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APRIL 12, 2007
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TWO PLEAD GUILTY IN SCHEME TO SELL PHONY TAX SHELTER

Defendants Sold $8 Million in Bogus Tax Deductions,
and Concealed $2 Million in Income from the IRS

Greenbelt, Maryland - Glendle R. Johnston, age 65, and John H. Ross, age 58, both of Fredericksburg, Virginia, pleaded guilty today to conspiracy to defraud the U.S. Treasury Department in connection with a scheme to sell millions of dollars worth of fraudulent income tax deductions for donations of cemetery sites to charities and concealing income from the sales of fraudulent deductions, announced United States Attorney for the District of Maryland Rod J. Rosenstein and Eileen J. O'Connor, Assistant Attorney General for the Tax Division of the U.S. Department of Justice.

"Our tax system relies upon people honestly reporting and paying the taxes that they owe," said United States Attorney Rod J. Rosenstein. "People who cheat the IRS are cheating their friends, neighbors and fellow citizens. We will investigate and prosecute not just people who use fraudulent tax schemes, but also those who devise and implement fraudulent tax schemes."

Francis L. Turner, Special Agent In Charge, Internal Revenue Service, Criminal Investigation, stated, "Unscrupulous scheme promoters often twist the law for their own personal profit. If it sounds too good to be true, it probably is."

According to the plea agreements, the defendants convinced wealthy individuals to invest in a partnership called Heritage Memorial Park Associates (HMPA) . By becoming partners, the investors were told, they would receive a tax deduction and resulting tax benefit that would be substantially larger than their investment. For tax years 1996 through 1998, more than three dozen investors paid more than $2.3 million to purchase almost $10 million in tax deductions. The investment funds were used to purchase rights to be buried at certain cemeteries at Heritage Memorial Park in Waldorf, Maryland, and Sunrise Lake Memorial Garden, in Stafford County, Virginia. Using the title "Broker/Trustee," the defendants purchased the cemetery sites from certain charitable organizations and others. The defendants caused an HMPA partnership to donate the sites to a charitable organization.

The defendants caused the HMPA partnership to file returns with the Internal Revenue Service that claimed more than $10 million in charitable contributions. In fact, the defendants falsified the purchase dates of the cemetery sites in order to fraudulently claim that the cemetery sites had been held for more than one year prior to the donation. Internal revenue laws allow taxpayers to take a deduction in the amount of the fair market value of property that has been held for more than one year. Relying on the false holding periods, the partnership returns reported charitable donations in the amount of the purported fair market value of the sites, which would substantially exceed the cost and basis of the sites. The defendants also back-dated agreements and other documents to support the false holding periods. As a result, the HMPA partnership returns fraudulently inflated the deductions that the partners could claim on their individual income tax returns by more than $8 million.

Relying on the false partnership returns, the investors filed individual income tax returns for 1996 through 1998 that claimed fraudulently inflated deductions for charitable contributions.

Johnston deposited the millions in sales proceeds into a bank account he controlled, and then disbursed the funds for the benefit of himself, Ross, and others. The defendants concealed from the IRS income from the HMPA partnerships. Between1996 and 1998, Johnston filed false individual income tax returns that failed to report as income more than $150,000 he received from the sales of these deductions. Between1996 and 1999, Ross failed to file individual income tax returns to conceal more than $1.2 million in income he received from the sales of these deductions. Rather than reporting the income, the defendants endeavored to disguise the proceeds as non-taxable loan payments. To foster this false pretense, the defendants back-dated loan agreements and other documents relating to the income.

The defendants face a maximum penalty of five years in prison and a $250,000 fine. U.S. District Judge Roger W. Titus set sentencing for Glendle Johnson on July 25, 2007 and for John Ross on August 1, 2007.

Co-defendants A. Thomas Thorson, age 67 of New York, New York and Thomas D. Franks, age 57 of Asheville, North Carolina are scheduled to go to trial on April 24, 2007 in this case.

United States Attorney Rod J. Rosenstein commended the investigative work performed by the Internal Revenue Service - Criminal Investigation. Mr. Rosenstein thanked Assistant U.S. Attorney Michael R. Pauzé, and Diana Beinart, an attorney from the Tax Division of the Justice Department, who are prosecuting the case.

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