



New Jersey Attorney General's Office

Division of Criminal Justice

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News

FOR IMMEDIATE RELEASE:

March 2, 2004

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Treasury Department

FRAUD INVESTIGATION RESULTS IN PASSAIC COUNTY TAX PREPARER CHARGED WITH MASTERMINDING \$700,000 TAX FRAUD SCHEME

ALLEGED SCAM MAY BE LARGEST EVER INVESTIGATED IN NEW JERSEY

Attorney General and State Treasurer Target Tax Cheats Through Joint Investigations

*** * * Hotlines Established To Report Tax Cheats & Corruption * * ***
Citizens Against Tax Cheats Hotline @ (609) 292-6400
1-866-TIPS-4CJ OR Log-On @ www.njdcj.org To Report Corruption

TRENTON —Attorney General Peter C. Harvey and State Treasurer John E. McCormac today announced that a joint-agency investigation targeting tax fraud has uncovered what may be one of the largest “tax refund fraud” schemes yet investigated by state authorities. The ongoing investigation has resulted in the filing of criminal charges against a Passaic County tax preparer alleging that she filed more than 1,970 fraudulent New Jersey tax returns seeking over \$708,000 in illegal refunds.

“This investigation, along with the allegations outlined in the complaint, uncovered a deliberate and blatant attempt to steal hundreds of thousands of dollars from the state treasury by filing hundreds of fraudulent tax returns. The prosecution of this defendant demonstrates the resolve and forward thinking by the Division of Criminal Justice and the Division of Taxation as they undertake concerted efforts to target tax cheats,” said Attorney General Harvey. “Make no mistake, we intend to recoup and return missing and due and owing tax dollars to our treasury and to New Jersey’s honest taxpayers.”

“This case sends a clear and sobering message that New Jersey has zero-tolerance for tax fraud,” said Treasurer McCormac. “Tax fraud is a serious crime with severe consequences. When filers cheat on their taxes, they steal from the State and from law abiding citizens who play by the rules.”

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Vaughn L. McKoy, Director, Division of Criminal Justice and Robert K. Thompson, Director, Division of Taxation, said that Rosa M. Castro, 48, 16 Hillman St., Clifton, Passaic County, has been charged in a complaint summons with theft by deception and filing and/or preparing false or fraudulent tax returns. Castro, a self-employed tax preparer, was charged yesterday morning (Mon., March 1) by state investigators from the Division of Criminal Justice - Financial Crimes Bureau and tax agents from the Division of Taxation's Office of Criminal Investigations. At approximately 8:00 a.m., law enforcement agents conducted a search of Castro's residence/office pursuant to a court authorized search warrant. Castro was issued a complaint summons which will require her appearance in Passaic County Superior Court for arraignment and bail. The second degree charges carry a maximum penalty of up to ten years in state prison and a fine of up to \$150,000 upon conviction.

The tax fraud investigation was initiated by auditors and agents assigned to the Division of Taxation in February, 2003. The investigation targeted Castro's alleged filing of at least 1,978 fictitious and/or fraudulent New Jersey Gross Income Tax returns for the tax years 1999, 2000, 2001, 2002, and 2003. It is alleged that Castro prepared and filed New Jersey tax returns for herself, family members, friends and others using actual and fictitious names and social security numbers. Two types of fraud have been identified, including "Earned Income Tax Credit" fraud and "Refund" fraud. The Division of Criminal Justice - Financial Crimes Bureau entered the investigation to pursue violations of New Jersey's criminal statutes.

Additionally, the criminal complaint alleges that on Jan. 23 and 27, 2004, undercover state investigators from the Division of Criminal Justice scheduled an appointment with Castro seeking to have her prepare 2003 tax returns. It is alleged that Castro prepared false and fraudulent tax returns utilizing fictitious information on behalf of the undercover investigators.

