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Keeping Two Sets Of Books Can Mean Prison For Tax Evasion

It can be awfully difficult to explain two sets of books to the IRS. Take Jeffrey Nowak, a Las Vegas, Nevada liquor store owner. He was just sentenced to 41 months in prison for conspiring to defraud the United States and tax evasion. Mr. Nowak, 67, and Ramzi Suliman, jointly owned and operated liquor stores in Las Vegas. At Super Liquor Store South Strip, Nowak and Suliman skimmed cash receipts and maintained two set of books in order to under-report income to the IRS.

One set of books accurately reflected the store's sales. A second set of books fraudulently omitted nearly $4 million in cash receipts. Nowak and Suliman provided the phony set of books to their accountant, causing him to create corporate tax returns that significantly under-reported the liquor store's gross receipts and income. The pair under-reported their personal income too.

(AP Photo/Doug McSchooler)

Two sets of books is one of the classic red flags for the IRS. And going to trial to try to explain that it was innocent can be tough. In this case, Suliman pleaded guilty in July 2014 to conspiring with Nowak to defraud the United States and was sentenced on Jan. 18 to serve 12 months in prison, three years of supervised release and to pay $428,003 in restitution to the IRS. In contrast, Nowak was convicted in August 2016, of conspiring to defraud the United States, assisting in the filing of false corporate tax returns and tax evasion. In addition to the prison term, Nowak was ordered to serve three years of supervised release and pay restitution to the IRS.

For another double books and cash skim case, consider the 2015 case involving the president and founder of Detroit-based Happy's Pizza. Happy Asker was found guilty of 32 tax crimes and conspiracy to defraud the U.S. The jury took 4½ hours to convict on 3 counts of filing false returns, 28 counts of aiding and assisting the filing of false returns for Happy's Pizza franchises, and one count of engaging in a corrupt endeavor to obstruct and impede the administration of the Internal Revenue Code. Mr. Asker was sentenced to 50 months in prison, plus 3 years of supervised release. He was also ordered to pay $2.5 million in restitution to the IRS.

In another case, a father and two sons ran two Oregon strip clubs. David G. Kiraz, his father George D. Kiraz, and David's brother Daniel Kiraz, ran the Cabaret Lounge I and the Cabaret Lounge II. They too kept two sets of books, a classic indicator of tax evasion or fraud. When an undercover IRS agent posed as a buyer for the clubs, the owners even revealed the second set of books, explaining how their scam worked.

The business activity of the strip clubs was reported each year on the individual income tax return of David Kiraz. However, the defendants gave their tax return preparers the false financial records maintained at the strip clubs, intentionally causing the return preparers to create tax returns for David Kiraz that did not report substantial amounts of cash obtained through cover charges, stage fees and fines. The under-reporting was substantial. The jury found the three men guilty of conspiracy to defraud the United States, and guilty of filing false tax returns. In 2016, they were sentenced to prison on tax charges.

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