

# IRS



## Fact Sheet

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### Taxes and the Medical Profession

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On Nov. 4, 2004, the Department of Justice (DOJ) announced that a federal court in San Diego, Calif. issued a temporary restraining order to California-based Xélan, Inc., and a number of related entities and persons affiliated with the Xélan family of companies. The order freezes over \$500 million in bank and investment accounts. According to court documents, persons and entities affiliated with California based Xélan, Inc., and its family of companies have advised thousands of medical professionals, doctors and dentists, to place income in various fraudulent tax avoidance schemes employing purported supplemental insurance products or improper charitable deductions. According to the complaint, the Internal Revenue Service estimates that the defendants have sold their fraudulent tax reduction schemes to approximately 4,000 doctors, with the result that those doctors could now owe as much as \$420 million in taxes plus interest and penalties.

One of the IRS's top priorities is combating abusive tax schemes and promotions. For the last three years, the IRS has met with members of the American Medical Association and American Dental Association to educate medical professionals about scams, schemes and cons being promoted to that profession.

#### Audits

In addition to criminal cases, IRS has thousands of taxpayers in the medical industry under audit.

#### Criminal Investigation Statistical Information Regarding Medical Professionals

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Investigations Initiated	44	89	75	59
Prosecution Recommendations	36	36	29	42
Indictments/Informations	29	51	16	32
Convictions	35	43	28	27
Incarceration Rate*	85.7%	74.4%	75.9%	84.0%
Avg. Months to Serve	15	16	20	44

\*Incarceration may include prison time, home confinement, electronic monitoring, or a combination.

#### Recent Criminal Cases Involving Medical Professionals

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

**Ohio Doctor Sentenced After Pleading Guilt to Fraud and Tax Charges.** On Aug. 13, 2004, in Cleveland, Ohio, John Michael Lonergan, M.D., was sentenced to two years in prison, followed by three years supervised release and 180 hours of community service after pleading guilty to mail fraud, healthcare fraud and tax fraud. Lonergan was also ordered to pay \$339,056 in restitution to the federal Medicare and Medicaid Programs. From 1999 through 2001, Lonergan billed Medicare and Medicaid for house calls he did not perform; he charged higher private house call rates when in fact he visited patients in group homes, or had them come to his home; and he charged for visits performed by an unlicensed person. Lonergan also falsified federal tax returns to evade paying back taxes; reported portions of his income on the tax returns of two individuals without their knowledge and created a sham corporation to hide income.

**San Antonio Pharmacist Sentenced and Four Doctors Plead Guilty in Connection With Internet Pharmacy Operation.** On Feb. 13, 2004, William Adams Stallknecht, a San Antonio pharmacist, was sentenced to 12 months in federal prison for illegally dispensing controlled substances through the use of The PillBox — one of the largest Internet pharmacy operations of its kind. Stallknecht was also ordered to forfeit \$1 million; his interests in the Internet addresses used in the scheme, his pharmacy licenses and pay restitution in the amount of \$53,341.00 and be placed under supervised release for a period of three years after completing his prison term.

On April 10, 2002, the defendant, on behalf of himself and two corporations, the S & H Script Shop, Inc., and the PillBox Medical Center, LLC, pled guilty to illegally dispensing hydrocodone, (an addictive prescription painkiller) a Schedule III controlled substance. Stallknecht's co-defendants — David Lyman Bryson, a Kerrville, Texas physician; Ernesto Alfonso Cantu, a San Antonio physician; Mark Robert Wade, a Memphis, Tenn. physician; and San Antonio resident Brian Thomas Hildebrand; have all pled guilty to conspiring to illegally dispense controlled substances.

The PillBox business operation included the web-based pharmacy and a web-based physician referral service, both parts of the scheme to dispense large quantities of hydrocodone and diazepam (more commonly known as valium), as well as other controlled substances and dangerous drugs. The PillBox website referred customers seeking prescription drugs to a physician referral website in order to obtain a doctor's prescription. Between Jan. 1, 2000 to June 12, 2001, the operation allegedly grossed over \$7.7 million from the Internet sales of hydrocodone and diazepam.

**Doctor in Montana Sentenced.** On Nov. 20, 2003, Glenn Claude Winstead was sentenced in Missoula, Mont. to 18 months in prison for tax evasion. On June 16, 2003, Winstead entered into a plea admitting that he willfully attempted to evade and defeat the payment of a large part of the income tax due and owing by him to the government for the calendar years of 1987, 1991, 1992 and 1993, in the amount of \$98,790 (not including penalties and Interest). Winstead concealed or attempted to conceal from the IRS the extent of his income and assets and location by placing his income and assets into a nominee corporation name, Grey Forrest Corp., for the purpose of evading tax that had been assessed based upon returns filed for those tax periods, thereby disguising income.

**Where Do You Report Suspected Tax Fraud Activity?**

If you suspect tax fraud or know of any business professional abusing the tax system, you should report this activity to your nearest IRS office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.