



Department of Justice

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JUSTICE DEPARTMENT SUES TO SHUT DOWN ALLEGED FRAUDULENT EMPLOYMENT-TAX SCAM

Plans Alleged To Disguise Taxable Wages As Non-Taxable Healthcare Reimbursements

WASHINGTON, D.C.- The Justice Department today sued two Midwest men and their businesses, seeking to stop them from selling allegedly fraudulent employee-benefit schemes to employers. The civil injunction complaint, filed in the U.S. District Court for the Northern District of Illinois in Chicago, alleges that 200 employers use the schemes to report lower federal employment taxes by illegally disguising wages as healthcare benefits. According to the complaint, the estimated loss to the U.S. Treasury from the schemes so far may be as much as \$63 million.

According to today's filing, Carmelo Zanfei of Steger, Illinois, and William Crouse of Greenwood, Indiana, sell schemes that fraudulently enable employers to disguise wages (on which employers must pay employment taxes) as purported healthcare reimbursements (which under some circumstances are not taxable). The Justice Department complaint also alleges that employers who use the defendants' schemes underreport wages on W-2 annual wage statements given to employees. According to the complaint, the IRS estimates that as many as 20,000 employees are receiving incorrect wage statements and therefore filing incorrect income tax returns because of their employers' participation in the defendants' schemes. The complaint further notes that the underreporting, if not corrected, could lead to reduced social security benefits for those employees.

"Businesses should be skeptical of employment-tax schemes that promise unrealistic tax savings," said Eileen J. O'Connor, Assistant Attorney General for the Justice Department's Tax Division. "Putting a stop to these schemes is a high priority for the Justice Department and the IRS."

"Employers shouldn't be enticed by schemes to evade employment taxes," said IRS Commissioner Mark W. Everson. "In the end, failure to pay employment taxes amounts to stealing, both from the employees of the business and from honest taxpayers. The owners and directors of businesses should note they are held to a higher standard for payment of employment taxes because they can be personally liable if they don't follow the law."

Today's suit alleges that Zanfei and Crouse have sold the plans-called "Health Incentive" and "HealthIER"-to some 200 employers across the country. The complaint notes that the IRS has so far identified one of the defendants' customer-employers. That employer has more than 300 participants, according to the complaint.

The complaint further alleges that the defendants' fees for the plans are paid by withholding \$20 per month from each affected employee, resulting in the employees paying the fees for their employers' participation in the schemes. Employees' take-home paychecks are allegedly about the same as before using the plan, with most or all of the economic benefits of participating in the bogus scheme going to the employer. As a result, the complaint alleges, employees are unwittingly caught up in a fraudulent scheme that exposes them to substantial future expenses when the scheme is unraveled and they are found to owe back taxes and interest.

According to today's filing, Zanfei and Crouse have been selling the schemes since 2001 through various companies: The Redwood Group, LLC; The Redwood Group, Inc.; TRG Marketing, LLC; Superior Solutions

Group, Inc.; and Paradigm Solutions Group. Zanfei and Crouse allegedly promote their schemes through sales agents and on the Internet at <http://www.PsgWebNet.com>.

The U.S. Department of Labor separately sued Zanfei and Crouse last October, alleging that they improperly mixed assets of a health plan with those of their marketing firm, failed to charge adequate premiums, and failed to establish appropriate underwriting procedures. As a result, participants were allegedly left with between \$5 and \$17.5 million in unpaid medical claims. The Labor Department suit also alleged that Zanfei and Crouse diverted to themselves money that was supposed to be used to pay health benefits. *Chao v. Crouse et al.*, Civ. No. 1:03 -CV-01585-DFH-TAB (S.D. Ind.) <http://www.dol.gov/opa/media/press/ebsa/EBSA2003660.htm>

The Justice Department has sought and obtained injunctions recently against a number of tax-scam promoters. Information on these cases is available at: <http://www.usdoj.gov/tax/taxpress2004.htm>, <http://www.usdoj.gov/tax/taxpress2003.htm>

More information about the Justice Department's Tax Division can be found at: www.usdoj.gov/tax, <http://www.usdoj.gov/tax>.