



**Federal Bar
Association**

46th Annual

TAX LAW CONFERENCE

March 3-4, 2022

Technology's Impact on Criminal Tax Enforcement: IRS Cybercrimes 2022

March 4, 2022 | 2:00 p.m. – 3:00 p.m. (Eastern)

Panelists: Michael Boteler, *United States Department of Justice Tax Division*
Jarod J. Koopman, *Internal Revenue Service Criminal Investigation*
Travis W. Thompson, *Sideman Bancroft LLP*

Moderator: Lawrence A. Sannicandro, *McCarter & English, LLP*

#FBA

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Michael Boteler is an Assistant Chief with the Southern Criminal Enforcement Section of the Department of Justice, Tax Division. Mike joined the Tax Division in 2006 as a trial attorney in the Southern Criminal Enforcement Section. While at the Tax Division, Mike has prosecuted a wide variety of tax cases, tried over 15 jury trials, and obtained some of the longest sentences in Tax Division history. Mike is the recipient of numerous Department and IRS awards, including the Attorney General's Award for Fraud Prevention for his role in combating stolen identity refund fraud and for Innovation. Among his practice areas, Mike has developed focus on cryptocurrency matters and has assisted in several investigations.

Prior to joining the Tax Division, Mike worked as a litigation associate at Covington & Burling. Mike clerked for the Honorable Joel F. Dubina in the United States Court of Appeals for the Eleventh Circuit and for the Honorable W. Harold Albritton in the Middle District of Alabama. Mike obtained his BA in Political Science from Goucher College and his J.D. from George Washington University Law School.





Jarod J. Koopman is the Acting Executive Director of the Cyber and Forensic Services as well as the Director of Cyber Crime for Internal Revenue Service Criminal Investigation. This section was created as part of the CI reorganization and design efforts to align priorities and services. His primary function is the oversight and management of all cyber-related activities at a national level. This consists of close interaction with public/private sector, industry, and other law enforcement partners both domestic and international. Jarod will be leading the standup of this new section and the establishment of the Advanced Collaboration and Data Center (ACDC), scheduled for opening in 2022.

Jarod began his IRS career in 2001 as a Special Agent in Rochester, New York before taking over as the Supervisor there in 2010. He was selected for the Accelerated Senior Leadership Program (ASLP) the

following year. In 2012, he went to Washington DC as a Senior Analyst in Refund Crimes where he focused on Virtual Currency and Identity Theft before being selected as the Assistant Special Agent in Charge for the Chicago Field Office in 2013. From June 2014 until his current role, Jarod served as the Special Agent in Charge of the Detroit Field Office. As such, he oversaw and directed all CI investigative activities in the state of Michigan. Under his leadership, the Detroit FO successfully produced outstanding results and efforts that garnered recognition at both the regional and national levels.

In the past five years as the Director, IRS-CI has continued to expand their capabilities and solidified its role as the prominent force in cryptocurrency tracing and dark web activities. Notable investigations include Liberty Reserve, Silk Road I and II, Alphabay, Btc-e, Mt Gox, Welcome2Video, OneCoin, Helix, Bitcoin Fog, xDedic and Backpage.



Travis W. Thompson is an associate in the Tax and Criminal Defense practice groups of Sideman Bancroft LLP. Mr. Thompson handles all aspects of taxpayer controversies against the Internal Revenue Service, the California Franchise Tax Board, the California Department of Tax and Fee Administration, and the California State Board of Equalization, including audits, administrative appeals, and both routine and complex collection matters.

Mr. Thompson represents clients in litigation in the U.S. Tax Court, U.S. District Courts, U.S. Courts of Appeals, and California state courts. He has drafted petitions for Writ of Certiorari to the United States Supreme Court and represents clients in various white collar criminal defense cases.

Mr. Thompson advises clients on the tax consequences of Bitcoin, cryptocurrency, or other blockchain-related technology transactions. He also consults with clients on how artificial intelligence impacts modern business

strategy and domestic and international tax compliance. Additionally, Mr. Thompson advises clients in the cannabis industry on the complex federal, state, and local tax and regulatory framework burdening the industry.

Prior to joining Sideman Bancroft LLP, he worked in two prominent boutique tax law firms in the San Francisco Bay Area. Before law school, he worked in business development for multiple Fortune 500 companies in the automotive and technology industries.

Mr. Thompson earned his undergraduate degree in philosophy from the University of California, Berkeley. In 2015, he graduated from Golden Gate University School of Law where he completed his law degree and his LL.M. in Taxation in three years. While in law school, he received the Rensch Scholarship for Business Leadership, was a Best Brief Award recipient in the ABA National Moot Court Competition, and received the Witkin Award for Excellence in Appellate Advocacy.



Lawrence (Larry) Sannicandro focuses his practice on federal and state tax controversies, including representation in audits, administrative appeals, collection matters, summons proceedings, criminal tax investigations and prosecutions, and litigation in the United States Tax Court, federal district and appellate courts, and state tax tribunals. He has extensive experience providing tax-related advice with respect to original tax return reporting positions on a broad range of substantive tax issues, amending tax returns, filing and litigating claims for refund, challenging civil tax penalties, reporting foreign assets and income, and making voluntary disclosures. He also counsels clients on all facets of tax and business planning, including the taxation of (and reporting obligations with respect to) direct and indirect investments in cryptocurrency.

Larry has served the American Bar Association Section of Taxation as the immediate past Chair of the Tax Collection, Bankruptcy, and Workouts Committee and as a current member of the Appointments to the Tax Court Committee. On behalf of the Tax Section, he has drafted comments to the IRS on a wide range of tax issues, such as the need to adopt a voluntary disclosure program for unreported cryptocurrency transactions. A dedicated pro bono advocate, Larry was awarded the 2020 Janet Spragens Pro Bono award for his team's work providing tax-related advice to wrongfully incarcerated individuals.

Prior to entering private practice, Larry served as a law clerk for the United States Tax Court, and before that, as an attorney for the IRS. He teaches a course in tax practice and procedure at Fairleigh Dickinson University. A prolific writer, Larry is the author of the BNA portfolio on Innocent Spouse, a contributing author of *Effectively Representing Your Client Before the IRS* (Ch. 10), and co-author of multiple articles on the taxation of (and reporting obligations with respect to) cryptocurrency.

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This presentation is not intended to be, and should not be construed as, legal or tax advice in any way or manner.

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Learning Objectives

- Recognize how emerging technology impacts tax administration and enforcement
- Understand the role, function, and program of IRS Criminal Investigation's Cyber and Forensic Services
- Identify emerging technology trends and issues in cybercrime tax enforcement, with a primary focus on cryptocurrency
- Appreciate how emerging trends can impact criminal investigations and prosecutions

Program Outline

- Introduction
- The Fine Line Between Civil and Criminal Tax Fraud – Travis Thompson
 - Office of Fraud Enforcement
 - Fraud referrals to IRS Criminal Investigation
- Realignment of IRS Criminal Investigation – Jarod Koopman
 - Introduction to IRS Criminal Investigation’s Cyber and Forensic Services
 - Technology used
 - Partners
 - Data Analytics and AI
- Cryptocurrency Enforcement Environment – Jarod Koopman, Michael Boteler, and Travis Thompson
 - Current enforcement landscape
 - Successes
 - Challenges
- Referrals to DOJ – Michael Boteler
 - Implications of bringing cases only under tax statutes
 - Proving willfulness
- Questions

Introduction

Introduction

- Proliferation of cryptocurrencies
 - Roughly \$2.05 trillion market capitalization for cryptocurrencies (as of Jan. 6, 2022)
 - Estimated \$31.4 billion total market capitalization for nonfungible tokens (NFTs) (making-up ~1.53% of the total market capitalization for cryptocurrencies)
 - Softening prices in cryptocurrencies are fueling a boom of decentralized finance (DeFi) lending
 - Smart contracts market size (\$144.95 million in 2020 → \$770.52 million by 2028)
 - Transformative, disruptive technology that is potentially susceptible to abuse
 - Cryptocurrencies and NFTs are seen by IRS criminal investigators as ripe for fraud, including money laundering, market manipulation and tax evasion
 - Allyson Versprille, “Crypto, NFTs Are Rife With ‘Mountains’ of Fraud, IRS Says,” Bloomberg (Jan. 26, 2022)
 - Cryptocurrencies are drawing increased attention from Congress, regulators, and law enforcement

Introduction (con't)

- Taxation of cryptocurrency
 - In 2014, the IRS set forth rules treating cryptocurrency as property
 - IRS Notice 2014-21
 - The explosion of cryptocurrency created challenging tax reporting issues with no further guidance from the IRS or Congress until 2019
 - IRS Notice 2019-24
 - IRS FAQs and questions on Form 1040 or Schedule 1 (akin to Schedule B questions re: foreign accounts)
 - IRS Chief Counsel Mem. 2020-35-011 (June 29, 2020)
 - Cryptocurrency reporting requirements under the Infrastructure Investment and Jobs Act
 - The existing guidance answers some questions, but many issues remain
 - *E.g.*, Does the mere creation of tokens give rise to a realization event?
 - *See Jarrett v. United States*, No. 3:21-cv-00419 (M.D. Tenn. May 26, 2021)
 - *E.g.*, How are NFTs taxed (capital gains vs. collectibles vs. something else)?

