

News Release

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Duluth restaurant and restaurant owners charged with multiple tax crimes

ST. PAUL, Minn. – The Minnesota Department of Revenue announced that the St. Louis County Attorney’s Office recently charged Zhong Wei Lin, Dan Xu, Su Ling Cao, and Osaka Duluth, Inc. with two counts each of aiding in the filing of false tax returns. The St. Louis County Attorney’s Office also charged Zhong Wei Lin and Osaka Duluth, Inc. with 15 additional counts of failing to pay sales tax.

According to the complaint, Xu, Lin, and Cao intentionally used sales suppression software to remove thousands of line items from sales receipts in order to underreport their monthly sales and file at least 15 false sales tax returns in 2015 and 2016. Through their actions, the defendants and Osaka Sushi Hibachi Steak House allegedly deprived the state of more than \$27,000 in sales tax revenue and the city of Duluth of more than \$7,800 in local sales tax revenue.

Although charges were filed for 15 months beginning in February 2015 through August 2016, the complaint indicates that investigators found evidence that the defendants’ use of the sales suppression software dated back 35 months. The fraudulent activity allegedly cost the state and the city of Duluth more than \$125,000 in total lost tax revenue during that period.

“The use of sales suppression software is a growing problem that harms all businesses that report and pay their fair share of taxes,” said Revenue Commissioner Cynthia Bauerly. “Recently enacted legislation imposes significant civil penalties and makes both the sale and use of sales suppression devices a felony offense. This will help us combat this type of fraud in the future by allowing law enforcement to target not just the retailers using the devices, but also those who market these products, which have no legitimate business purpose.”

Automated sales suppression devices and software, sometimes known as ‘zappers’, delete parts of cash transactions after the fact, creating a second set of books that allows a business to report smaller sales and illegally keep some of the tax that the customer paid. Minnesota’s

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sales tax is a “trust tax” – customers pay the tax at the time of the sale with the expectation that businesses will remit it to the government on their behalf. The use of zappers violates that trust; it deprives the state, local governments, and citizens of tax revenue and it creates an unfair advantage over businesses that send all of the sales taxes they collect to the government.

Each tax-related felony charge carries a maximum penalty of five years in prison, a \$10,000 fine, or both. Defendants are presumed innocent unless and until proven guilty.

Although most taxpayers comply with tax laws voluntarily, the department takes enforcement action against noncompliant taxpayers to ensure that tax laws are administered fairly.

Many of the department’s criminal case referrals come from citizen tips. There is a 24-hour tip line for anyone who suspects that a person or business is violating Minnesota tax laws. Local callers may dial 651-297-5195 or call toll-free by dialing 1-800-657-3500. Tips can also be submitted to the department by email at tax.fraud@state.mn.us. Tipsters may choose to remain anonymous.

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