



# United States Department of Justice

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## LOS ALTOS MAN SENTENCED FOR TAX FRAUD

### *President Of Electronics Firm Diverted Company Funds To Own Use*

SAN JOSE – United States Attorney Joseph P. Russoniello announced that Inn-Chung Chen, a/k/a Daniel Chen, was sentenced on March 10, 2008 to five years probation for conspiracy to defraud the United States and willfully subscribing to a false tax return. The sentence included the condition that he reside in a community confinement facility for four months to be followed by four months of home detention with electronic monitoring. Additionally, he was ordered to pay a \$ 40,000 fine. This sentence is the result of an investigation by the Internal Revenue Service Criminal Investigation.

Mr. Chen pleaded guilty on May 7, 2007 to one count of conspiracy to defraud the United States, in violation of 26 U.S.C. § 371, and one count of willfully subscribing to a false tax return, in violation of 26 U.S.C. § 7206(1).

In pleading guilty, Mr. Chen admitted the following:

From January 1997 until August 2000, Mr. Chen was the president of Top Line Electronics, a contract electronics manufacturer located in San Jose, California. He, along with Thien Sieng Khauv, who was vice-president, controlled Top Line's finances.

Beginning on or about May 2, 1997 and continuing until on or about December 21, 1999, Mr. Chen entered into an agreement with Thien Sieng Khauv, Bryan Lam, and Kevin Lam to divert corporate funds from Top Line into nominee accounts in order to avoid paying taxes and for their own financial gain. Mr. Chen directed overpayments to three subcontracting companies: Twin Electronics, Hi Fi Electronics, and Sage Electronics. These subcontracting companies were owned and operated by Bryan Lam and Kevin Lam. The Lams arranged for the overpayments to be deposited into nominee accounts that were established and controlled by Mr. Chen and Mr. Khauv. Mr. Chen then transferred the money out of the nominee accounts under his control into other bank accounts, or withdrew cash, or used the funds to purchase shares of stock in Top Line Electronics for himself and his relatives. In furtherance of the conspiracy, on May 2, 1997, Mr. Chen wrote a check from Top Line Electronic's bank account to Twin Electronics in the amount of \$43,965.75. Days later, on May 7, 1997, Bryan Lam, who was president of Twin Electronics, wrote a check from Twin Electronic's bank account to a nominee account in the name of Fu-Lai Wang in the amount of \$43,965.75. Mr. Chen controlled the Fu-Lai Wang account and used the funds for his own benefit.

The amount of the overpayments was approximately \$2,117,661.00, resulting in a tax loss of \$905,343.00. Mr. Chen benefitted from the scheme by receiving approximately \$1,270,596.00.

In addition, Mr. Chen failed to disclose the income from the overpayments on his personal tax return. Specifically, on April 11, 2000, he filed a materially false U.S. Individual Income Tax Return for the 1999 tax year with the Internal Revenue Service. He filed the tax return jointly with his wife. In the return, Mr. Chen declared under penalty of perjury that he had an adjusted gross income of \$1,008,609.00, resulting in a joint taxable income of \$905,449.00. However, he knew at the time he signed the return that he had a joint taxable income of approximately \$1,234,059.00, which included income from the overpayment scheme described above.

Mr. Chen, 55, of Los Altos, was indicted by a federal grand jury on December 8, 2005.

The sentence was handed down by United States District Court Judge Ronald M. Whyte following Mr. Chen's guilty plea to one count of conspiracy to defraud the United States, in violation of 26 U.S.C. § 371, and one count of willfully subscribing to a false tax return, in violation of 26 U.S.C. § 7206(1). Prior to the indictment, Mr. Chen amended his personal income tax returns and made full restitution to the Internal Revenue Service, including paying approximately \$170,000 in interest and penalties. He will begin serving the sentence immediately.

Susan Knight is the Assistant U.S. Attorney who is prosecuting the case with the assistance of Susan Kreider. The prosecution is the result of a three year investigation lead by IRS-CI Special Agent Tracy Wong of the Internal Revenue Service Criminal Investigation.

**Further Information:**

Case #: 05-00218 RMW

A copy of this press release may be found on the U.S. Attorney's Office's website at [www.usdoj.gov/usao/can](http://www.usdoj.gov/usao/can).

Electronic court filings and further procedural and docket information are available at <https://ecf.cand.uscourts.gov/cgi-bin/login.pl>.

Judges' calendars with schedules for upcoming court hearings can be viewed on the court's website at [www.cand.uscourts.gov](http://www.cand.uscourts.gov).

All press inquiries to the U.S. Attorney's Office should be directed to Joshua Eaton at (415) 436-6958 or by email at [Josh.Eaton@usdoj.gov](mailto:Josh.Eaton@usdoj.gov).

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