Forbes

Robert W. Wood
THE TAX LAWYER

TAXES 09/19/22

Harsh 19 Years Prison For False IRS Tax Returns

No one wants trouble from the IRS of any sort, and especially not trouble that ends up becoming a criminal tax case. Sometimes IRS criminal tax cases start off that way, with an investigation. But sometimes, criminal tax cases come out of regular old civil IRS audits. If that sounds frightening, it is. Sometimes even simple interactions with the IRS can go south. A good example of how to land yourself in hot water is if you engage in deceptive or obstructionist behavior with the IRS during an audit. Some people think they can outsmart the IRS and cover something up. Just look at what happened to Todd and Julie Chrisley, who were convicted of tax evasion and bank fraud this year. They have not yet been sentenced.

In the indictments and at trial, the feds alleged that the Chrisleys and their accountant tried to obstruct IRS collection efforts, hide income, lied about their taxes, and in the accountant's case, and even lied to the FBI and the IRS. Many tax cases settle with a plea deal on lesser charges, even criminal tax cases. But the Chrisleys went to trial, and lost in the face of government claims that they lied to get $30 million in bank loans and spent it on a lifestyle they could not afford.

The jury believed prosecutors that the Chrisleys tried to hide their money from the IRS. Saying different things to your bank and to the IRS can be a major mistake. The feds showed that they provided banks with false information such as personal financial statements containing false information, and fabricated bank statements when applying for and receiving millions of dollars in loans. Prosecutors said that the Chrisleys used much of the proceeds for their own personal benefit.

Todd and Julie Chrisley face up to 30 years in prison and their sentences could be harsh. But for the time being, their sentencing has been delayed as the Chrisleys claim that one of the witnesses against them lied on the witness stand. Tax violations that involve big money or that involve other taxpayers and disrupt the tax system can also lead to harsh sentences.

Just this year, Marquet Mattox, of Lilburn, Georgia was sentenced to over 19 years (230 months) in federal prison for filing dozens of fraudulent tax returns on behalf of multiple sham trusts. Mattox was convicted on Aug. 18, 2021, of wire fraud, false claims and theft of government funds. Between 2016 and 2018 Mattox filed more than 30 fraudulent federal income tax returns with the IRS in the names of approximately 12 different trusts. On those returns, Mattox falsely reported that the trusts had withheld large amounts of taxes on purported interest income, thereby entitling the trusts to refunds. In total, Mattox claimed approximately $165 million in refunds on behalf of the purported trusts.

The IRS paid $5 million of the requested refunds. Mattox used those funds to purchase a new house, a luxury automobile and other personal expenses. Prosecutors said the IRS was inundated with the false returns, and paid out the $5 million in error out of a total of $117 million that Mattox had tried to collect. A sentence of 19 years in prison is unusual in a tax case, but this was an unusual case. According to one government official, "Taxpayers should be wary of any individuals promoting and using schemes to submit false filings to the IRS. Should you come across such a scheme, please report it to IRS-Criminal Investigation." In addition to the prison term, Mattox was ordered to pay approximately $3.2 million in restitution and serve three years of supervised release.

Our tax system is complicated and mistakes are common, but criminal tax cases are still rare. Yet a regular civil tax audit can turn into a criminal tax case with the risk of jail time depending on how you behave during the audit. If an IRS auditor discovers something suspicious in a civil audit, the auditor can notify the IRS's Criminal Investigation Division. The IRS is not obligated to tell you that this criminal "referral" is occurring. In fact, normally, the civil auditors may suspend the audit without explanation. You might be pleased, thinking that the audit is over, or at least mercifully stalled so that it might not ever resume. Meanwhile, the IRS can be quietly building a criminal case against you.

False statements to auditors are a huge mistake. Conduct during the audit itself can be pivotal, and is one reason to hire professionals to handle it. Some people end up in criminal tax trouble because they mishandle a civil IRS audit. Whether it is the FBI or the IRS asking questions, don’t lie. And don’t engage in evasive or obstructionist behavior during an IRS audit. You may think you can outsmart the IRS or manipulate the government to come out ahead. You do not have to agree with everything the IRS says in an audit. But, there is an established way of proceeding, and an above-board way to communicate with the IRS. Time and again, evasive or obstructive behavior *during a tax audit* seems to be a pretty reliable way of landing in very hot water.

Check out my website.