The Fine Line Between Civil and Criminal Tax Fraud

Civil Tax Fraud Penalty & Criminal Tax Prosecutions – The Basics

- IRS audits can be time and resource intensive and require gathering supporting documentation that may not be readily available.
- The IRS's decision to pursue a fraud referral for civil tax penalties versus a referral for criminal tax prosecution results from careful deliberation on the specific facts and circumstances of each case.

Civil Tax Fraud Penalty & Criminal Tax Prosecutions – The Basics

- According to the Fraud Handbook (IRM Section 25.1), the requirements of proof are different but critical for establishing fraud.
- In Civil Tax Fraud matters – the standard of proof is “clear and convincing evidence.” These cases result in remedial action by the Government, such as:
 - Assessing additional tax
 - Imposing civil penalties or additions to tax
 - Retrieving transferred assets. Civil penalties are assessed and collected administratively as part of the unpaid balance of assessment.
- In Criminal Tax Prosecutions – the standard of proof is “beyond a reasonable doubt.” These cases result in punitive action, enforced through prosecution, with penalties consisting of:
 - Fines and/or imprisonment, provided to punish the Taxpayer for wrongdoing and serve as “deterrents” for other Taxpayers.

Civil Tax Fraud Penalty & Criminal Tax Prosecutions – The Basics

- Committing tax evasion or tax fraud allows the IRS to prosecute and seek incarceration for individuals.
- Generally, most tax evasion criminal penalties carry a maximum three or five-year prison term and a fine of \$250,000 (\$500,000 for corporations).
- However, the same conduct that is considered to be criminal tax fraud can also be considered civil tax fraud. Unlike criminal penalties for tax evasion, civil tax fraud does not result in jail time. However, civil tax fraud sanctions can result in a financial penalty of 75% of the tax due, in addition to any interest owed
- There is no limit (Statute of Limitations) on the time the IRS has to enforce a Civil Tax Fraud Penalty.
- Generally, the DOJ/IRS must bring a Criminal Tax Prosecution within 6 years of the last affirmative act of evasion
 - *E.g.*, filing a materially false return signed under penalties of perjury

Crossing the Line: Tax Avoidance v. Tax Fraud

- Tax Avoidance: a legal and strategic tax method. Taxpayers have the right to reduce, avoid, or minimize taxes through shaping or preplanning events to reduce and or eliminate tax liability within the law.
- *Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes.*

Judge Learned Hand in *Helvering v. Gregory*, 69 F.2d 809, 810-11 (2d Cir. 1934).

- Tax Fraud: deliberate willful—underreporting of income, over-deducting business-related expenses, affirmative acts of evading a tax or payment of tax through deceit, subterfuge, camouflage, concealment, or obstruction.
- Criminal tax cases really are: All about the lies.

Civil Tax Fraud Penalty & Criminal Tax Prosecutions – The Referral



- Having criminal tax penalties imposed does not mean civil tax penalties won't follow. Most criminal tax cases result in a convicted defendant being required to pay civil tax and penalties, as well as criminal fines.
- To a significant degree, the IRS has the power to decide whether or not it wants to impose criminal tax penalties, civil tax penalties, both or neither...

IRS Office of Fraud Enforcement

IRS's Office of Fraud Enforcement Office, created March 2020 IRS's National Fraud Counsel, created May 2020

Overall goals:

Focus agency resources on combatting tax fraud by business owners, wage earners and wealthy individuals.

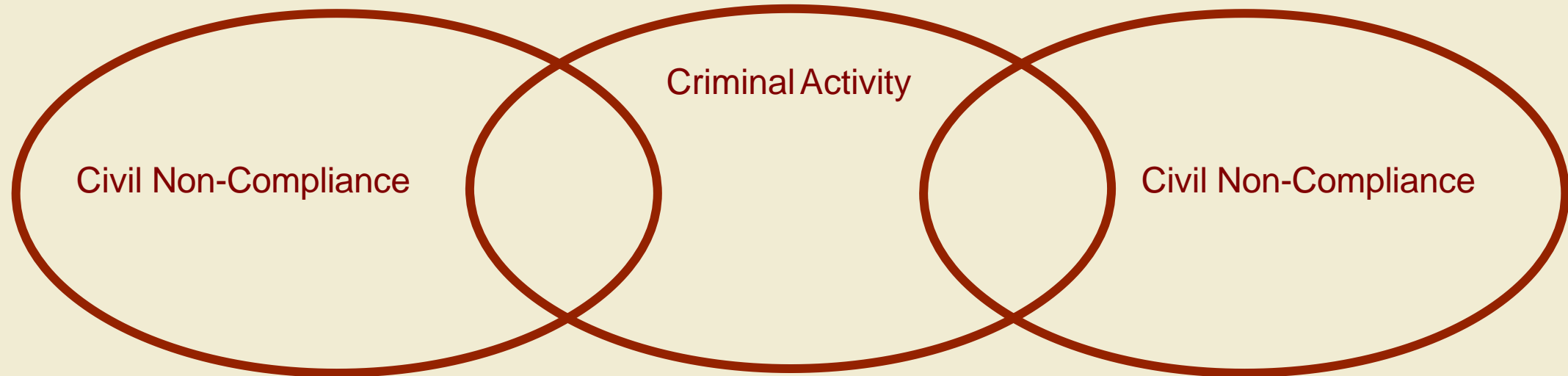
- Strengthen IRS compliance work and the agency's capacity and steadfastness across all business units with coordinated enforcement efforts.
- Continue to strengthen the internal compliance relationships in the IRS between CI agents, Civil side revenue agents and revenue officers as well as external partners.
- Assist in the oversight and enforcement efforts for businesses that have:
 - Underreported their federal tax obligations – AUDITS
 - Underpaid their federal tax obligations – COLLECTION
 - Failed to file their federal tax returns – ENFORCEMENT

Criminal and Civil Applications for Virtual Currency Analysis Techniques

Digital Asset Ecosystem

Title-31 / Bank Secrecy Act

Title-26 / Income and other Tax



How are criminal cases involving virtual currency relevant to IRS civil functions?

Many of the same tools and techniques CI uses are applicable to promoting civil compliance.

OFE offers End-to-End Service-Wide Collaboration and Support for Virtual Currency Cases

• OFE Services & Support

- **Training & Consultation**
 - **Basis Tracking**
 - **Gain Computation**
 - **Blockchain Tracing**
 - **Altcoins and Tokens**
 - **De-Centralized Finance**
 - **Dark Web Activity**
- **De-anonymization**
- **Support Fraud Identification**
- **Fraud Development**

