FOR FURTHER INFORMATION CONTACT
AUSA VICKIE E. LEDUC or
MARCIA MURPHY at 410-209-4885
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LAWYER AND CO-CONSPIRATOR SENTENCED IN SCHEME TO SELL PHONY TAX SHELTER

Sold $8 Million in Bogus Tax Deductions, and Concealed Hundreds of Thousands in Income from the IRS

Greenbelt, Maryland - U.S. District Judge Roger W. Titus sentenced A. Thomas Thorson, age 67, of New York, New York, today to 108 months in prison, followed by three years of supervised release in connection with a scheme to sell millions in fraudulent income tax deductions for donations of cemetery sites to conceal income from the sales of the deductions, announced United States Attorney for the District of Maryland Rod J. Rosenstein and Richard Morrison, Acting Assistant Attorney General for the Tax Division of the U.S. Department of Justice. Thorson was convicted by a federal jury on May 11, 2007 of conspiracy to defraud the U.S. Treasury Department and aiding the filing of false income tax returns.

Judge Titus also sentenced co-defendant Glendle R. Johnston, age 65, of Fredericksburg, Virginia,to 37 months in prison, followed by three years of supervised release for conspiracy to defraud the U.S. Treasury Department in the same scheme.

“Our tax system relies upon people honestly reporting and paying the taxes that they owe,” said United States Attorney Rod J. Rosenstein. “People who cheat the IRS are cheating their friends, neighbors and fellow citizens and this case demonstrates that they will be prosecuted and sent to jail.”

"The Tax Division has made it a priority to stop tax fraud schemes by identifying, investigating and prosecuting those who promote them and those who use them," said Richard Morrison, Acting Assistant Attorney General for the Justice Department's Tax Division. "These schemes are a fraud on the federal Treasury, and an insult to all who pay the taxes the law requires."

Special Agent In Charge, Francis L. Turner, IRS, Criminal Investigation stated "Within CI, our mission is to provide a deterrent effect to tax evasion. By educating people about scams and letting people know that offenders are being caught and punished, we hope to accomplish this."

Testimony at Thorson’s three week trial showed that the conspirators convinced wealthy individuals to invest in a partnership called Heritage Memorial Park Associates (HMPA). By becoming partners, the investors were told, they would receive a tax deduction and resulting tax benefit that would be substantially larger than their investment. For tax years 1996 through 1998, more than three dozen investors paid more than $2.3 million to purchase almost $10 million in tax deductions. The investment funds were used to purchase rights to be buried at certain cemeteries at Heritage Memorial Park in Waldorf, Maryland, and Sunrise Lake Memorial Garden, in Stafford County, Virginia. Thorson and his co-conspirators caused an HMPA partnership to donate the sites to a charitable organization.

Thorson and his co-conspirators caused the HMPA partnership to file returns with the Internal Revenue Service that claimed almost $10 million in charitable contributions for donation of the cemetery sites. In fact, the conspirators falsified the purchase dates of the cemetery sites in order to fraudulently claim that the cemetery sites had been held for more than one year prior to the donation. Internal revenue laws allow taxpayers to take a deduction in the amount of the fair market value of property that has been held for more than one year. Relying on the false holding periods, the partnership returns reported charitable donations in the amount of the purported fair market value of the sites, which substantially exceeded the actual cost of the sites. The conspirators also back-dated agreements and other documents to support the false holding periods. As a result, the HMPA partnership returns fraudulently inflated the deductions that the partners could claim on their individual income tax returns by more than $8 million.

Relying on the false partnership returns, the investors filed individual income tax returns for 1996 through 1998 that claimed fraudulently inflated deductions for charitable contributions.

Johnston deposited the millions in sales proceeds into a bank account he controlled, and then disbursed the funds for the benefit of the conspirators. The defendants concealed from the IRS income from the HMPA partnerships. Between 1996 and 1998, Johnston filed false individual income tax returns that failed to report as income more than $150,000 he received from the sales of these deductions. For 1998 and 1999, Thorson personally filed false federal income tax returns that failed to report as income more than $300,000 that he received from the sales of partnership deductions. Rather than reporting the income, Thorson and his co-conspirators endeavored to disguise the proceeds as non-taxable loan payments. To foster this false pretense, Thorson directed that his share of the proceeds be deposited into the bank account of a Nevada shell corporation called AGH, Inc. He then prepared phony loan agreements with AGH and another shell corporation to disguise the nature of the funds as loan payments.

John H. Ross, age 58, of Fredericksburg, Virginia, previously pleaded guilty to conspiracy to defraud the U.S. Treasury Department and is scheduled to be sentenced August 22, 2007.

United States Attorney Rod J. Rosenstein commended the Internal Revenue Service - Criminal Investigation for their investigative work. Mr. Rosenstein thanked Assistant U.S. Attorney Michael R. Pauzé, and Diana Beinart, an attorney from the Tax Division of the Justice Department, who are prosecuting the case.

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