

IRS Fact Sheet

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Automotive Sales Industry

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During the past three years, the Internal Revenue Service has seen an increase in scams and fraud involving the automotive sales industry. Some scam artists have knowingly assisted narcotics traffickers in laundering their ill-gotten gains, while others submit false loan documents to financial institutions to obtain car loans.

Special agents of IRS Criminal Investigation have investigated and recommended to the Department of Justice for prosecution numerous individuals involved in the automotive sales industry. These investigations vary from tax evasion to employment tax fraud to money laundering conspiracies to violations of the Bank Secrecy Act.

In addition, the IRS has more than 1,000 open audits of the tax returns of new and used car dealers for a variety of issues.

Automotive Sales Industry and Anti-Money Laundering

Automotive dealers are required to file Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, with the IRS when they receive more than \$10,000 in cash in one transaction (or two or more related transactions).

The Form 8300 is an information return that assists the government in its anti-money laundering efforts and must be filed by the 15th day after the date the cash transaction occurs.

Normally, when the Form 8300 is filed, a correlating Form 4789, Currency Transaction Report, is filed by a financial institution when the same cash is deposited with the financial institution.

For example, if an automotive dealer receives a cash payment of over \$10,000 for a vehicle, the dealer must file a Form 8300 with the IRS. When the dealer deposits that cash into a financial institution, the financial institution is also required to report the \$10,000 or over cash transaction to the IRS by filing a Currency Transaction Report, Form 4789.

When a discrepancy is found between the filings of Forms 8300 for cash sales and the filings of Forms 4789 for currency deposits, it's often an indication of a possible violation of the currency reporting laws.

A scheme regarding the Form 8300 has surfaced that describes a "dumping clause" or an "IRS Form 8300 Exemption Certification" that can be filled out by the potential client to exclude the business from filing the required form. The IRS says, "There is no such clause or certificate."

Automotive Sales Industry Statistics

Tax fraud investigations are the main component of IRS efforts to foster compliance with the tax laws. Many of these investigations include white-collar financial crimes in legal industries and involve individuals from all facets of our economy. In the past three and a half years, IRS has initiated over 280 investigations involving individuals in the sales sector of the automotive industry. Fifteen percent of those cases involve violations of the currency reporting requirements of the Form 8300.

For the first half of fiscal year 2003, the United States Attorney's Office has filed indictments or informations on twice as many individuals for the same time period as fiscal year 2002, and the average sentence has jumped from 38 months to 55 months.

	FY 2000-2002 Totals	FY 2002 (10/01- 5/31)	FY 2003 (10/01- 5/31)
Initiations	219	54	65*
Prosecution recommendations	146	22	35
Indictment/information filed	145	19	38
Convictions	136	29	18
Sentenced	155	34	22
Incarceration rate	78.9%	61.8%	72.7%
Avg. months to serve (w/prison)	37	38	55
Avg. months to serve (all sent)	32	24	40

*** How to Interpret Criminal Investigation Data**

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year. Therefore, in fiscal year 2004, the data should reflect an increase in convictions and sentenced due to the fiscal year 2003 increase in case initiations, prosecution recommendations and indictments.

Case Summaries

The following case summaries are excerpts from public record documents on file in the court in the judicial district in which the cases were prosecuted.

Allstate Auto Sales West, Inc.

On Aug. 6, 2003, Harry F. Zanko, owner of Ohio-based Allstate Auto Sales West, Inc., was sentenced to four years probation, with the first twelve months in electronically monitored home confinement, for attempting to evade his income taxes for 1996, in

violation of Title 26, 7201 of the United States Code. As a condition of his probation Zanko was also ordered to perform 300 hours of community service, refrain from gambling and attending gambling establishments, attend mental health counseling for his gambling addiction, follow doctor's instructions regarding his treatment of diabetes, and cooperate with the IRS in determination and payment of his civil tax liabilities.

According to court documents, Zanko's source of income from 1996 through 1998 was from owning and operating used car lots, initially with a partner in Cleveland, Ohio, under the name of Allstate Auto Sales. Then in 1998 he moved to a new location in Parma, Ohio, where he operated a dealership alone under the name of Allstate Auto Sales West, Inc.

Zanko acknowledged that he diverted receipts and funds for his personal use consisting of: (1) currency payments by customers, (2) four check payments from customers, and (3) various checks written on the corporate checking account, which he recorded on the corporate disbursements records as being for business purposes. Zanko attempted to evade income taxes of approximately \$249,669 for the years 1996 through 1998, by willfully understating his income for those years by approximately \$1,151,636 on his personal income tax returns and amended 1996 return.

Raley-Vaughan Motor Company, Inc.

