SARs Help Dismantle Interstate Cigarette Smuggling Operation

A nationwide conspiracy to purchase cigarettes in the South and illegally sell them in Northern States resulted in the loss of millions of dollars in state tax revenue. In some cases, the unpaid tax on a carton of cigarettes was almost $40 a carton. Some of the conspirators made trips south to purchase the cigarettes, while other supplied the cigarettes, knowing they were for out-of-state sales. One defendant was found to be responsible of structuring the illicit payments into local banks.

The defendants pleaded guilty to various counts involving the purchasing, transportation, possession, and distribution of illegal cigarettes. Of note, one subject pled guilty to aiding and abetting structuring, another to aiding and abetting money laundering, and a third to aiding and abetting interstate transportation of stolen goods, money laundering, and aiding an d abetting the counterfeiting of cigarette tax stamps.

As described in court documents, the conspiracy was carried out by defendants acting as both buyers and suppliers. The buyers repeatedly traveled, normally in one or more full-sized vans with out of state license plates, from the northeastern United States to the South for the purpose of purchasing large quantities of cigarettes outside the normal flow of commerce. The suppliers provided the contraband in exchange for cash payment. The buyers and suppliers would arrive at a predetermined time and place and complete the illicit transaction. The buyers would then return to the northeast to sell the smuggled cigarettes at a profit.

To avoid detection of the distribution of illegal cigarettes in the Northeast, the buyers dealt with and sometimes sold counterfeit tax stamps. Eventually, the buyers began using the counterfeit tax stamps to generate additional income or trading them for additional cigarettes.

The buyers often re-invested their profits from the scheme for cash purchases of additional cigarettes. Once the cash transaction took place, a supplier structured the proceeds into the banking system. He would make single deposits in amounts close to $10,000 and make multiple deposits on the same or successive days which totaled just below this limit, avoiding the filing of a CTR on the cash deposits. A financial institution filed several SARs on the defendant for structuring transactions. Through his legitimate business, he deposited large amounts of currency that frequently resulted in CTRs. However, prosecutors noted more than 150 additional suspicious structured transactions that were traced to complicity in the smuggling operation. That defendant was eventually warned by a bank official that his account appeared to show a pattern of deliberate structuring to avoid the filing of CTRs. He acknowledged that he was aware of the structuring regulations and opened a new account in which to deposit profits from the scheme.

[Published in *The SAR Activity Review - Trends, Tips & Issues*, Issue 23, May 2013]