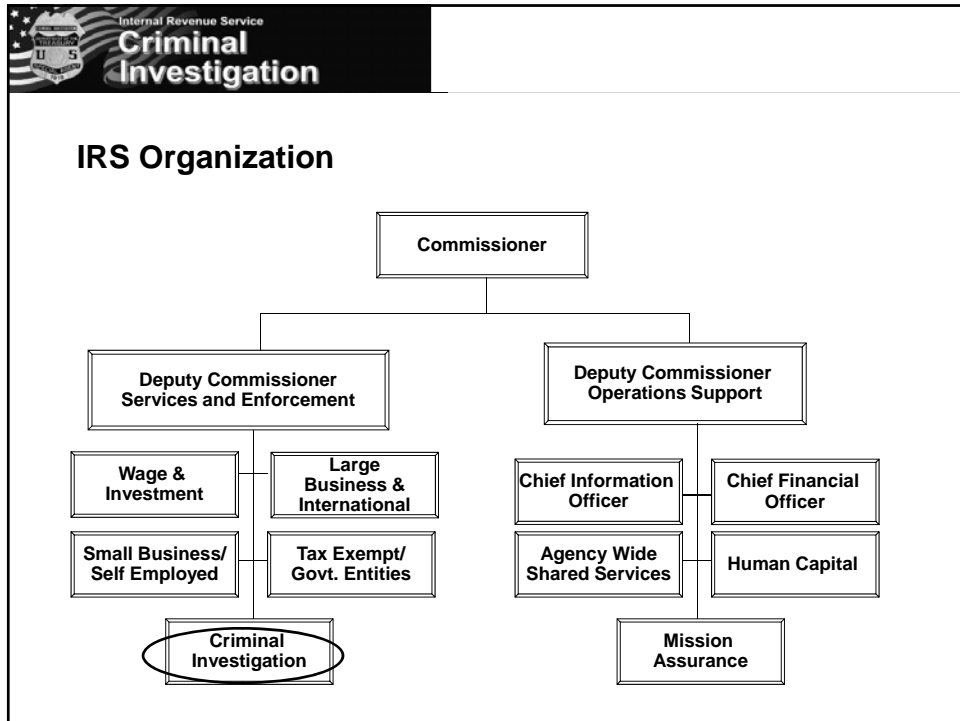
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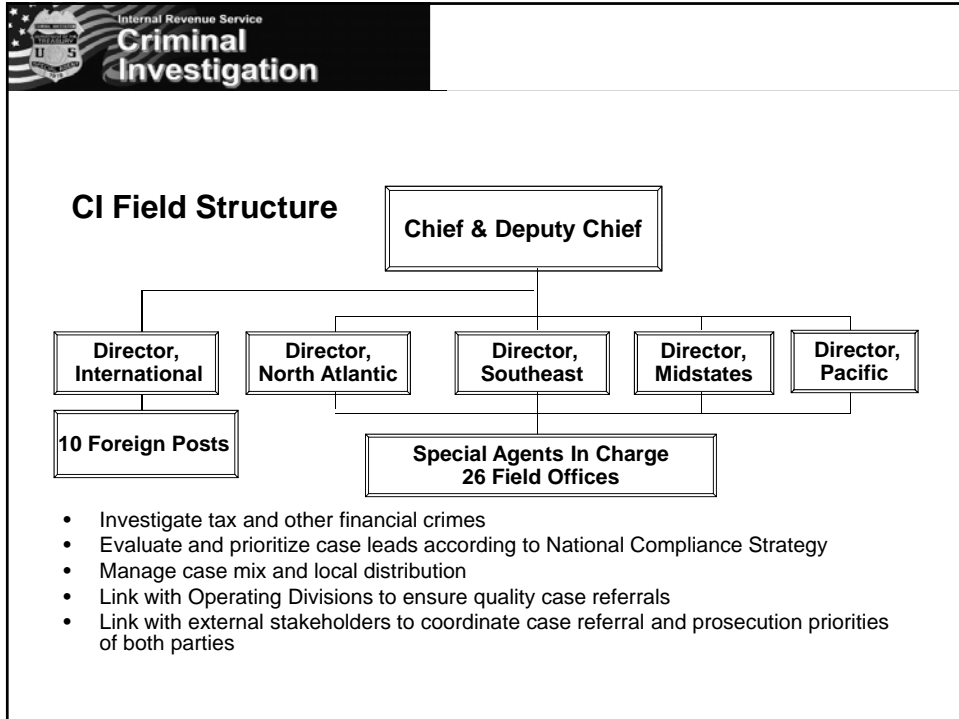
IRS Criminal Investigation Mission