In the category of "Earned Income Tax Credit" fraud, the investigation has thus far uncovered;

- 1,254 individual tax returns seeking \$708,820 in Earned Income Tax Credit refunds;
- only 257 addresses were listed in the 1,254 tax returns;
- the 1,254 tax returns contained much of the same financial information, including a taxable income of zero... no line "1" income... Schedule C or Schedule C-EZ income... same "head of household" filing status;
- 80 tax returns listed Rosa M. Castro, 16 Hillman Street, as preparer;
- 127 tax returns used 16 Hillman Street as a residence or return address.

In the category of "Refund" fraud, the investigation uncovered;

- 724 individual tax returns seeking more than \$85,000 in refunds for overstated medical expense deductions;
- total amount of medical expenses claimed was \$6,068,945;
- 248 separate tax returns report exactly \$9,000 in medical expenses or 29 percent of W-2 income;
- 274 separate tax returns report exactly \$9,500 in medical expenses or 30 percent of W-2 income;
- average medical expense on the 724 individual tax returns is \$8,482 or 31 percent of W-2 income;
- 684 tax returns list Rosa M. Castro as preparer.

“The outcome of this investigation shows how inter-agency cooperation and team work can result in a successful effort to combat fraud,” said Director Thompson. “We have an obligation to enforce our tax laws to ensure that all taxpayers pay their fair share.”

“With the filing of criminal charges against Castro, the alleged illegal tax preparation operation has been effectively shut-down,” said Criminal Justice Director McKoy. “The ongoing investigation uncovered evidence that Castro sought out names, social security numbers and other identification information from residents in the Hispanic community as well as illegal immigrants in order to perpetuate the alleged and fraudulent ‘get-rich-quick’ scheme. The investigation will be presented to a State Grand Jury for possible indictment.”

Director Thompson noted that anyone with information about unscrupulous tax preparers, or any type of tax fraud, are encouraged to contact the New Jersey Division of Taxation’s **“Citizens Against Tax Cheats or CATCH”** program. The hotline number is: **(609) 292-6400**. Information can also be mailed to:

New Jersey Division of Taxation
50 Barrack Street
P.O. Box 190
Trenton, NJ 08695-0190
Attention: Citizens Against Tax Cheats

In announcing the investigation, Director McKoy noted that the Division of Criminal Justice has established a toll-free **“Corruption Tipline”** for the public to report corruption, financial crime and other illegal activities. The statewide “Corruption TipLine” is: **1-866-TIPS-4CJ**. Additionally, the public can log on to the Division of Criminal Justice Web Page at **www.njdcj.org** to electronically report suspected wrongdoing. Any information received via the Division of Criminal Justice “Corruption Tipline” or the Division of Taxation “CATCH Hotline” will remain confidential.

Attorney General Harvey and Treasurer McCormac noted that in 2002, the Divisions of Criminal Justice and Taxation announced streamlined investigative procedures targeting tax fraud cases. A Memorandum of Understanding (MOU) signed by the two agencies outlined revised protocols for the sharing of tax information between the Division of Taxation and the Division of Criminal Justice in the course of criminal investigations. The MOU removed administrative roadblocks encountered by the Division of Criminal Justice in conducting criminal investigations targeting tax fraud and established clear guidelines to preserve confidentiality protections for tax records while greatly increasing the ability of state investigators to obtain tax information relevant to investigating tax fraud crimes. Under the MOU, state investigators from the Division of Criminal Justice have partnered with counterparts in the Division of Taxation to better investigate and prosecute allegations of tax fraud.

Chief Investigator Sue Kane of the Division of Taxation - Office of Criminal Investigation and State Investigator Cheryl Smith of the Division of Criminal Justice - Financial Crimes Bureau coordinated the investigation. Supervising Deputy Attorney General Terrence Hull and Deputy Attorney Frank Brady of the Division of Criminal Justice - Financial Crimes Bureau along with Assistant Chief Rich Mawer and Assistant Chief Bob Morris of the Division of Taxation’s Office of Criminal Investigation, conducted the investigation. Additional investigative support was provided by state investigators Lou Matirko, Noelle Holl and John Ho. The Clifton Police Department assisted in the course of the search warrants.

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