

Proactive Currency Transaction Report Reviews Lead to Tax Cheats

Case summary: In a proactive use of CTRs, the financial intelligence director with the Manhattan district attorney's office has identified hundreds of businesses that are using check cashers rather than banks as a means of evading Federal, State, and local taxes. The businesses have created, in effect, an underground economy where payments are made in cash. The district attorney has prosecuted the first of potentially hundreds of violators.

Case details: In 2009, the Manhattan, New York, district attorney announced that a defendant pleaded guilty to two counts of evading New York State and City corporate and personal income taxes. The counts are both felonies and occurred over two years.

The investigation leading to the plea revealed that the defendant operated a cash business by negotiating client checks through check cashing establishments. By paying suppliers, subcontractors, and workers with that cash, the defendant was able to conceal the true amount of the business's gross receipts and therefore underreport its profits.

Prosecutors charged the defendant with underreporting over \$1.3 million of the gross receipts on his 2005 New York City general corporation tax return, thereby underreporting his tax liability to the New York City Department of Finance. The defendant also failed to file his 2005, 2006, and 2007 personal income tax returns, and thereby failed to report earnings approaching \$300,000. The defendant did not pay any personal income tax to the New York State Department of Taxation and Finance for the period charged.

The defendant accepted a plea where he could face incarceration in a State facility if he does not comply with all terms and conditions of the plea agreement, which includes the repayment of over \$100,000 in personal income and corporate taxes, accrued interest and applicable penalties, prior to sentence. He will be required to pay the maximum criminal fine of \$100,000 and perform community service. He also will be required to submit tax filings for tax year 2009 that will account for an additional \$2.8 million of unreported gross receipts generated in that period. Each felony he is charged with is punishable by a maximum of 4 years in prison.

The district attorney said, "This case illustrates the continued existence of the underground economy. According to the New York State Banking Department, in 2008 the commercial checking industry negotiated checks totaling almost \$3 billion. All but one commercial check casher was located in New York City."

"By availing themselves of the services of check cashers, business persons conceal a substantial portion, and sometimes all, of the gross receipts of their businesses, and thereby evade several types of City and State taxes, including corporate, payroll and personal income taxes. This is not an isolated case. The investigation has disclosed

hundreds of businesses that have engaged in similar conduct. The extent of the tax evasion is of staggering proportions. ”

The case began when an official with the district attorney’s office searched for CTRs filed by commercial check cashers operating in Manhattan. The number of records was substantial and the analyst saw that many of the subjects/owners were named in multiple CTRs. After downloading the CTRs, the official sorted the data and noticed patterns of activity specific to construction contractors. The BSA data revealed that the CTRs filed by check cashers described transactions by individual businesses totaling hundreds of thousands to millions of dollars per year.

The subsequent investigation uncovered that the defendant and his business had not filed tax returns during the past few years. In addition, this business is only one of over 150 that have conducted the same or similar activity reflected on CTRs. The proactive search uncovered businesses that cashed more than \$500 million in checks during the past 4 years.

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