Enhance Service-Wide Fluency in Digital Asset Concepts and Investigation

Support Blockchain Analytics and Tracing Capacity Across IRS

OFE Focus Areas

Facilitate Full Title-26 & Title-31 Compliance in the Digital Asset Space

Populate IRS BODs with Relevant Digital Asset Tools and Training Support

Realignment of IRS Criminal Investigation

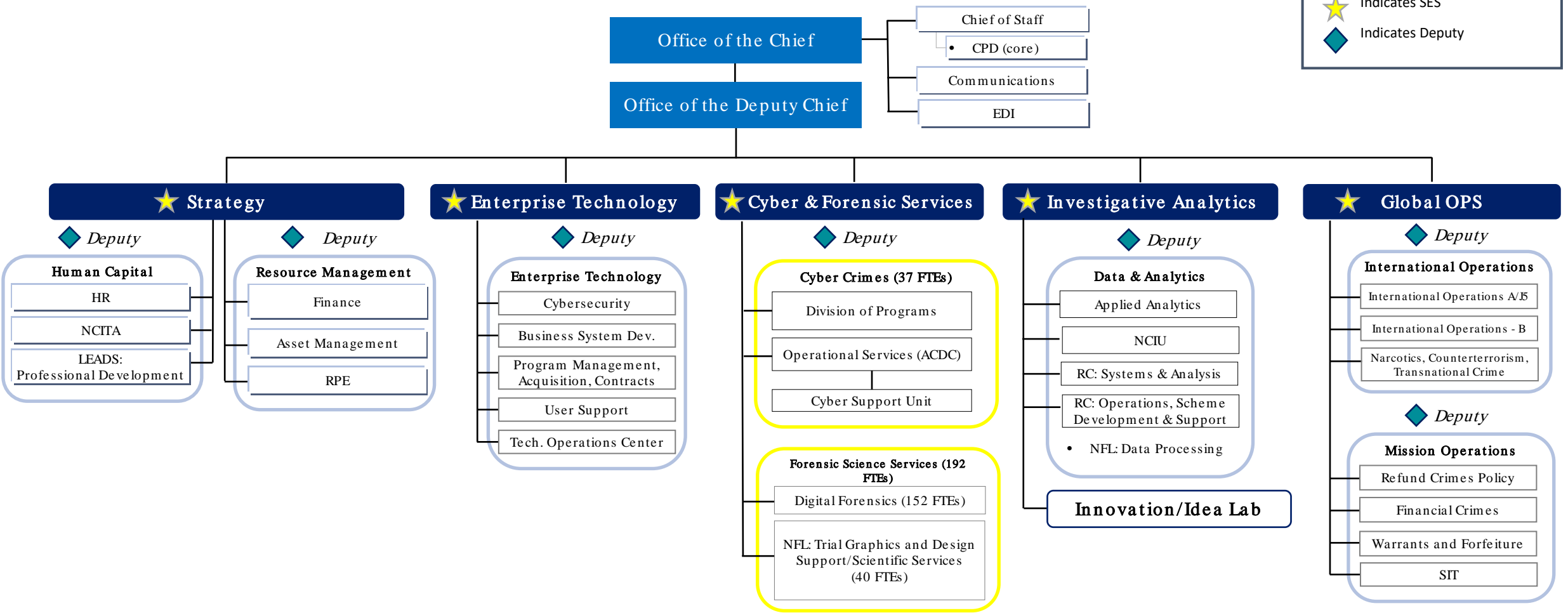
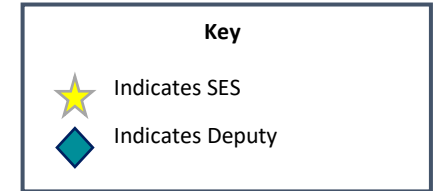


IRS:CI

Cyber and Forensic Services

IRS-CI HQ Organizational Structure

Highlighting Cyber and Forensic Services (CFS) within the updated IRS-CI organizational structure under the *Flat & Five* model.



CI Cyber and Forensic Presence

- In 2014, CI established two full investigative units located within the Washington DC and Los Angeles Field Offices (CCUs) – Operational Mission
- Headquarters Section in DC - established in 2016 to coordinate the activities occurring on a national level (Cyber Crimes Section) – Program Leadership
- Cyber Crimes Coordinators and CIS Agents within each Field Office - POCs
- HQ Cyber Support Unit (CSU) – Field support and lead development
- Digital Forensics Lab (Woodbridge, VA) provides technical support
- Cyber Storefront – UCAs trained in Cyber Contacts
- Fraud Detection Analyst (FDA), Computer Scientists, Contractors, Analysts and Agents - Crypto Tracing Experts
- National Forensic Lab – provides physical forensics, fingerprint analysis, polygraph examinations and other detection capabilities

International/Global Efforts

- OECD/FATF/FinCEN – Regulatory developments around FBAR, Common Reporting Standards and the 2021 NDAA Implications for inclusion of cryptocurrency into FinCEN definitions
- Recent involvement with the Infrastructure Bill – reporting requirements
- Expansion of Cyber Attachés for global footprint
- Dedicated Cyber Agent to Europol – Joint Cyber Action Taskforce (JCAT) and the NCFTA – Public Private Partnership with Financial Industry
- Joint Chiefs of Tax Enforcement (J5) – combat global tax issues with a focus on cyber-related activities
- Investigative efforts with numerous countries

CI Cyber - Investigative Priorities

- Tax evasion involving virtual currency ([John McAfee Indicted](#); Kvashuk; Elmaani)
- Virtual currency use to conceal illicit activity (Btc Kiosks, Btc-e, Mt Gox, Helix, Bitcoin Fog, VC exchanges, [Feds seize over 1 Billion in Silk Road Crypto](#))
- Data intrusion/exfiltration and selling/buying of PII or compromised credentials (xDedic; Return Preparers & Tax industry professionals)
- Dark web marketplace owners/administrators/large vendors (Silk Road I and II, AlphaBay, W2V)
- Business e-mail compromise
- Account takeovers (Get Transcripts; FAFSA investigation) or Phishing as it effects the integrity of the U.S. tax system
- National Security and Terrorist financing ([Largest Seizure of Terrorists Cryptocurrency](#), North Korean Hack)

CI Investigative Highlights

- Liberty Reserve (1st Digital Currency Exchange)
- Xdedic (RDP); FAFSA (aka Operation College Crook, hack of Dept of Ed's student aid system)
- Mt Gox (1st major crypto theft)
- BTCe (1st Illicit Crypto Exchanges)
- Silk Road I (1st Dark web Marketplace); Silk Road II; Alphabay; Silk Road related - Largest seizure of crypto (\$1B)
- OneCoin; BitConnect and Bitclub Network (Largest Investment Fraud cases – ICO/Ponzi Schemes \$4B/\$2B/\$700M)
- Welcome To Video and Dark Scandals (1st and 2nd dark web crypto Child Exploitation Case)
- Kunal Kalra; (1st Crypto Kiosk/ATM Operator case); HeroCoin
- North Korean Exchange Hack and Largest Ever Seizure of Terrorist Organizations Crypto Accounts
- Helix & Bitcoin Fog (1st and 2nd Bitcoin Mixer/Tumbling Service cases)

*In all investigations, CI was the lead agency in the cryptocurrency tracing and ultimately the attribution of main targets or the associated network servers.

Advanced Collaboration and Data Center

Capabilities:

Specialized Skillsets and Personnel

Deconfliction with other Law Enforcement partners

OSINT/Social Media (research, monitoring, investigating illicit actors/markets)

Cryptocurrency (tracing, monitoring, tax basis calculating)

SCIF – National Security Efforts



ACDC will become a mission centric hub for support, training, innovation and concentrated knowledge. The center will leverage people and exploit data with bold technology to enable innovative tradecraft.

Cryptocurrency Enforcement Environment



Cryptocurrency Enforcement Environment

Current Enforcement Landscape

Enforcement Activity Generally

- IRS

- John Doe summonses
- Campaign audits
- “Educational” letters
- Operation Hidden Treasure and related
- CI
 - Informants and cooperators
 - Data analytics
 - BSA filings
 - FATCA filings
 - Whistleblower applications
 - Voluntary disclosures
 - Third-party information returns
 - Public records

- DOJ

- Prosecutions are increasing
 - As it relates to cryptocurrency enforcement, historical focus has been on money laundering, wire fraud, and securities law violations
 - Shifting trend to tax enforcement?

- FinCEN

- 1,500 SARs every month involving virtual currency (Aug. 2018, most current details published)
- First 6 months of 2021: 458 ransomware related transactions were reported on SARs with a total value of \$590 million (a 42% increase year-over-year)
 - Cryptocurrency “usually” used as a payment method

John Doe Summonses on U.S. Based Exchanges

- Coinbase summons (Nov. 28, 2017)
 - The U.S. District Court for the Northern District of California granted a petition to enforce a John Doe summons against Coinbase, Inc. (“Coinbase”)
 - The Coinbase summons initially sought “information regarding United States persons who, at any time during the period January 1, 2013, through December 31, 2015, conducted transactions in a convertible currency as defined in IRS Notice 2014-21”
 - That request was later narrowed to Coinbase users who “bought, sold, sent or received at least \$20,000” worth of cryptocurrency in a year
- Circle summons (Apr. 1, 2021)
 - The U.S. District Court for the District of Massachusetts authorized the IRS to serve a John Doe summons on Circle Internet Financial Inc., or its predecessors, subsidiaries, divisions, and affiliates, including Poloniex LLC (collectively “Circle”)
 - The Circle summons sought information about U.S. taxpayers who conducted at least the equivalent of \$20,000 in transactions in cryptocurrency during the years 2016 to 2020
 - See DOJ, [Court Authorizes Service of John Doe Summons Seeking Identities of U.S. Taxpayers Who Have Used Cryptocurrency](#) (Apr. 1, 2021)

John Doe Summonses on U.S. Based Exchanges (con't)

