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# CEO Gets 10 Years' Prison For Employment Taxes And Fraud

A 51-year old medical doctor and entrepreneur named [Sreedhar Potarazu](#) was [sentenced to 119 months and 29 days in prison](#) for defrauding shareholders and failing to account for and pay over employment taxes to the IRS. [Sreedhar Potarazu](#) is an ophthalmic surgeon licensed in Maryland and Virginia. According to court documents, in September 2000, he founded VitalSpring Technologies Inc. (VitalSpring), which provided data analysis and services relating to health care expenditures. In 2015, VitalSpring started doing business as Enziime LLC. Potarazu was CEO, President, and a Director.



He provided false and misleading information to shareholders, who made more than \$49 million in capital investments in the company. Potarazu also concealed from his shareholders the fact that the company failed to account for and pay more than \$7.5 million in employment taxes to the IRS. For example, in 2014, Potarazu provided shareholders with a written

summary of operating results that reflected VitalSpring's 2013 revenues to be approximately \$12.9 million. In fact, the 2013 revenue was less than \$1 million.

Potarazu also concealed from shareholders that VitalSpring owed substantial employment taxes to the IRS. Potarazu provided false corporate income tax returns to shareholders that overstated VitalSpring's income, and he omitted the accruing employment tax liability. From 2011 to 2015, in addition to his salary paid by VitalSpring, Potarazu diverted at least \$5 million from the victim investors and VitalSpring for his own personal use.

Potarazu admitted that from 2007 to 2016, VitalSpring accrued employment tax liabilities of more than \$7.5 million. Potarazu withheld taxes from VitalSpring employees' wages, but failed to fully pay over the amounts withheld to the IRS. He was a "responsible person" obligated to collect and remit the employment taxes to the IRS. Potarazu was aware of the employment tax liability as early as 2007. In fact, between 2007 and 2016, he was frequently apprised of the mounting employment tax problems.

Even so, he repeatedly failed to file employment tax returns with the IRS. He also failed to pay over any of the employment tax withheld from employees' wages. Between 2008 and 2015, instead of paying over employment tax, Potarazu caused VitalSpring to make millions of dollars of expenditures, including thousands of dollars in transfers to himself and others. He also spent money on publishing his book, "Get Off the Dime," on a sedan car service, and travel. Potarazu's book, [Get Off The Dime: The Secret of Changing Who Pays for Your Health](#), was reviewed by Newt Gingrich, who called it compelling and informative: "His vision of empowering patients and employers, by using innovative technology, having transparent costs, and integrating social networking, can truly revolutionize the system from one that fails to one that works."

In addition to the term of prison imposed, U.S. District Court Judge Gerald Bruce Lee ordered Potarazu to serve three years of supervised release, and to pay \$49,511,169 in restitution to the shareholders and \$7,691,071 to the IRS, and forfeiture of several homes, vehicles, and bank accounts. He was remanded into custody. In May 2017, VitalSpring and subsidiary Enziime LLC [filed for Chapter 7](#) in the U.S. Bankruptcy Court in the Eastern District of Virginia.

The IRS can be tough on collecting income taxes, and even tougher where payroll taxes are concerned. The money is withheld from employee wages, and is supposed to be paid over to the IRS. If the IRS doesn't get it, the losses can mount quickly. This is trust fund money that belongs to the government, and no matter how good a reason the employer has for using the money for something else, the IRS is strict. The IRS can target the owners of the business, plus check signers and other responsible persons who had a role--or could have had a role--in the failures to pay. However, even by the standards of bad payroll tax cases, this was a bad one. Dr. Potarazu was defrauding his shareholders, and simultaneously defrauding the IRS. Eventually, it all unraveled.

*For alerts to future tax articles, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not legal advice.*