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# News Release

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## Minneapolis couple indicted for defrauding State of Minnesota out of $2.4 million

A federal grand jury indicted a Minneapolis couple for allegedly defrauding the Minnesota Department of Revenue out of $2.4 million through false tax returns.

Carolyn Louper-Morris, 62, and her son, William J. Morris Jr., 41, were each charged with one count of mail/wire fraud conspiracy; seven counts of wire fraud; four counts of mail fraud; one count of conspiracy to commit money laundering; and four counts of promotion money laundering. William Morris was also charged with one count of making and subscribing a false return.

Their indictment alleges that the two conspired to defraud the Minnesota Department of Revenue, CyberStudy customers and the K-Mart Corp. of more than $3 million, by filing thousands of false and fraudulent Minnesota tax returns claiming the Education Tax Credit, and then diverting the resulting income tax refunds to buy homes, luxury vehicles, furs and other items. The indictment also alleges that the two tricked K-Mart into providing computers that they would not pay for.

Louper-Morris was the president, CEO and 51-percent owner of CyberStudy 101, a privately held Minnesota corporation, which offered online educational assistance for college students. Morris was the company's vice president and general counsel, and owned 49 percent of the corporation.

In 2000, the couple began marketing CyberStudy 101 as an Internet-based tutoring program for K-12 students, and was designed to take advantage of the Minnesota Education Tax Credit. The Education Tax Credit program, which began in 1998, provides low-income residents who have children in grades K-12 an opportunity to obtain a tax credit for supplemental educational instruction. Under the program, taxpayers would list qualifying educational expenses on their Minnesota income tax return, which would reduce the amount of income tax which the taxpayer owed by the amount of the educational expenses, and often would result in a tax refund from the Department of Revenue. The Education Tax Credit guidelines allowed taxpayers to claim up to

$1,000 in expenses per child, with a maximum of $2,000 per family. The credit only applied to supplemental instruction and could not be used to purchase computers or computer software.

CyberStudy would charge families with one child $999 for the tutorial program and $1,499 to families with two or more children. The indictment alleges that the defendants told taxpayers that there would be no out-of-pocket cost to sign up for the program because the taxpayer would assign the Education Tax Credit to CyberStudy and give CyberStudy the authorization to file a tax return on the taxpayer’s behalf.

The indictment also alleges that the defendants provided taxpayers printed materials stating that the fee charged by CyberStudy was for the tutorial program, but those who assigned their tax credit to CyberStudy were promised a “free computer” and Internet access for “life” to induce them to sign over their Education Tax Credit to CyberStudy. The company placed advertisements in community newspapers and distributed flyers to schools and community groups promoting the program.

The defendants allegedly made numerous false representations about the content and quality of the tutorial program. The indictment alleges that there was no program in place whatsoever in 2000, and that in 2001 and 2002 the CyberStudy tutorial program did not correspond in any material respects to the defendants’ false representations.

The computers the defendants provided to taxpayers were obtained from K-Mart. In December 2000, Louper-Morris entered into a contract with K-Mart to provide the computers at a price of $529 per computer. Although CyberStudy distributed more than 2,000 computers, the defendants allegedly never paid for them, defrauding K-Mart of more than $1 million.

The indictment alleges that the Minnesota Department of Revenue was deceived into believing that CyberStudy customers had paid for the program prior to applying for the tax credit because the defendants falsely represented that their customers were obtaining a loan from a third-party lender and paying over the loan proceeds to CyberStudy. The defendants allegedly represented that the third-party would be repaid when the customer received their tax refund, which generally was larger because of the fraudulently-claimed tax credit.

The indictment alleges that CyberStudy filed tax returns on behalf of more than 1,800 taxpayers starting in 2001 and 2002, and received more than $2 million in tax credit payments from the department. In 2001, the defendants filed at least 1,500 tax returns claiming refunds of at least $1.8 million. In 2002, they filed at least 300 returns claiming refunds of at least $630,000.

If convicted, both defendants face a potential maximum penalty of 20 years on the wire fraud conspiracy count; 20 years on each wire fraud count; 20 years on each mail fraud count; 20 years on each money laundering count; and 20 years on each promotion money laundering count. Morris Jr. faces an additional potential maximum penalty of three years on the false return count. All sentences are determined by a federal district court judge.

This case is the result of an investigation by the Internal Revenue Service-Criminal Investigation Division and the United States Postal Inspection Service (USPIS), and is being prosecuted by Assistant U.S. Attorney Timothy C. Rank.

If you have information regarding this case, or believe you may be a victim, contact the USPIS at 651-293-3759.

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An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by the defendant. The defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.