- Kraken summons (May 5, 2021)
 - The U.S. District Court for the Northern District of California authorized the IRS to serve a John Doe summons on Payward Ventures Inc., and Subsidiaries d/b/a Kraken (“Kraken”)
 - The Kraken summons sought information about U.S. taxpayers who conducted at least the equivalent of \$20,000 in transactions in cryptocurrency during the years 2016 to 2020
 - See DOJ, [Court Authorizes Service of John Doe Summons Seeking Identities of U.S. Taxpayers Who Have Used Cryptocurrency](#) (May 5, 2021)

Exchange of Information – Non-U.S. Exchanges

- Ability to obtain information from non-U.S. exchanges
 - Specific requests vs. spontaneous exchanges vs. automatic exchanges
- Tax treaties (exchange of information and administrative assistance)
- MLATs
 - Can be used to gather evidence, take testimony, obtain certified documents, seize assets, etc.
 - November 4, 2021: DOJ announced that, under a mutual legal assistance treaty (“MLAT”) request from Brazil, it had seized cryptocurrency worth an estimated \$24 million
 - See [U.S. Seizes Virtual Currencies Valued at \\$24 Million Assisting Brazil in Major Internet Fraud Investigation](#) (Nov. 4, 2020)
- Tax information exchange agreements
- Multilateral agreements
 - Hague Convention on the Taking of Evidence
 - Convention on Mutual Administrative Assistance in Tax Matters
 - Inter-American Convention on Mutual Assistance in Criminal Matters
- Tax implementation or coordination agreements

Data Analytics & AI

- “Data analytics” is a generic term that refers to various electronic tools through which IRS agents can easily identify transactions and persons of interest by leveraging:
 - Billions of records at their disposal;
 - Information from John Doe summonses, civil examinations, and criminal investigations and prosecutions;
 - Bank Secrecy Act and Foreign Account Tax Compliance Act filings;
 - Public records;
 - Information from thousands of whistleblowers, informants, and cooperators.
- The IRS is increasingly using third-parties to develop cases
- Use of crypto tracing tools, open-source intelligence, crypto tax basis calculation software and the incorporation of all of these into machine learning processes

Sample Tracing Tools and Dynamic Graph

Bitcoin Tumbler

Tumblers are websites (both clearnet and darknet) that:

- **Mix potentially identifiable or 'tainted' cryptocurrency funds with others**
- **Obscure the trail back to the fund's original source**

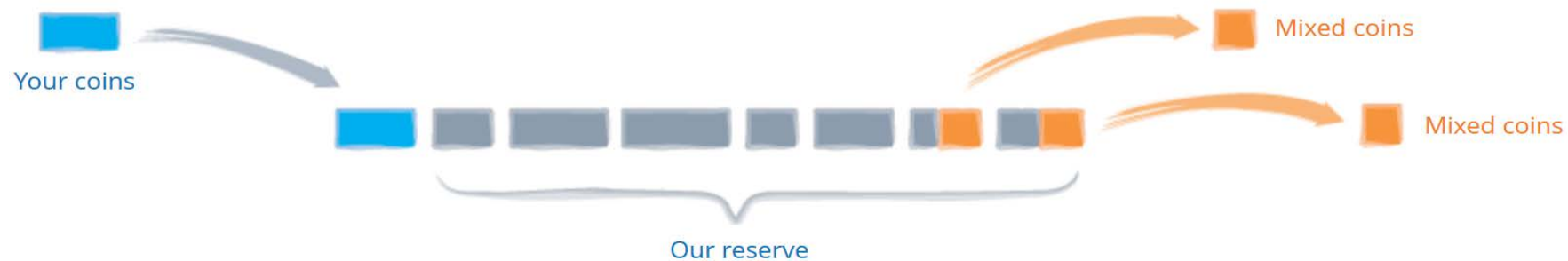
Tumblers protect against investigative techniques used by law enforcement such as:

- **Bitcoin Tracing**
- **Clustering**
- **Linking inputs and outputs**

Bitcoin Tumbler

How does it work?

All of this may seem super complicated, so let's get down to the meat and bone of it. BitMixer has a huge reserve of Bitcoins already in its system. A user sends us their BTC and we cap it onto the end of our reserve chain. We then pay the amount of what was purchased from the beginning of our reserve.



This method of mixing means that you do not have to wait for other customers – coins already mixed are instantly available.



Sample Research

The following characters were found on a piece of paper from a search warrant:

14wueYfNGRHNLN4BQEU99vCJ93ekRnbPMe

Chainalysis

Chainalysis

My Graphs

Watched Clusters

+ New Graph

↑ Import Graph

Help & Feedback


Knowledge Base

Block Height

Settings

Logout

BTC 14wueYfNGRHNLN4BQE ✎



14wueYfNGRH...

CLUSTER - BTC 🗪 📄 🗑️

Graph Name	Organization Name	Chainalysis Name	Category
Enter name ...	Enter name ...	None	unknown

Root Address 📍	Balance:	0.0000 BTC	Transfers:	76
14wueYfNGRHNLN4BQEU99vCJ93ek...	Sent:	0.526... BTC	Withdrawals:	18
	Received:	0.538... BTC	Deposits:	58
	Total Fees:	0.011... BTC	Addresses:	14

Watch

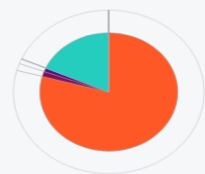
Overview
Counterparties
Transfers
Addresses
Observations
OSINT
↓ EXP

Timeline: '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 now

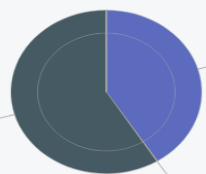
Notes: Create notes and watcher description here ...

Filter BTC USD

Receiving Exposure



Sending Exposure




Traced	1,573.08 USD	Traced	1,572.00 USD
Transfers received	58	Transfers sent	18
Date Range	14/12/2016 - 25/01/2018	Date Range	22/12/2016 - 01/02/2018


CLUSTER - BTC



Graph Name: Organization Name: Chainalysis Name: Category: unknown

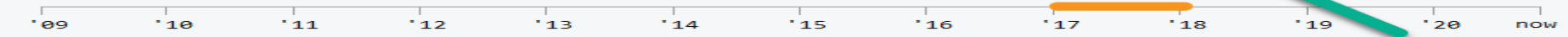
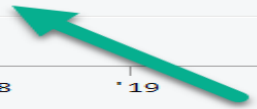
Root Address  **14wueYfNGRHNLN4BQEU99vCJ93e...**

Balance:	0.0000 BTC	Transfers:	76
Sent:	0.526... BTC	Withdrawals:	18
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Total Fees:	0.011... BTC	Addresses:	14

 **Watch**



Overview Counterparties Transfers Addresses Observations OSINT

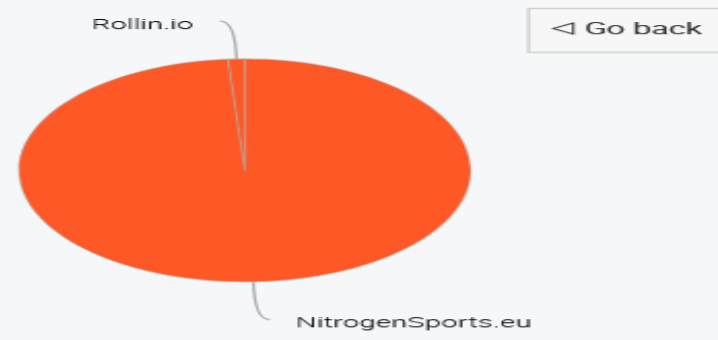


Notes

 Filter

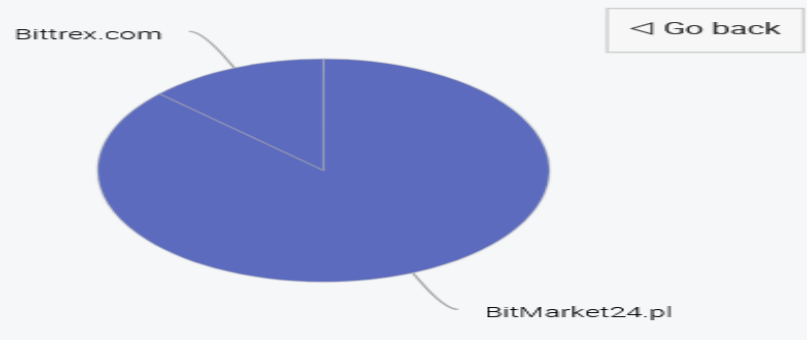
BTC USD

Receiving Exposure



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 Transfers received **58**
 Date Range **14/12/2016 - 25/01/2018**

Sending Exposure



Traced **1,572.00 USD**
 Transfers sent **18**
 Date Range **22/12/2016 - 01/02/2018**

[Back to OSINT list](#)

Category Bitcoin Talk Message
Label (notaek) Re: ★★★ [20 SPOTS AVAILABLE] NITROGENSPORTS.EU Signature Campaign ★★★
Time Dec 12, 2016, 7:46:35 PM
URL <https://bitcointalk.org/index.php?topic=1689841.msg17163471#msg17163471>

Text Addresses

Quote from: coolcoinz on December 08, 2016, 07:44:39 PM <<https://bitcointalk.org/index.php?topic=1689841.msg17122821#msg17122821>>

Hello, I'd be happy to participate.

