

Alert | Tax Audits, Litigation & Criminal Tax Defense



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The IRS Continues Aggressive Use of John Doe Summonses to Investigate Tax Evasion Related to Use of Cryptocurrency, Offshore Service Providers

Recent John Doe summonses show the IRS is expanding its use of those summonses to aggressively investigate potential tax evasion. Within the past week, the IRS has received authorization to use a John Doe summons to request information from a cryptocurrency exchange. The government has also filed petitions in federal court seeking authorization to allow the IRS to serve John Doe summonses on MoneyGram Payment Systems, Inc. and other entities that may have information regarding U.S. taxpayers who used the services of Panama Offshore Legal Services (POLS).

Use of John Doe Summonses to Seek Identities of U.S. Taxpayers Who Have Engaged in Cryptocurrency Transactions

On May 6, 2021, a federal court in the Northern District of California authorized the IRS to serve a John Doe summons on a cryptocurrency exchange. The John Doe summons seeks information regarding U.S. taxpayers who conducted transactions in cryptocurrency totaling at least \$20,000 in any one year during the years 2016 to 2020.

The court had previously expressed concerns that the scope of the John Doe summons was too broad and ordered the government to show cause why the petition to authorize the John Doe summons should not be denied for failure to narrowly tailor the request pursuant to Section 7609(f) (See [April 13, 2021 GT](#)

Alert). In response to the court’s order to show cause, the government narrowed the scope of the records requested and further explained the need for the information sought from the cryptocurrency exchange.

The court’s order authorizing the narrowed John Doe summons comes several months after the IRS announced the launch of “Operation Hidden Treasure” to find tax evasion related to cryptocurrency. In a press release regarding the court order, IRS Commissioner Chuck Rettig stated, “[t]his John Doe summons is part of our effort to uncover those who are trying to skirt reporting and paying their fair share.”

This is not the first time the IRS has used a John Doe summons to obtain information regarding U.S. taxpayers from a cryptocurrency exchange. In April 2021, the IRS received authorization to serve a John Doe summons on Circle Internet Financial, Inc. and its affiliates, including Poloniex, and in November 2017, a federal court ordered the enforcement of a John Doe summons issued to Coinbase, Inc. (*see April 13, 2021 GT Alert*).

Request for Authorization to Issue John Doe Summons to Seek Identities of U.S. Taxpayers from MoneyGram

The IRS is not limiting its current use of John Doe summonses to cryptocurrency. The IRS is also using John Doe summonses in its investigation of U.S. taxpayers who used the services of POLS, an offshore service provider alleged to have assisted U.S. taxpayers in concealing assets, and entities, and websites that appear to be connected to POLS (collectively, the POLS Group).

The IRS believes that U.S. taxpayers who used the services of POLS may have failed to comply with their U.S. tax and reporting obligations. The IRS is investigating U.S. taxpayers who used the services of the POLS Group from 2013 through 2020 “to establish, maintain, operate, or control any foreign financial account or other asset; any foreign corporation, company, trust, foundation, or other legal entity; or any foreign or domestic financial account or other asset in the name of such foreign entity.”¹

In furtherance of the IRS’s investigation of POLS, on May 4, 2021, the Department of Justice (DOJ) filed a petition in the District of Minnesota asking to allow the IRS to serve a John Doe summons on MoneyGram, a global money transfer and payment services company. The DOJ also filed concurrent petitions in the Southern District of New York requesting authorization to serve John Doe summonses on a number of delivery companies and financial institutions, and in the District of Colorado requesting authorization to serve a John Doe summons on a financial services company.

MoneyGram is believed to have records of electronic funds transfers relating to U.S. customers of the POLS Group.² In its John Doe summons directed against MoneyGram, the IRS is seeking records relating to funds transfers where (1) the POLS Group was a party or otherwise identified with respect to the transfer and (2) the sender or recipient was in the United States. The IRS maintains that the records obtained from MoneyGram will enable the identification of U.S. taxpayers who used the services of the POLS Group and “assist the IRS in determining what, if any, unreported income exists for the years relating to the summons period.”

¹ *United States of America v. John Does*, Notice of Filing of Ex Parte Petition for Leave to Serve John Doe Summons, Case No. 0:21-mc-00032.

² The proposed John Doe summonses in the Southern District of New York and the District of Colorado also concern financial entities that may have records of electronic funds transfers related to U.S. customers of the POLS Group, as well as couriers that may have shipping records relating to U.S. customers of the POLS Group and banks that maintain correspondent accounts for Panamanian banks used by the POLS Group, which may have records of transactions involving the POLS Group’s U.S. customers.

The petitions for authorization to file John Doe summonses on MoneyGram and the other entities that may have information regarding U.S. taxpayers who used the services of the POLS Group are still pending.

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