Forbes

Robert W. Wood
THE TAX LAWYER

Vegas Strip Club Owner Faces Prison For Tax Evasion

Taxes 6/09/2017

A man who once owned a Las Vegas strip club has pleaded guilty to evading employment taxes. According to documents filed in court, Frederick John Rizzolo, 58, of Las Vegas, who previously owned the Crazy Horse Too strip club, evaded paying more than $1.7 million in employment taxes for 2000 through 2002. Yes, that is many years ago, but the government can have a long memory. Rizzolo paid the club's floormen, bouncers, bartenders and shift managers in cash. That in itself can be legal, but failing to keep records and then account for all the payments is not. Rizzolo did not provide accurate records of these payments to the Club's bookkeepers. As a result, he caused false employment tax returns to be filed with the IRS, under-reporting wages paid and underpaying the taxes due.

(AP Photo/Charlie Riedel)

In 2006, Rizzolo admitted this conduct and pleaded guilty to conspiring to defraud the United States. But that wasn't the end of his criminal activity. Following his plea, Rizzolo took affirmative steps to conceal his assets and income in order to thwart the IRS from collecting the delinquent taxes he owed. Rizzolo directed $900,000 in sales proceeds from the sale of the Crazy Horse Too to an offshore bank account in the Cook Islands. He also withdrew $50,000 from a bank account, writing a check to a third party. The money was handed back to Rizzolo as a way of avoiding an IRS levy and seizure of the funds.

Then, Rizzolo even lied to an IRS collections attorney, falsely stating that he had no income or assets and no ability to pay the taxes owed. The IRS takes a very dim view of actions in an audit or during IRS collection proceedings that are intended to obstruct the IRS from doing its job. And punishments can be severe. Rizzolo's sentencing is scheduled for Sept. 15. If the court accepts the parties' agreement, Rizzolo will be sentenced to a period of 24 months in prison and will be ordered to pay restitution in the amount of $2,637,290 to the IRS.

Many payroll tax violations can occur quite innocently. Every employer must withhold taxes from employee paychecks, sending the money to the IRS. The IRS calls this trust fund money, so if an employer fails to hand it over to the IRS, it is like theft. The IRS tends to push hard in such situations, especially when payroll tax failures reflect a pattern. The IRS can close a business, and take court action to make it very clear that the IRS does not want a repeat performance. If you are in business, it can be tempting to focus on keeping the rent paid and supplies ordered. You might think that the IRS won't miss the payroll tax money if you just divert it temporarily. But, no matter how good the reason, the practice is dangerous.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.