Username : coolcoinz

Current Rank: Full Member

Current Post Count: 132 including this post

Bitcoin address: 14wueYfNGRHNLN4BQEU99vCJ93ekRnbPMe

Want to avail for avatar bonus?: yes

Overview

Counterparties

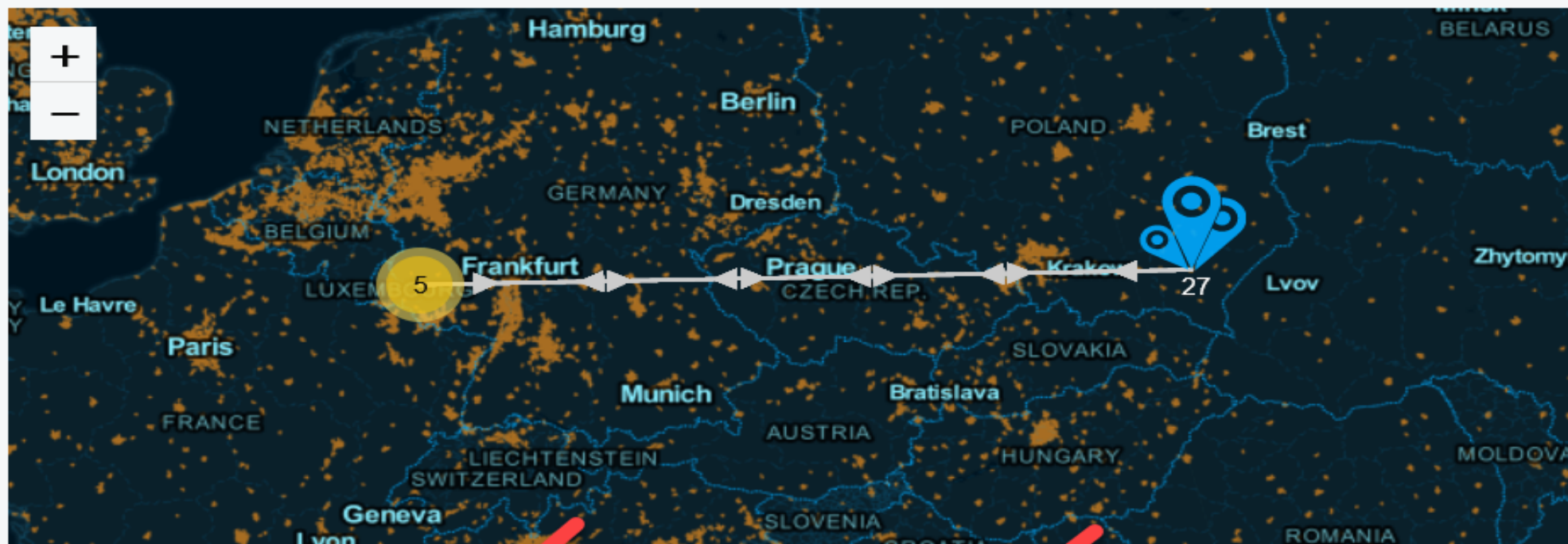
Transfers

Addresses

Observations

OSINT

↓ EXP






Date (UTC)	Location	Software	IP Address	Port	Tor	ISP
01/31/2018 14:00	Rzeszów, Poland	bitcoinj:0.13.3/...	193.19.165.12149918		no	AS35199 EN...
01/09/2018 23:57	Rzeszów, Poland	bitcoinj:0.13.3/...	193.19.165.12161116		no	AS35199 EN...


11RZwTvWYEpxEXdno3B 




1KDnFEdL42W...

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- 
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CUSTOM CLUSTER   

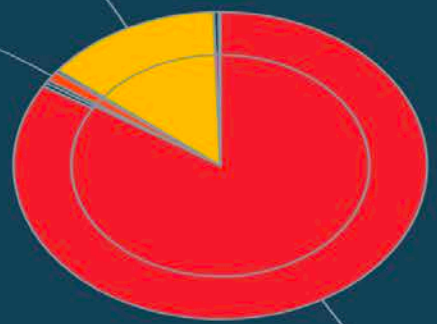
Custom Cluster Name	Flow:	202.593... BTC	Transfers:	113
1KDnFEdL42W5jTxM1RZwTvWYEpx	Sent:	0.0000 BTC	Withdrawals:	0
<div style="border: 1px solid #ccc; padding: 2px; display: inline-block;"> Add address</div>	Received:	202.593... BTC	Deposits:	113
	Total Fees:	0.0000 BTC	Deposit Addresses:	1

Overview
Counterparties
Transfers
Deposit Addresses
Received
Sent
↓ EXP



Filter USD

Receiving Exposure




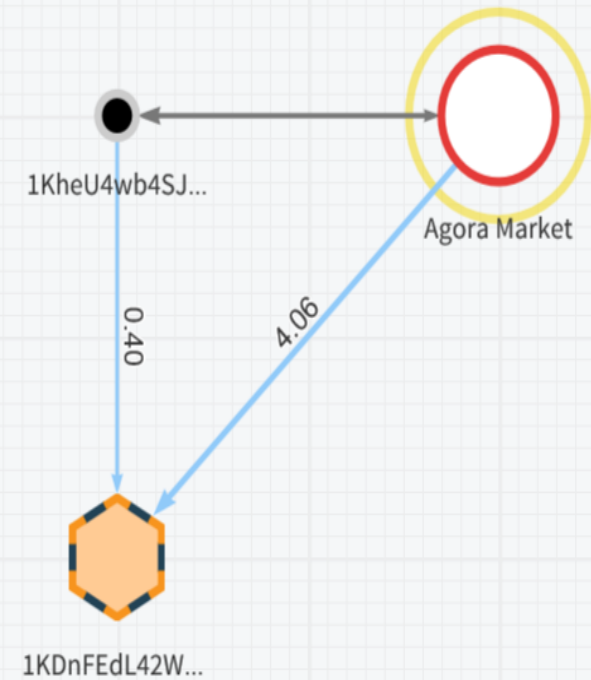
Sending Exposure

No data found

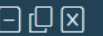
Traced	47,959.55 USD	Traced	0.00 USD
Transfers received	113	Transfers sent	0
Date Range	8/27/15 - 9/30/15	Date Range	- - -

