SARs Are Catalyst in Investigation of $13.1 Million Tax Fraud Conspiracy

Federal law enforcement agencies conducting a tax refund fraud investigation uncovered at least $13.1 million in fraudulently obtained federal and state tax refunds. The lead investigator in the case said the investigation began when a bank reported anomalous automated clearing house (ACH) credits received from federal and state revenue offices. The lead defendant pled guilty to conspiracy, wire fraud, and aggravated identity theft in the investigation. Other defendants had previously pled guilty to wire fraud. An Assistant United States Attorney indicated he was relatively certain that the remaining 14 defendants would also eventually plead guilty.

A year earlier, a United States Attorney announced an 18-count indictment naming 17 defendants for their alleged involvement in the tax fraud scheme. According to the indictment, conspirators stole identity information (including Social Security numbers), predominantly from elderly nursing home patients, and used it to prepare both federal and state tax returns using tax preparation software. Conspirators allegedly prepared false W-2 information, listing employers that the identity theft victims never worked for, false residence addresses, and other false information. The tax information on the returns was entirely fictitious, according to the indictment.

In order to conceal their true identities, the indictment alleges, conspirators filed these fraudulent tax returns electronically through public Internet “hot spots,” such as coffee shops or restaurants, and through unsecured private wireless networks maintained by unwitting individuals with no connection to the conspiracy. Conspirators often paid the filing fees with credit cards or loadable debit-type cards, the indictment says, which were opened using identity theft victims’ names.

According to the indictment, the false tax information was used to generate at least 365 federal refund claims ranging from $4,000 to $47,000 each. The indictment alleges that conspirators also submitted false returns to 27 state taxing agencies, typically in conjunction with federal returns, to generate claims in the range of $1,500 to $20,000 per return. According to the indictment, conspirators often filed multiple state tax returns in conjunction with a single federal tax return. Mail related to the returns and credit cards was sent to commercial mailboxes across the metropolitan area, the indictment says, and conspirators often used “runners” to pick up this mail in order to conceal their own identities.

Conspirators caused numerous bank accounts to be opened both locally and elsewhere, the indictment says, specifically for the purpose of receiving electronic fund transfers of tax refund payments. Shortly after a refund payment was wired into an account, conspirators allegedly used runners to help them withdraw the money. According to the indictment, conspirators wrote checks to the runners in amounts less than $10,000 and drove the runners from bank to bank to cash the checks until the accounts were depleted or the bank or the IRS detected the fraud and froze the account. The runners allegedly gave the withdrawn funds back to the conspirators and received a small payment for their services.

Some of the money obtained by the conspiracy was wired to banks in a foreign country, the indictment alleges, and on some occasions refund money was withdrawn directly from accounts through automated teller machine (ATM) withdrawals in that country. The indictment also alleges that the conspirators routed some electronic transfers of tax refunds directly to prepaid debit-like cards obtained anonymously through an Internet application process.

The conspiracy began to unravel when bank employees questioned the legitimacy of multiple large federal tax refunds deposited into the account of a co-conspirator, supposedly to benefit apparently unrelated individuals. The lead federal investigator in the case noted that most tax investigations are historical in that the illicit activities they concern are rarely ongoing. In this investigation, notification from the SAR filing bank, previous SAR filings, and filings made subsequent to a federally issued alert to area banks allowed law enforcement to track ongoing activities of many of the defendants. The investigator also credited the SAR filings with speeding up the investigatory process and limiting the need for numerous subpoenas in the case.

One of the Assistant U.S. Attorneys assigned to the case credited associated SAR filings with quick identification of accounts receiving multiple ACH refunds or ACH refunds ostensibly filed for the benefit of legitimate taxpayers received in the accounts of defendants. The prosecutor also indicated that federal recovery of several hundred thousand dollars worth of fraudulently obtained refunds was made easier by SAR filings. Close cooperation between law enforcement agencies and the financial institutions associated with this investigation contributed to the successful prosecution of the case.

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