On April 7, 2003, four family members who operated an automobile dealership in Rogersville, Tenn. were sentenced to prison terms ranging from 22 to 30 months for conspiring to commit various schemes to fraudulently obtain money, according to court documents.

The family ran the Raley-Vaughan Motor Company, Inc. (RVMC) with Terry Vaughan as Vice President and general manager. His mother, Wanda Vaughan, was Secretary/Treasurer and a co-owner, and his father, Edward Vaughan, was President and a co-owner. His sister, Sheree Vaughan Kelso, was employed by the dealership handling accounting, sales and other duties.

During the course of the conspiracy, the Vaughan family, through RVMC, (1) fraudulently obtained money, funds and credit by making false applications, installment contracts, promissory notes and other documents to banks and lending institutions; (2) engaged in a scheme to defraud General Motors Acceptance Corporation (GMAC); (3) deposited non-sufficient funds to RVMC accounts to fraudulently inflate the balances, and (4) used the money unlawfully obtained from banks, lending institutions and GMAC to promote the fraudulent schemes.

Terry E. Vaughan was sentenced to a prison term of 30 months. Edward K. Vaughan, Wanda R. Vaughan and Sherree Vaughan Kelso were sentenced to prison terms of 22 months. All prison terms are to be followed by 36-months of supervised release and the four were ordered to pay restitution totaling \$572,250.

Car Outlet

On Nov. 15, 2002, Andrew S. Holloway, owner of Car Outlet in Blue Springs, Mo. was sentenced to 30 months in prison for laundering the proceeds of another person's

cocaine trafficking, according to court records. In August 2002, Holloway pleaded guilty to charges that he conducted a financial transaction that involved the proceeds of an unlawful activity, knowing that the transaction was designed to avoid a federal transaction-reporting requirement.

According to court records, Holloway sold a 1999 Chevy Tahoe to a cocaine dealer for \$21,000, which he knew represented the proceeds from unlawful drug sales. Holloway admitted that he assisted the cocaine dealer in concealing his use of substantial amounts of cash by creating false sales documents, which understated the purchase price of the vehicle. Those false sales documents were created to avoid filing Form 8300 with the IRS, and to conceal the method of payment.

Relevant Criminal Statutes

There are many United States Code Statutes for which IRS has jurisdiction with which to recommend prosecution. The ones most commonly associated with persons involved in the automotive industry are the following.

- Title 26 USC Section 7201, Attempt to evade or defeat tax
- Title 26 USC Section 7203, Willful failure to file return, supply information, or pay tax
- Title 18 USC Section 1956, Laundering of monetary instruments
- Title 18 USC Section 1957, Engaging in monetary transactions in property derived from specified unlawful activity
- Title 31 USC Section 5324, Structuring transactions to evade reporting requirement.

All except the Title 26, 7203 charge are felony criminal statutes, some of which carry a possible maximum sentence of 20 years.

Additionally, there are provisions under the federal statutes that allow for the seizure of vehicles and/or funds from auto dealerships that knowingly engage in transactions which involve proceeds derived from a specified unlawful activity (Title 18 USC Section 981 & Title 18 USC 982).

Where to Find More Information

The IRS has an Automotive Tax Tips page on IRS.gov that provides important information to assist automotive businesses when reporting their taxes.

If you suspect or know of an individual or company that is not complying with the tax laws, please report this activity. Report suspected tax fraud by phone, mail or at your local IRS walk-in office.

- **By phone:** Call 1-800-829-0433. International callers may call their US Embassy or call 215-516-2000 (this is not a toll-free number).
- **By mail:** Send letters to the address where you filed your tax return. Addresses can be found on IRS.gov.
- **Walk-in Offices:** IRS Taxpayer Assistance Centers are located around the country. Locations can be found on IRS.gov.

Links on IRS.gov

- [Form 8300](http://www.irs.gov/pub/irs-fill/f8300.pdf), Report of Cash Payments Over \$10,000 Received in a Trade or Business — <http://www.irs.gov/pub/irs-fill/f8300.pdf>
- [Form 4789](http://www.irs.gov/pub/irs-fill/f4789.pdf), Currency Transaction Report — <http://www.irs.gov/pub/irs-fill/f4789.pdf>
- [United States Code Statutes](http://www.irs.gov/irs/article/0,,id=108861,00.html) — <http://www.irs.gov/irs/article/0,,id=108861,00.html>
- [Automotive Tax Tips](http://www.irs.gov/businesses/small/industries/article/0,,id=98978,00.html) — <http://www.irs.gov/businesses/small/industries/article/0,,id=98978,00.html>
- [Where to File Addresses For Use During 2003 Calendar Year](http://www.irs.gov/file) — <http://www.irs.gov/file>.
- [Contact My Local Office](http://www.irs.gov/localcontacts/index.html) — <http://www.irs.gov/localcontacts/index.html>.