BTC

new custom cluster 202 



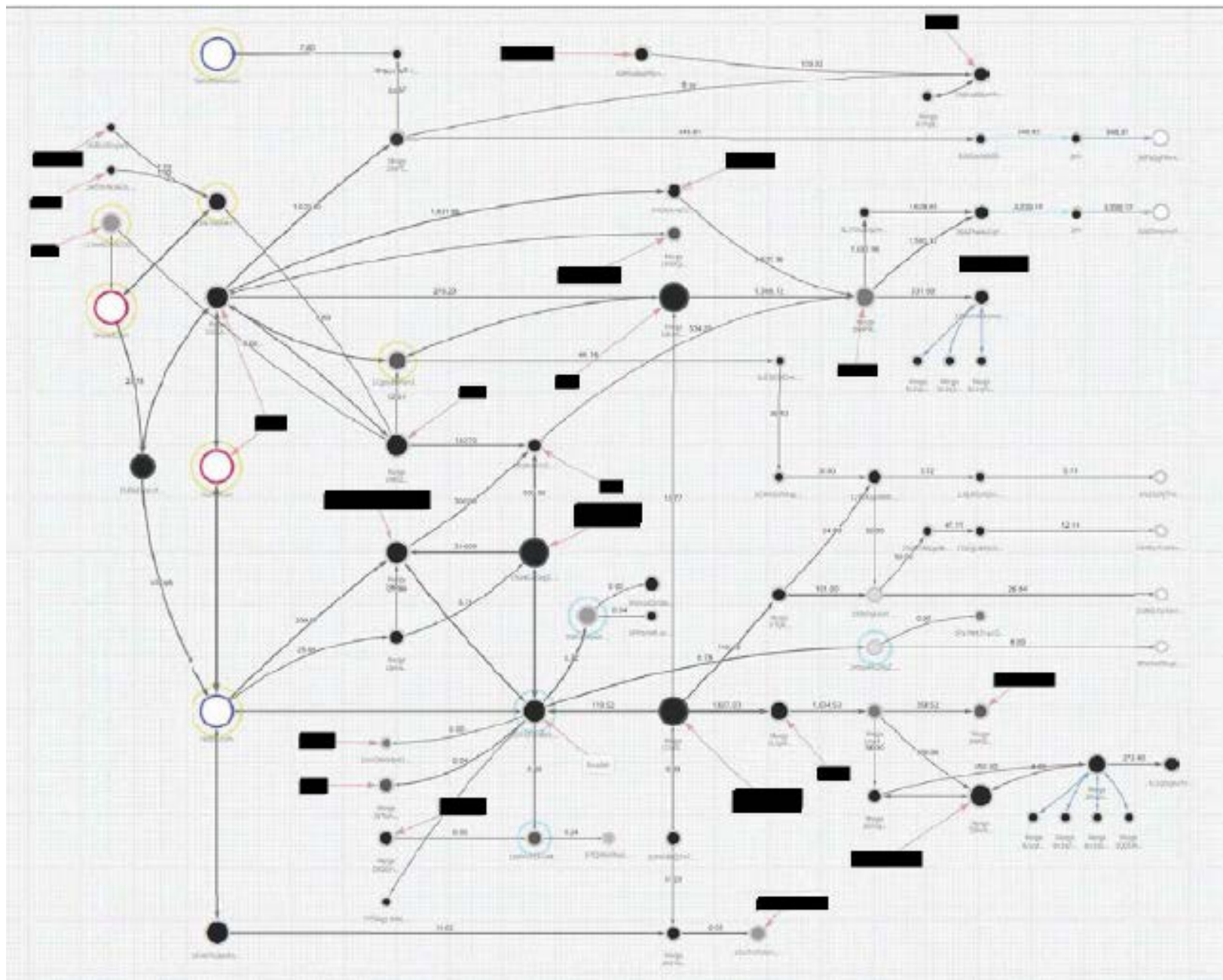
CUSTOM CLUSTER



Custom Cluster Name	Flow:	202.593... BTC	Transfers:	113
1KdnFEdL42W5jTxM1RZwTvWYEpXEXdno3B	Sent:	0.0000 BTC	Withdrawals:	0
	Received:	202.593... BTC	Deposits:	113
 Add address	Total Fees:	0.0000 BTC	Deposit Addresses:	1

Overview Counterparties Transfers Deposit Addresses Received Sent ↓ EXP

Counterparty	Transfers	Sent	Received	08/15	09/15
<input type="checkbox"/> Middle Earth Marketplace	54	0.0000	100.897...		
<input type="checkbox"/> Abraxas Market	24	0.0000	32.480...		
<input type="checkbox"/> AlphaBay Market	14	0.0000	26.394...		
<input type="checkbox"/> Nucleus Market	6	0.0000	6.277...		
<input checked="" type="checkbox"/> Agora Market	6	0.0000	4.058...		
<input type="checkbox"/> CloudBet.com	2	0.0000	2.0130		
<input checked="" type="checkbox"/> 1KheU4wb4SJwRHj7GhR1poiASox7VnixrK	1	0.0000	0.397...		
<input type="checkbox"/> 1QESEsPjvMdLhTzpSVtZ3BACxhFUh5hVN6	1	0.0000	0.359...		
<input type="checkbox"/> 1NGQte3yHkMp18pMU1jmz2GGCnKLU8DBL8	1	0.0000	0.201...		
<input type="checkbox"/> 174gJex3E8yLvRGRgi5Lo6Lfu33ySatmA5	1	0.0000	1.019...		
<input type="checkbox"/> BitPay.com	1	0.0000	27.322...		
<input type="checkbox"/> 12u5zRGDk6wH3QyCvoLbQnswgSxhVCuoB	1	0.0000	0.4035		
<input type="checkbox"/> 1CWF6ZVB84Syb6YypWGupuH53PnQac6wdz	1	0.0000	0.766...		



Cryptocurrency Enforcement Environment Successes

CI & DOJ – Prosecutions

- Historical enforcement has been on money laundering, wire fraud, and securities law violations
 - Interplay between money laundering with cryptocurrencies (including NFTs and DeFi)
- Tax cases
 - An anesthesiologist was sentenced to 30 months in prison for filing a false income tax returns
 - From 2010 through 2018, James Allen, an anesthesiologist, filed 16 false tax returns for himself and his wife
 - On these tax returns, Allen did not report more than \$3 million in income that the pair earned as anesthesiologists
 - In addition to filing false tax returns, Allen took steps to conceal the couple's assets and income from the IRS, including depositing money in an offshore bank account held in Jersey, wiring money to Columbia to purchase a house, purchasing cryptocurrency and gold, and registering a vehicle in the name of a purported church
 - Tax loss exceeded \$900,000
 - See DOJ, [Pennsylvania Anesthesiologist Sentenced to Prison for Tax Fraud](#) (Jan. 16, 2020)
 - In November 2020 an ex-Microsoft engineer, Volodymyr Kvashuk, was sentenced for an elaborate cyber theft that included the movement of approximately \$2.6M of Bitcoin through bank and investment accounts using a bitcoin “mixer” and filing false tax returns
 - CI touted this as the first cryptocurrency case charged as a tax crime
 - See DOJ, [Former Microsoft software engineer sentenced to nine years in prison for stealing more than \\$10 million in digital value such as gift cards](#) (Nov. 9, 2020)

CI & DOJ – Prosecutions (con't)

- Tax cases (con't)

- In October 2020, it was announced that John McAfee, founder of the McAfee computer security software company, had been indicted on federal tax charges
 - According to the indictment, McAfee allegedly evaded his tax liability by directing his income to be paid into bank and cryptocurrency exchange accounts in the names of nominees
 - See DOJ, [John McAfee Indicted for Tax Evasion](#) (Oct. 5, 2020)
- In March 2021, it was announced that a separate indictment was filed against McAfee and an executive adviser of McAfee's so-called "cryptocurrency team," alleging the pair with conspiracy to commit commodities and securities fraud, conspiracy to commit securities and touting fraud, wire fraud conspiracy and substantive wire fraud, and money laundering conspiracy offenses
 - See DOJ, [John David McAfee And Executive Adviser Of His Cryptocurrency Team Indicted In Manhattan Federal Court For Fraud And Money Laundering Conspiracy Crimes](#) (Mar. 5, 2021)

CI & DOJ – Prosecutions (con't)

- Tax cases (con't)
 - Elmaani – Bruno Block Investigation
 - In (DecDecember 2020, Amir Bruno Elmaani (a/k/a Bruno Block), the founder of the cryptocurrency “Oyster Pearl” was charged with tax evasion. As alleged:
 - Created the Oyster Protocol Project and the associated Pearl Tokens;
 - Pearl Tokens offered through a foreign based exchange to convert tokens to Btc or Eth;
 - Sold Pearl tokens to the public via an Initial Coin Offering (ICO) to fund his Oyster Protocol Project;
 - Retained millions of tokens as his owners stake in the project;
 - His exit scheme was to use the protocol to create more tokens below market price and foreign based exchange through multiple tumblers to conceal the destination; and
 - Filed a tax return for 2017 reporting approximately \$15,000 of income from a “patent design” business and did not file a tax return for 2018. Nevertheless, he allegedly spent, in 2018, over \$10 million for the purchase of multiple yachts, \$1.6 million at a carbon fiber composite company, hundreds of thousands of dollars at a home improvement store, and over \$700,000 for the purchase of two homes, one of which was titled in the name of a shell company and the other in the name of two of his associates
 - See DOJ, [Cryptocurrency Founder “Bruno Block” Charged With Multimillion-Dollar Tax Evasion Scheme](#) Dec. 9, 2020)

CI & DOJ – Prosecutions (con't)

- Tax cases (con't)
 - In January 2022, a 17-count indictment was unsealed charging Paul E. Vernon, the founder, operator, and CEO of Project Investors Inc. (d/b/a Cryptsy) with criminal violations for his involvement in an alleged theft scheme involving his cryptocurrency exchange
 - As alleged, he:
 - Used his control over Cryptsy's wallets to steal over \$1 million from Cryptsy's cryptocurrency wallets and ultimately into his personal bank account; and
 - After Cryptsy was hacked by an unidentified party, he continued to solicit new customers, without disclosing to his customers that the website's security had been compromised. He subsequently, after absconding to China and Cryptsy was placed in receivership, he hacked into Cryptsy servers from a remote location, stole Cryptsy's database containing customers' funds, and destroyed the customer database to conceal his activity
 - The charges include tax evasion, wire fraud, money laundering, computer fraud, tampering with records, documents, and other objects, and destruction of records in a federal investigation.
 - See DOJ, [CEO of Major Online Cryptocurrency Exchange Company Indicted for Defrauding Company's Customers, Destroying Evidence, and Tax Evasion](#) (Jan. 26, 2022)

