

Vanguard faces tax evasion charges in ex-employee's whistleblower suit

Ex-employee alleges low-cost fund provider operated as an illegal tax shelter, avoided about \$1 billion in taxes over 10 years

By Trevor Hunnicutt

The Vanguard Group Inc. is facing whistleblower allegations that it has avoided paying \$1 billion in state and federal taxes over the last decade, according to a copy of the complaint.

“Vanguard has operated as an illegal tax shelter for nearly 40 years” by providing services “at prices designed to avoid federal and state income tax” and sheltering hundreds of millions in income, the complaint alleges.

The complaint was brought by a former Vanguard employee under the False Claims Act, a whistleblower law in New York State.

The firm markets itself as an “at cost” provider of mutual funds. The complaint, filed by self-identified Vanguard employee David Danon, said those fees are “artificially low,” a violation of tax law.

Mr. Danon said Vanguard manages New York's 529 college-savings plans and made false filings with New York that said it had paid taxes. But the firm filed no tax returns between 2004 and 2011,

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The complaint was filed in the New York State Supreme Court, Civil Branch.

Vanguard spokesman David Hoffman said the case is without merit.

“Vanguard adheres to the highest ethical standards in every aspect of our business,” Mr. Hoffman said in a statement. “It is also important to note that Vanguard operates under a unique mutual structure and has a long history of serving the best interests of its shareholders.”

Mr. Danon's LinkedIn profile lists him as associate counsel for Vanguard from 2008 to June 2013. His lawyer said he was placed on paid leave and then fired by the fund house after he filed his

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complaint.

Mr. Danon's lawyer, Brian Mahany, of Mahany & Ertl in Milwaukee, said the fund company keeps a \$1.5 billion "contingency reserve," collected from shareholders, on which it failed to pay taxes.

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