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.




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

	FY 2010 YTD	FY 2011 YTD
Investigations Initiated	2,188	2,339
Prosecution Recommendations	1,440	1,540
Information/Indictments	1,201	1,405
Total Convictions	1,055	1,036
Total Sentenced	1,096	1,079
Percent to Prison	81.5%	82.4%
Average Months to Serve	47	45

			
FY11 YTD Direct Investigative Time			
	FY09 YTD	FY10 YTD	FY11 YTD
Legal Source	52.5	53.0	51.4
Illegal Source	34.8	34.3	35.5
Narcotics	11.3	11.3	11.7


DIT for Counterterrorism was 1.5% in FY11 YTD

	
IRS Strategic Plan	
Strategic Plan 2009 - 2013	
<ul style="list-style-type: none"> • 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



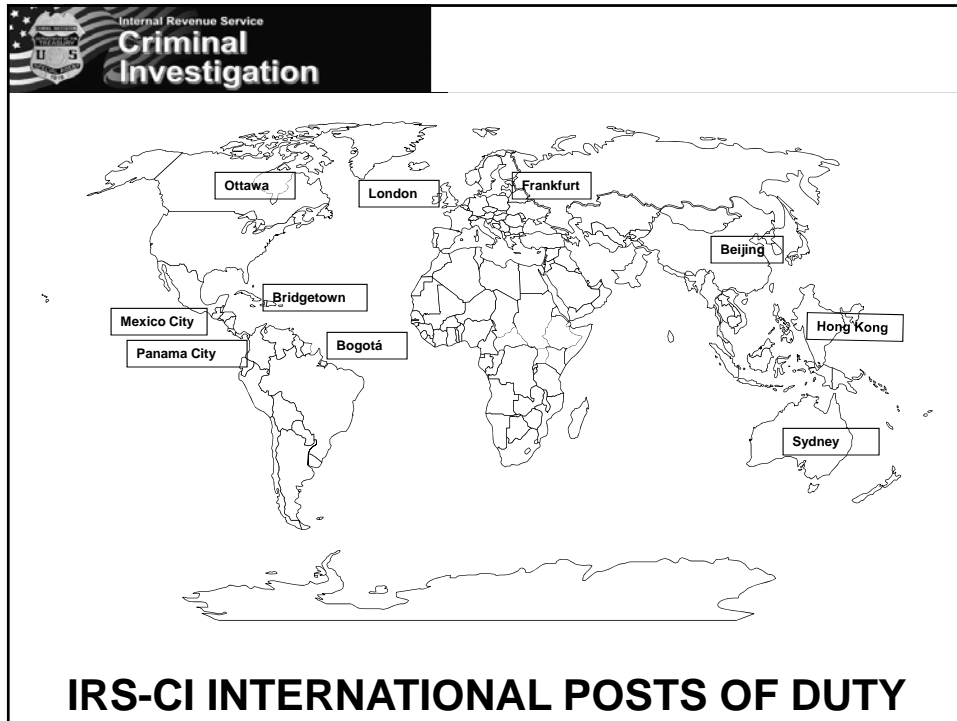
Illegal Source Financial Crimes

- 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

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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.

