



*United States Attorney
District of New Jersey*

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NEW JERSEY MAN ADMITS OPERATING PAYROLL TAX FRAUD SCHEME

TRENTON, N.J. – The owner of former payroll company, Innovative Payroll Services LLC (IPS) admitted today he operated a multimillion-dollar fraud scheme through his company, Acting U.S. Attorney William E. Fitzpatrick announced.

John Scholtz, 68, of Sea Isle City, New Jersey, pleaded guilty before U.S. District Judge Freda L. Wolfson in Trenton federal court to an information charging him with one count of wire fraud and one count of transacting in criminal proceeds.

According to documents filed in this case and statements made in court:

Scholtz owned and operated IPS, a company that provided payroll services to clients – including municipalities, educational institutions, and various small to medium-sized privately held companies – in New Jersey and elsewhere. Each payroll period, IPS provided its clients with a summary setting forth the payroll taxes owed for that period. IPS clients then deposited the specified payroll taxes into an IPS bank account, where IPS held the funds until they were remitted to the taxing authorities.

Scholtz admitted that from February 2012 to January 2016, he withdrew or directed others at IPS to withdraw client tax funds from IPS' Tax Impound Accounts, knowing that these funds constituted client tax funds, and used these funds instead for IPS operating expenses and his own personal expenses, including payments for homes, cars, boats, airplanes and credit cards.

This ongoing misappropriation of funds caused many IPS clients to be in delinquent status with the IRS and state and local taxing authorities. As clients' tax deposit funds came in, IPS used such funds to pay other clients' taxes owed for prior pay periods, as well as penalties and interest. As a result, at least 103 IPS clients lost more than \$8.4 million worth of federal, state and local tax deposits that IPS failed to make, as well as more than \$578,000 in associated penalties and interest. The City of Trenton was an IPS client from July 2009 to January 2016, and is one of the IPS clients whose tax deposit funds were misappropriated by Scholtz.

The wire fraud count to which Scholtz pleaded guilty carries a maximum potential penalty of 20 years in prison; the transacting in criminal proceeds count carries a maximum penalty of 10 years in prison. Both charges also carry a fine of \$250,000 or twice the gross gain

or loss from the offense. Scholtz will also be ordered to pay restitution and forfeit certain property at sentencing, currently scheduled for July 6, 2017.

Acting U.S. Attorney Fitzpatrick credited special agents of the FBI, under the direction of Special Agent in Charge Timothy Gallagher, Newark Division, and special agents of IRS-Criminal Investigation, under the direction of Special Agent in Charge Jonathan D. Larsen, Newark Division, with the investigation leading to today's guilty plea.

The government is represented by Assistant U.S. Attorney Sarah M. Wolfe of the U.S. Attorney's Office Criminal Division in Trenton.

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Defense counsel: Brian Reilly Esq., Assistant Federal Public Defender, Trenton

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