CI & DOJ – Prosecutions (con't)

- Tax cases (con't)
 - On February 25, 2022, a federal grand jury returned an indictment charging Satishkumar Kurjibhai Kumbhani, a citizen and resident of India, with multiple crimes for his role in an alleged criminal conspiracy involving the cryptocurrency company he founded, BitConnect
 - As alleged, he:
 - Defrauded global investors of over \$2 billion—the largest cryptocurrency fraud ever charged – in a textbook Ponzi scheme;
 - Sought to commit commodities price manipulation by attempting to artificially inflate the price of BitConnect and create the illusion of increased demand for BitConnect;
 - Operating an unlicensed money transmitting business; and
 - Participated in an international money laundering conspiracy through which he conducted global transfers of Bitcoin and BitConnect to global investors and cryptocurrency purchasers— all of which were proceeds of the alleged wire and securities fraud.
 - See DOJ, [Founder of Fraudulent Cryptocurrency Charged in \\$2 Billion BitConnect Ponzi Scheme](#) (Feb. 25, 2022)

CI & DOJ – Forfeitures

- On November 5, 2020, the United States moved to forfeit more than \$1 billion of bitcoin that was seized by CI in connection with the investigation and prosecution of Silk Road creator Ross Ulbricht
 - Then the largest seizure of cryptocurrency in U.S. history
 - Special agents used a third-party bitcoin attribution company to analyze bitcoin transactions executed by Silk Road and were able to identify 54 previously undetected bitcoin transactions executed by Silk Road, which were the proceeds of unlawful activity, stolen from Silk Road in or about 2012 and 2013
 - The funds were traced to a bitcoin address, the assets of which were seized and ultimately forfeited
 - See DOJ, [United States Files A Civil Action To Forfeit Cryptocurrency Valued At Over One Billion U.S. Dollars](#) (Nov. 5, 2020)

CI & DOJ – Forfeitures (con't)

- In November 2021, the U.S. District Court for the Southern District of California granted a request to liquidate approximately \$56 million in fraud proceeds seized from the self-described “number one promoter” of BitConnect, a cryptocurrency
 - Glenn Arcaro pleaded guilty to participating in a massive conspiracy to defraud BitConnect investors in the U.S. and abroad, in which investors were fraudulently induced to invest over \$2 billion
 - The BitConnect scheme was then the largest cryptocurrency fraud scheme ever charged criminally
 - The liquidation was then the largest single recovery of a cryptocurrency fraud by the United States
 - See DOJ, [\\$56 Million in Seized Cryptocurrency Being Sold as First Step to Compensate Victims of BitConnect Fraud Scheme](#) (Nov. 16, 2021)
- In FY 2021, CI seized more than \$3.5 billion of cryptocurrency, accounting for ~93% of all seizures by CI that year
 - See IRS, [2021 Annual Report](#) (Nov. 18, 2021)

CI & DOJ – Forfeitures (con't)

- On February 8, 2022, two individuals were arrested for an alleged conspiracy to launder cryptocurrency that was stolen during the 2016 hack of the virtual currency exchanged Bitfinex
 - The criminal complaint alleges that the defendants employed numerous sophisticated laundering techniques, including:
 - Using fictitious identities to set up online accounts;
 - Utilizing computer programs to automate transactions, a laundering technique that allows for many transactions to take place in a short period of time;
 - Depositing the stolen funds into accounts at a variety of virtual currency exchanges and darknet markets and then withdrawing the funds, which obfuscates the trail of the transaction history by breaking up the fund flow;
 - Converting bitcoin to other forms of virtual currency, including anonymity-enhanced virtual currency (AEC), in a practice known as “chain hopping”; and
 - Using U.S.-based business accounts to legitimize their banking activity.
 - The value of the cryptocurrency at the time of charging was approximately \$4.5 billion
 - See DOJ, [Two Arrested for Alleged Conspiracy to Launder \\$4.5 Billion in Stolen Cryptocurrency](#) (Feb. 8, 2022)

DOJ

- The NCET

- On October 6, 2021, DOJ announced the creation of a National Cryptocurrency Enforcement Team (the NCET), to tackle complex investigations and prosecutions of criminal misuses of cryptocurrency, particularly crimes committed by virtual currency exchanges, mixing and tumbling services, and money laundering infrastructure actors
 - See DOJ, [Deputy Attorney General Lisa O. Monaco Announces National Cryptocurrency Enforcement Team](#) (Oct. 6, 2021)

- Director of the NCET

- On February 17, 2022, DOJ announced the selection and appointment of Eun Young Choi to serve as the first Director of the NCET
 - See [DOJ, Justice Department Announces First Director of National Cryptocurrency Enforcement Team](#) (Feb. 17, 2022)

Cryptocurrency Enforcement Environment Challenges

Challenges in Investigations and Prosecutions

- Enforcement-specific challenges
 - Blockchain-related technologies are complex and can be difficult to learn
 - Markets and technologies are rapidly evolving
 - Global nature of the blockchain (exchanges and users outside of the U.S.)
 - Users on non-U.S. exchanges are sometimes unknown (KYC)
 - Decentralized platforms, peer-to-peer exchangers, anonymity-enhanced cryptocurrencies
 - Public vs. private blockchains
- Tax-specific challenges
 - Tracing of cryptocurrency between wallets and users
 - Wallets with built-in obfuscation techniques (advanced wallets with mixing capabilities)
 - Determination of capital gains and losses
 - Basis calculations
 - Use of mixers and tumblers
 - Off-chain wallets and cross-chain transactions

Referrals to DOJ

Implications of Bringing Cases Only Under Tax Statutes

- Tax crimes that may involve or be facilitated with cryptocurrency:
 - Tax evasion, 26 U.S.C. § 7201
 - Tax perjury, 26 U.S.C. § 7206(1)
 - Aiding or assisting a false return, 26 U.S.C. § 7206(2)
 - Tax obstruction (corruptly impeding tax administration), 26 U.S.C. § 7212(a)
 - Failure to file, keep records, supply information, or pay tax, 26 U.S.C. § 7203
 - Digital asset reporting, 26 U.S.C. § 6050I (as amended by the Infrastructure Investment and Jobs Act)
 - Fraudulent or false returns, statements, or other documents, 26 U.S.C. § 7207

Implications of Bringing Cases Only Under Tax Statutes (con't)

- Other crimes that may involve or be facilitated with cryptocurrency:
 - Securities fraud, 15 U.S.C. §§ 78j and 78ff
 - Wire fraud, 18 U.S.C. § 1343
 - Mail fraud, 18 U.S.C. § 1341
 - Access device fraud, 18 U.S.C. § 1029
 - Identity theft and fraud, 18 U.S.C. § 1028
 - Fraud and intrusions in connection with computers, 18 U.S.C. § 1030
 - Illegal sale and possession of firearms, 18 U.S.C. § 921, *et seq.*
 - Possession and distribution of counterfeit items, 18 U.S.C. § 2320
 - Child exploitation activities, 18 U.S.C. § 2251, *et seq.*
 - Money laundering, 18 U.S.C. § 1956, *et seq.*
 - Transactions involving proceeds of illegal activity, 18 U.S.C. § 1957
 - Operation of an unlicensed money transmitting business, 18 U.S.C. § 1960
 - Possession and distribution of controlled substances, 21 U.S.C. § 841, *et seq.*
 - Failure to comply with Bank Secrecy Act requirements, 31 U.S.C. § 5331, *et seq.*

What Makes a Crypto Case Criminal?

- Same indicia as normal tax investigations
 - Overt acts in a new environment
 - Use of cryptocurrency to facilitate crimes beyond tax evasion
- Duration of noncompliance
- Did the client check the box on Schedule 1 or Form 1040?
- Amount of tax loss
- Amount of unreported income
- Volume of transactions
- Disposition and use of concealed funds
- Structuring
- Use of aliases, nominees, shell entities, etc.
- Moving between on-chain and off-chain transactions
- Use of tumblers, mixers, and wallets with built-in obfuscation techniques
- Role of professional advisors
- Jury appeal

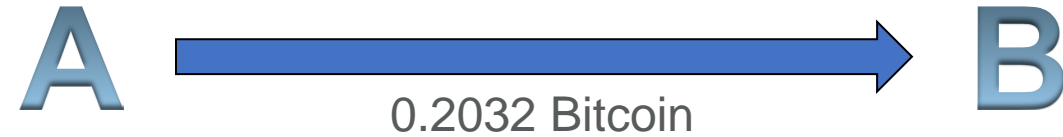
Questions??

