

# New York Whistleblower Suit Results in \$105 Million From Hedge Fund Manager Who Evaded Taxes

By **Rachel Maimin**, **Kathleen A. McGee**, and **Carly Coleman**

On Tuesday, March 2, 2021, New York State Attorney General Letitia James and New York City Corporation Counsel James E. Johnson released a [statement](#)<sup>1</sup> announcing their recovery of a \$105 million settlement from a hedge fund manager who defrauded New York State and New York City out of taxes on deferred compensation income. James' office stated that, in 2017, Thomas E. Sandell, through his firm, Sandell Asset Management Corp. (SAMC), evaded "tens of millions of dollars" in taxes on over \$450 million in fees recognized for investment management services performed in New York City.

According to James' office, Sandell temporarily moved from New York to London and, during that time, took steps to obscure the fact that SAMC continued to operate in New York City. For example, Sandell opened a shell office with three back-office employees in Florida, which he represented to New York's tax authorities was SAMC's sole U.S. operation. Sandell also made an effort to conceal SAMC's New York presence by funneling the firm's payroll and property expenses through a third-party entity that he owned, James' office said.

These facts were uncovered in an investigation that began when an unnamed whistleblower filed suit in October 2018 under the New York False Claims Act.<sup>2</sup> The statute permits any private party with information about fraudulent acts to bring a qui tam civil action on behalf of the government. Under the statute, the party filing the action is eligible for 15 to 25 percent of the amount recovered in the action or settlement of the action.<sup>3</sup>

James' office noted that the \$105 million settlement with Sandell and SAMC includes damages, taxes, penalties, interest, attorneys' fees, and other costs. Here, the whistleblower will receive \$22.05 million, or 21 percent, of the settlement proceeds, [as reported by Law360](#).<sup>4</sup>

As one of the few states that allow qui tam suits for tax law violations, New York offers strong incentives for whistleblowers to come forward with information about such misconduct. [Our recent alert on qui tam suits and PPP loans](#) also highlights the strong allure of whistleblower complaints under the federal False Claims Act. Qui tam actions thus serve as an important enforcement mechanism, of which all companies should be aware.

<sup>1</sup> <https://ag.ny.gov/press-release/2021/attorney-general-james-and-nyc-corporation-counsel-johnson-announce-recovery-105>.

<sup>2</sup> State Finance Law, Art. 13, §§187-194.

<sup>3</sup> *Id.* at § 190(6).

<sup>4</sup> <https://www.law360.com/assetmanagement/articles/1360686/ny-recovers-105m-from-hedge-funder-over-tax-evasion>.

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