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Vegas Strip Club Owner Gets 2 Years In Prison For Tax Evasion

The former owner of a Las Vegas strip club has been sentenced to 24 months in prison for evading payment of more than $1.7 million in employment taxes. Frederick John Rizzolo, of Las Vegas, the former owner of The Crazy Horse Too, pleaded guilty in June, to attempt to evade and defeat the payment of employment taxes that he owed for 2000 through 2002. According to documents filed with the court, Rizzolo paid The Crazy Horse Too's floormen, bouncers, bartenders and shift managers in cash, but failed to provide accurate records of these payments to the Club's bookkeepers.

Rizzolo caused false employment tax returns to be filed with the IRS, which underreported the wages paid and the taxes that were due. In 2006, Rizzolo admitted this conduct and pleaded guilty to conspiring to defraud the United States. But the case didn't stop there. Following his guiilty plea, Rizzolo took affirmative steps to conceal his assets and income to thwart the IRS from collecting the delinquent taxes that he owed. For example, Rizzolo directed $900,000 that he received from the sale of The Crazy Horse Club, in Philadelphia, 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, who in turn provided the money back to Rizzolo, thereby avoiding an IRS levy and seizure of the funds. Additionally, Rizzolo falsely stated to the IRS that he had no income or assets and no ability to pay the taxes owed. In addition to the term of imprisonment imposed, the judge ordered Rizzolo to serve six months of supervised release, and to pay restitution in the amount of $2,637,290 to the IRS.

Every employer must withhold taxes from employee paychecks, sending the money to the IRS. The IRS calls this trust fund money. 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.

Earlier this year, the IRS watchdog known as the Treasury Inspector General for Tax Administration issued a report with some shocking figures about serious employment tax crimes. The number and size of payroll tax violations is going up, and mere IRS penalties are not enough to stop the trend. The report urges two parts of the IRS--including its Criminal Investigations Division--to act. Employment tax embezzlement is a felony punishable by up to five years in prison. Employers are required to withhold and remit payroll taxes including federal income taxes, Social Security and hospital insurance (Medicare) taxes withheld from employee pay. Willful failure to remit them is a crime.

The report first lays out the levels of payroll tax noncompliance. It also assesses the extent of civil and criminal enforcement actions taken by the IRS. And change is probably coming. The watchdog report recommends that the civil and criminal parts of the IRS take on a new and focused strategy to become more effective against egregious employment tax cases. In addition, the report suggests that IRS collection personnel should expand their criteria for referring potential criminal cases to that division of the IRS. In particular, cases involving over $1 million, and individuals involved in 10 or more companies with payroll tax failures.

The IRS agreed with the need to develop a focused strategy. The IRS disagreed that its collection function should expand the criteria for referring cases to the Criminal Investigation Division. But as these issues get resolved, make no mistake, employment tax noncompliance is a serious crime. When employers fail to account for and deposit employment taxes, which they hold in trust on behalf of the federal government, they are stealing from the government.

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