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Corporate Fraud

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

Fiscal Year	Conviction Rate (%)
FY10 YTD	~90
FY11 YTD	97.4

■ Conviction Rate

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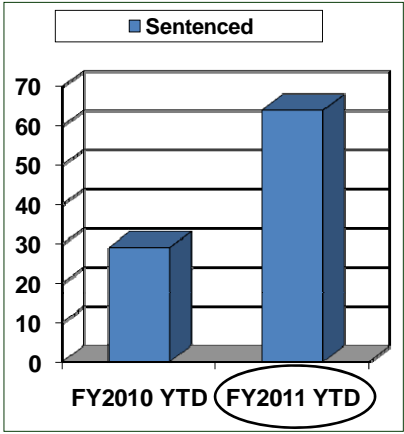
Employment Tax

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


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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




Fiscal Year	Sentenced
FY2010 YTD	30
FY2011 YTD	65




Non-Filers


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

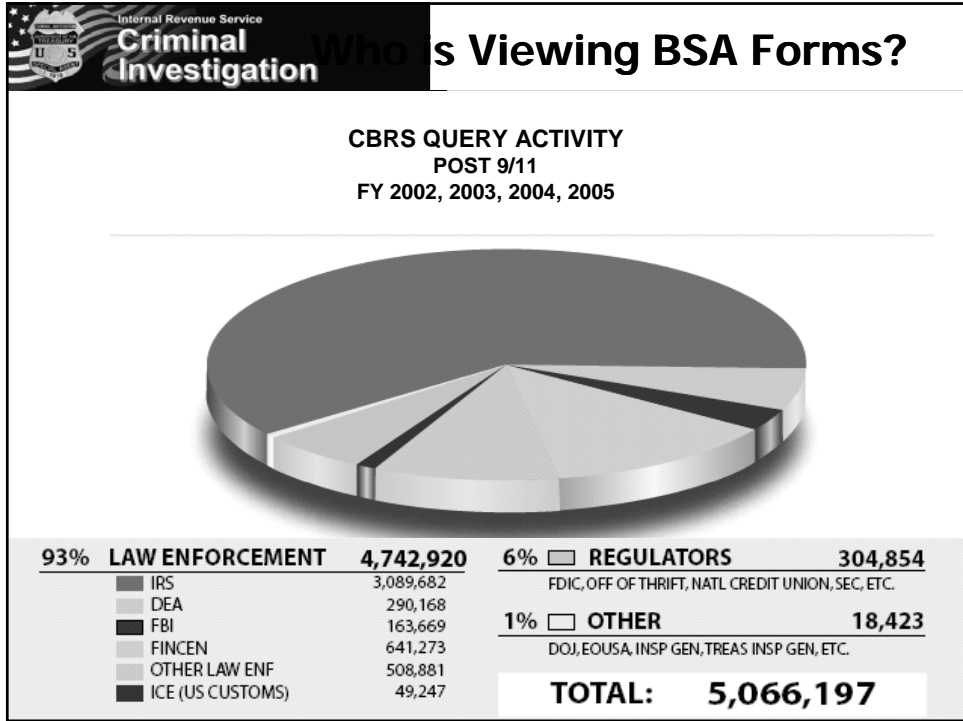


Money Laundering/Bank Secrecy Act(BSA)

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

			
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			
<ul style="list-style-type: none"> <input type="checkbox"/> Sentenced to 71 months in prison <input type="checkbox"/> Scheme sought investments purportedly for real estate, film, and television ventures. <input type="checkbox"/> Funds used for personal expenditures. <input type="checkbox"/> Pleaded guilty to one count each of wire fraud and money laundering. <input type="checkbox"/> Investors were told they would receive returns ranging from twenty-five to seventy percent, or more. <input type="checkbox"/> Fraudulently obtained more than \$1.5 million dollars as a result of the scheme. <input type="checkbox"/> 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. 			



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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.
- Plead 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.

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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

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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


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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
- Pleaded 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)

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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

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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

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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

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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

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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

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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

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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.



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Case Study:

Alphonse Capone



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Q & A Panel Session

www.IRS.gov
Keyword: Criminal Enforcement