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FORFEITURE SOUGHT OF $15 MILLION FOR TAX FRAUD

SACRAMENTO, Calif.—United States Attorney McGregor Scott announced today the filing of two civil complaints seeking the forfeiture of more than $15 million in tobacco products, over $76,000 seized from bank accounts controlled by Ideal Tobacco and Phoenix Cash & Carry, and over $23,000 seized from an account controlled by Pay-Less Wholesale Tobacco.

These cases are the product of a multi-state investigation involving the Bureau of Alcohol, Tobacco, Firearms, and Explosives; the California Board of Equalization; and taxing authorities in Arizona and Nevada.

According to Assistant United States Attorney Kristin S. Door, who is prosecuting the cases, the tobacco products were seized in Los Angeles, Las Vegas, and Phoenix on August 13, 2008. The products consisted of smokeless chewing tobacco and smokeable products such as cigars and known in the industry as “OTP” (other tobacco products). One complaint was filed to forfeit OTP and cash from bank accounts owned by Ideal Tobacco (based in Nevada) and Phoenix Cash & Carry (based in Arizona), and a separate complaint was filed to forfeit OTP and cash from a bank account owned by Pay-Less Wholesale, based in Los Angeles.

These complaints are in addition to two civil complaints filed in September by the United States Attorney’s Office to forfeit commercial property at 12001 Victory Boulevard, Los Angeles and 6525 South Bruce Street, Las Vegas. The government alleges that those properties were purchased with the proceeds of the fraud scheme and are forfeitable to the United States under federal law.

Ideal Tobacco, Phoenix Cash & Carry, Pay-Less Wholesale, and others engaged in a scheme to defraud the State of California out of excise taxes due on the sale of tobacco products within the state. Specifically, RAED MOURI and GEORGE BITTAR established businesses outside the State of California, namely Ideal Tobacco Wholesale in Las Vegas and Phoenix Cash & Carry in Phoenix with the purpose of diverting tobacco products into the State of California in a manner to avoid payment of the excise taxes on those products. Pay-Less Wholesale, which has two locations in Southern California, was engaged in the business of receiving out-of-state shipments of untaxed OTP from Ideal Tobacco and other sources. Pay-Less Wholesale distributed the OTP throughout California and filed false tax returns with the California State Board of Equalization, under-reporting the amount of its sales and the excise taxes due.

The California excise tax for OTP is in excess of 45 percent of the wholesale (pre-tax) cost of the OTP. Due to this high tax rate, a large profit margin exists for individuals or companies who can illegally evade paying the excise tax. Forensic auditors completed an analysis of Ideal’s Nevada tax returns for the period of 2006 to 2007. Of the $24.4 million in total OTP sales reported to California customers, approximately $22.9 million, or 94 percent, appeared to be sales to companies that do not exist. An additional $500,000, or 2 percent, was reported to California businesses or locations that were unlicensed to receive untaxed OTP. Only $990,000, or 4 percent, was reported to licensed California customers. If Ideal's returns had accurately identified their California customers, the California Board of Equalization would have been able to audit those customers and establish liability for unpaid excise taxes.

Pay-Less Wholesale, based in Los Angeles, is owned by ADIB AYOUB SIROPE and RIMOUN DAUOD MANSOUR. According to the investigation, Pay-Less Wholesale failed to report over $1.5 million in tobacco products purchased from Ideal Tobacco, Phoenix Cash & Carry, and others, between October 2004 and March 2008.

The exact loss to the State of California is unknown at this time, but ATF's forensic auditor estimates that this scheme deprived the state of millions of dollars in excise tax revenues.

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