Bitcoin 101

- Address:
 - 1KDnFEeL42W5jTxM1RZwTvWYEpxEXdno3B
- Wallet:
 - Application used to hold a user's bitcoin addresses and private keys. It is used to send, receive and store bitcoin.

Bitcoin 101

- Simple Transaction:



General info

Hash (txid) b327c8fcdef9c2339b6e591ea2c96334bf658b4cb032949955f2d028f1552408

Block Id 557665 102105 confirmations

Time (UTC) 2019-01-08 22:15 (2 years ago)

[PDF receipt](#) USD BTC

Input total	0.20320000 BTC	Output total	0.20316489 BTC
Transaction fee	0.00003511 BTC	Fee per byte	18 satoshi
Replace-by-fee (RBF) enabled?	NO	Fee per vbyte	18 satoshi

Technical details

Input count / Output count 1 / 1

Size 192

Coindays destroyed 1.19

For developers [API docs](#) [Raw tx](#)

Alternative explorers [BTC](#) [BTC](#)

[Click to see more](#)

Senders

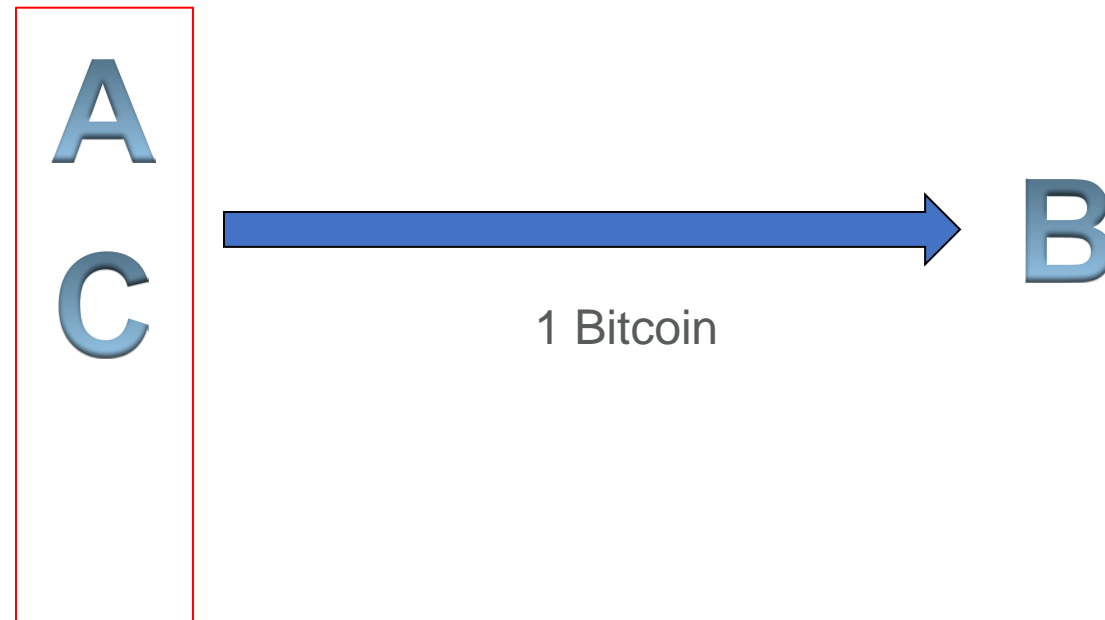
[←](#) [🕒](#) 0.20320000 BTC

Recipients

15odUgaGHKcvJGduyNiMtC8wVNBb3ou5gU [🕒](#) [→](#) 12UsBmJkWFwrHpyReRmfi2riLAeR26tcFB 0.20316489 BTC [🕒](#) [→](#)

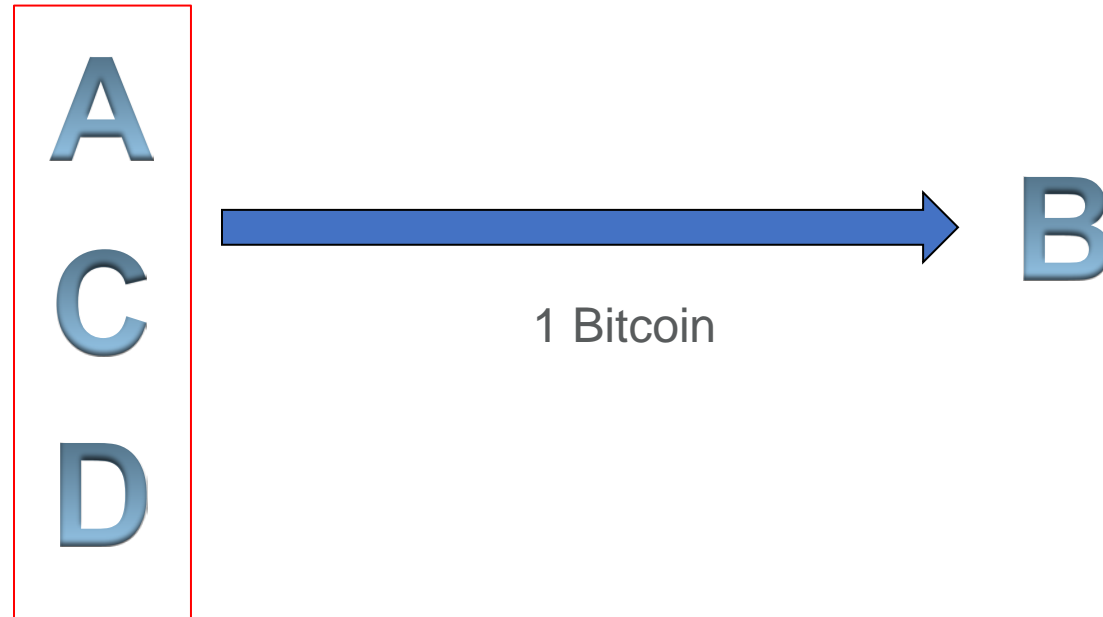
Bitcoin 101

- Simple Cluster:



Bitcoin 101

- Simple Cluster Advanced:



Old School

- Blockchain.info
- Blockchair.com

- Demo
 - 1KDnFEeL42W5jTxM1RZwTvWYEpxEXdno3B



Payment Request

Donation Button

Address	1KDnFEdL42W5jTxM1RZwTvWYEpXEdno3B
Format	BASE58 (P2PKH)
Transactions	203
Total Received	202.59398325 BTC
Total Sent	202.59398325 BTC
Final Balance	0.00000000 BTC

Transactions

Hash	cf603e2ec78e8aad9dda1a97086a44bc1731...	2015-09-29 20:51
	<p>1Kq2KGkTXH8PVZgZiK... 3.95473293 BTC </p> <p>1uvCsBJ5XEtCtGJwfiG... 0.02199798 BTC </p> <p>19DMVJGeHvuEodpuQ... 1.62000000 BTC </p> <p>1Q2sNbDNRhuVPkN6X... 0.00421319 BTC </p> <p>1Q4ERCURxbPrdRepf14... 0.07609384 BTC </p> <p>1FxdUCdbYQs3xJHAoL... 0.00010050 BTC </p> <p>1Q2sNbDNRhuVPkN6X... 0.00848669 BTC </p> <p>1uvCsBJ5XEtCtGJwfiG... 0.00848669 BTC </p> <p>1JbSwY5TNGikN5ovNq... 0.08454872 BTC </p> <p>1MCccrpRfYPt7NTa4K... 2.00000000 BTC </p> <p>Load more inputs... (40 remaining)</p>	<p>1FCb6ZwzY9YAxruY... <u>170.81027793</u> BTC </p>
Fee	0.00000000 BTC (0.000 sat/B - 0.000 sat/WU - 7420 bytes)	-2.59043796 BTC
Hash	9df111ad1f80c3655c781ccc714736379caff...	2015-09-29 20:25
	<p>1PC8UZyrPa61wnntp9... 0.76108984 BTC </p> <p>18tbvSvV635onrmeJBh... 4.43188821 BTC </p>	<p>1JeBYKiobBD9Dk8LLiA... 2.60214009 BTC </p> <p>1KDnFEdL42W5jTxM1R... 2.59043796 BTC </p>
Fee	0.00040000 BTC (107.527 sat/B - 26.882 sat/WU - 372 bytes)	+2.59043796 BTC

New School

- Chainalysis
- Demo
 - 1KDnFEeL42W5jTxM1RZwTvWYEpxEXdno3B