

**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF ILLINOIS**

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	
)	
v.)	Civil No. 3:13-cv-00726-WDS-DGW
)	
RONALD E. MANIS,)	
)	
Defendant.)	

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

The United States of America alleges the following against defendant Ronald E. Manis:

Authorization

1. The United States brings this suit under sections 7402, 7407, and 7408 of the Internal Revenue Code (I.R.C.) (26 U.S.C.) (“the Code”) to enjoin Ronald E. Manis, individually and doing business as or through any entity, and anyone in active concert with him from:

- a. preparing, assisting in the preparation of, or filing federal tax returns or other federal tax related documents for others;
- b. representing taxpayers before the IRS;
- c. misrepresenting his eligibility to practice before the IRS;
- d. engaging in conduct subject to penalty under the Internal Revenue Code, including but not limited to I.R.C. §§ 6694 or 6701; or
- e. engaging in any other conduct that substantially interferes with the proper administration and enforcement of the Internal Revenue laws.

2. This action has been requested by a delegate of the Secretary of the Treasury and commenced at the direction of a delegate of the Attorney General of the United States pursuant to 26 U.S.C. §§ 7402, 7407, and 7408.

Jurisdiction and Venue

3. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and 26 U.S.C. § 7402(a).

4. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because Manis resides in Carbondale, Illinois, within this judicial district, and because a substantial part of the events giving rise to this suit occurred in this judicial district.

Defendant Ronald Manis

5. Manis has a Bachelor's degree in accounting from SIU-Carbondale. Manis passed the Certified Public Accountant (CPA) exam in 1981 and obtained a CPA license from the state of Illinois in June of 1982.

6. Since 1984, Manis has owned and operated "Ronald Manis CPA" in Carbondale.

7. Manis receives compensation for preparing individual and corporate federal tax returns. Manis also represents customers before the IRS.

Defendant's I.R.C. Penalty Conduct

Criminal Violations of the Internal Revenue Code

8. On March 18, 2010, Manis was indicted under section 7203 of the Internal Revenue Code for willfully failing to file his own tax returns for the years 2003, 2004, 2005, and 2006. Case No. 4:10-CR-40017-001-PMF (USDC S.D. Ill.). Manis pled guilty to all four counts of the indictment on September 19, 2011.

9. For his crimes, Manis was sentenced to three months in prison. Manis began serving that sentence on April 23, 2013, and is currently incarcerated in federal prison in Marion, Illinois. Manis was released on July 20, 2013.

Misrepresenting Eligibility to Represent Taxpayers

10. Manis's Illinois CPA license expired on September 30, 2006. Manis did not renew the license until November 12, 2009. For over 3 years, Manis falsely represented himself as a fully-licensed CPA to customers and the IRS.

11. While practicing without a valid CPA license, Manis sent the IRS at least 22 "Power of Attorney and Declaration of Representative" (Forms 2848) falsely declaring under penalties of perjury that he was a Certified Public Accountant—duly qualified to practice as a certified public accountant in the state of Illinois.

Improper Use of Electronic Filing Identification Number (EFIN)

12. In order for a paid tax return preparer to file returns electronically with the IRS, he or she must be an authorized e-file provider. In January 2011, