

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NORTH CAROLINA
EASTERN DIVISION

NO. 4:13-CR-28-1BR

FILED

APR 29 2013

JULIE A. RICHARDS, CLERK
US DISTRICT COURT, EDNC
BY KM DEP CLK

UNITED STATES OF AMERICA)
)
 v.)
)
 LARRY D. HILL, JR.,)
)
 Defendant.)

CRIMINAL INFORMATION

The United States Attorney charges that:

COUNT 1

(Title 18, United States Code, Section 286 - Conspiracy)

A. THE CONSPIRACY

1. Beginning on or about February 6, 2010, and continuing until on or about October 2, 2012, in the Eastern District of North Carolina and elsewhere, defendant

LARRY D. HILL, JR.,

did knowingly and willfully conspire, confederate, and agree with other individuals to defraud the United States by obtaining and aiding to obtain the payment and allowance of false, fictitious, and fraudulent claims on behalf of himself and others by submitting false claims for federal income tax refunds to the United States Department of Treasury through the Internal Revenue Service (IRS).

B. INTRODUCTION

2. Defendant LARRY D. HILL, JR., was a resident of Rocky Mount, North Carolina, which is within the Eastern District of North Carolina.

3. Defendant LARRY D. HILL, JR., owned, operated, and managed Hill's Tax Service (HTS), a tax return preparation business located exclusively within the Eastern District of North Carolina. HTS began operations in 2010 as a sole proprietorship. HTS was incorporated under the laws of North Carolina on March 3, 2011. At various times between 2010 and 2012, inclusive, HTS maintained offices in Rocky Mount, Farmville, Scotland Neck, Hollister, and Wilson. Among other things, LARRY D. HILL, JR., provided the facilities, equipment, software, supplies, and training for the return preparers that he employed to use in the preparation of tax returns.

4. Between 2010 and 2012, inclusive, LARRY D. HILL, JR. and his co-conspirators, prepared and filed, and caused others to prepare and file, numerous U.S. Individual Income Tax Returns ("Forms 1040") for tax years 2009, 2010, and 2011 claiming false, fictitious, and fraudulent refunds that the taxpayers were not entitled to receive.

5. LARRY D. HILL, JR., and his co-conspirators advertised HTS in the Rocky Mount area using a combination of radio, newspaper print ads, billboards, and flyers. LARRY D. HILL, JR., and his co-

conspirators made false statements in certain of these advertisements in order to lure customers to HTS.

6. The Earned Income Tax Credit (EITC) was a refundable credit for low-income working individuals and families. The EITC was calculated as a percentage of an earned income level. The EITC increased as a taxpayer earned increasing amounts of income until the taxpayer's reached a specified amount. The EITC decreased and phased out completely for taxpayers who made more than a specified amount.

C. MANNER AND MEANS OF THE CONSPIRACY

The conspiracy was effectuated and accomplished, in part, by the following acts:

7. On or about August 17, 2009, LARRY D. HILL, JR., caused a nominee to apply for and obtain an Electronic Filing Identification Number (EFIN) from the IRS for use at HTS's first office location at 103 Atlantic Avenue, Rocky Mount, North Carolina (hereinafter, "HTS Atlantic Avenue"). The EFIN allowed LARRY D. HILL, JR., and return preparers at HTS Atlantic Avenue to transmit Forms 1040 to the IRS electronically.

2010 Filing Season - The 1099 Scheme

8. During the 2010 filing season (*i.e.*, 2009 Forms 1040), HTS Atlantic Avenue electronically transmitted to the IRS over 300 federal tax returns. In the aggregate, the returns claimed tax refunds in excess of \$1.5 million. Most of the returns exhibited

one or more material false items, resulting in refund claims to which the taxpayers were not entitled. LARRY D. HILL, JR., and his co-conspirators falsified, and caused the falsification of, the returns in order to inflate the refund amounts.

9. The most prevalent false item on the 2009 Forms 1040 prepared at HTS Atlantic Avenue was unsubstantiated Schedule B interest income (Line 8a). The interest income figures were not supported by Forms 1099-INT, which are sent to the IRS by the payer(s) of the interest (typically a bank or other financial institution). The reason for this was simple: the interest income figures were completely false. The parties identified on the returns as the payers of the interest were fabricated by LARRY D. HILL, JR., and his co-conspirators.

10. LARRY D. HILL, JR., and his co-conspirators reported false interest income figures on HTS customer returns in order to inflate the claimed refund amounts. By manipulating the customer's income level in this manner, LARRY D. HILL, JR., and his co-conspirators maximized the amount of the EITC, and thus the total refund amount. To offset the interest income, which would otherwise be taxable, LARRY D. HILL, JR., and his co-conspirators reported false withholdings (i.e., tax payments) that equaled the interest income amounts. The object of this scheme was to generate fraudulent refund proceeds for LARRY D. HILL, JR. and his co-conspirators (hereinafter, the "1099 Scheme").

False Dependents Scheme

11. In addition to the 1099 Scheme, there were other schemes and methods that were commonly used by LARRY D. HILL, JR., and his co-conspirators, to produce false tax refunds. For example, LARRY D. HILL, JR., and his co-conspirators routinely prepared false Forms 1040 that reported the names and Social Security numbers of individuals as "dependents" when the individuals were not the legitimate dependent of the customer. The dependent information was obtained from various sources, and through various means, by LARRY D. HILL, JR., and his co-conspirators.

2011 Filing Season - Expansion & Continued Use of 1099 Scheme

12. After the 2010 filing season, and in anticipation of the 2011 filing season, LARRY D. HILL, JR., took steps to expand HTS's operations. Among other things, LARRY D. HILL, JR., established additional offices at 845 Starling Way in Rocky Mount ("HTS Starling Way"), 1203 Main Street in Scotland Neck ("HTS Scotland Neck"), 34835 Highway 561 in Hollister ("HTS Hollister"), and 3700-B East Wilson Street in Farmville ("HTS Farmville"). LARRY D. HILL, JR., used the name of a nominee to apply for and obtain EFINS from the IRS for each of these offices on various dates in September, 2010.

13. During the 2011 filing season (i.e., 2010 Forms 1040), HTS Atlantic Avenue, HTS Starling Way, and HTS Scotland Neck collectively transmitted to the IRS over 1,000 federal tax returns.

In the aggregate, the 2010 Forms 1040 transmitted by these three offices claimed tax refunds in excess of \$5.4 million. As was true during the previous filing season (*i.e.*, 2009 Forms 1040), most of the returns exhibited one or more materially false items, resulting in refund claims to which the taxpayers were not entitled.

14. During the 2011 filing season, LARRY D. HILL, JR., and his co-conspirators continued to falsify, and cause the falsification of, the tax returns in order to inflate the refund amounts. For example, the majority of the 2010 Forms 1040 filed by HTS Atlantic Avenue, HTS Starling Way, and HTS Scotland Neck, respectively, used the 1099 Scheme to produce false and fraudulent refund claims.

2012 Filing Season - Continued Expansion & The HSH Scheme

15. After the 2011 filing season, in anticipation of the 2012 filing season, LARRY D. HILL, JR., opened one additional HTS office located at 520 East Nash Street in Wilson ("HTS Wilson"). On December 5, 2011, LARRY D. HILL JR., used a nominee to apply for and obtain from the IRS an EFIN for HTS Wilson.

16. During the 2012 filing season (*i.e.*, 2011 Forms 1040), a total of five HTS offices - HTS Atlantic Avenue, HTS Starling Way, HTS Farmville, HTS Hollister, and HTS Wilson - were preparing returns for customers (only HTS Scotland Neck was inactive). These offices collectively transmitted to the IRS over 1,500 federal tax returns for tax year 2011. In the aggregate, the returns claimed

tax refunds in excess of \$7.5 million. Most of the returns continued to exhibit false and fraudulent items, resulting in refund claims to which the taxpayers were not entitled.

17. LARRY D. HILL, JR., and his co-conspirators continued to falsify the returns of HTS customers in order to inflate the refund amounts. However, the 1099 Scheme was phased out during the 2012 filing season and replaced by a different scheme involving the reporting of false household help (HSH) income (hereinafter, the "HSH Scheme").

18. HSH is a form of income earned by taxpayers performing certain domestic care tasks for which they do not receive Forms W-2 or other payment documentation from their employer. LARRY D. HILL, JR., and his co-conspirators used HSH as a vehicle for fraud. At one office, for example, 93 percent (93%) of 650 filed returns reported HSH income.

19. The HSH Scheme was similar to the 1099 Scheme in that LARRY D. HILL, JR., and his co-conspirators used it to manipulate the income level of the customer in order to maximize the amount of the EITC, and thus the amount of the total refund.

Distribution of Refund Proceeds

20. The tax refund proceeds were distributed to LARRY D. HILL, JR., HTS return preparers, HTS "runners" (individuals employed to recruit customers, purchase dependent information, and provide security), dependent providers, and, finally, the individual HTS customer in whose name the tax return was filed.

LARRY D. HILL, JR., and his co-conspirators ensured that any given tax return included enough false information to produce a false refund amount that was sufficient to pay themselves.

21. Generally, LARRY D. HILL, JR., collected a portion of every fraudulent refund check in two distinct phases.

a. First, LARRY D. HILL, JR., deducted a fee ranging from \$360 to \$400 from every refund check generated through HTS's return preparation software; this amount was transferred from a special use bank account, maintained by an unwitting financial institution, into a business bank account in the name of LARRY D. HILL, JR. d/b/a Hillboys Tax Service.

b. Second, LARRY D. HILL, JR., personally collected, on average, \$1,000 or more in cash from every fraudulent refund check cashed by HTS customers. Initially, refund checks were cashed at check cashing stores. In later years, HTS would cash the checks for customers for a \$100 fee that was paid to LARRY D. HILL, JR.

22. LARRY D. HILL, JR., did not report any of the cash income that he earned through HTS on his personal Forms 1040.

23. HTS return preparers were generally paid \$25 "on the books" for every tax return that they prepared for HTS customers. With LARRY D. HILL, JR.'s consent and approval, return preparers negotiated an additional, "off the books" cut for themselves. This amount was deducted from the fraudulent refund check proceeds.

All in violation of Title 18, United States Code, Section 286.

COUNT 2

(Title 26, United States Code, Section 7206(1) - False Return)

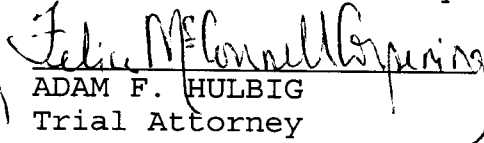
24. The factual allegations contained in Paragraphs 1 through 23 above are realleged and incorporated herein as if set forth in full.

25. On or about October 16, 2011, in the Eastern District of North Carolina, the defendant, LARRY D. HILL, JR., did willfully make and subscribe a U.S. Individual Income Tax Return, Form 1040, for the calendar year 2010, which was verified by a written declaration that it was made under penalties of perjury and which he did not believe to be true and correct as to every material matter. That income tax return, which was filed with the IRS, was materially false and fraudulent in that it, among other things, falsely reported total income of \$8,750 on line 22 when, in fact, LARRY D. HILL, JR., then and there well knew he received income in addition to the amount stated in the return.

All in violation of Title 26, United States Code, Section 7206(1).

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BY:



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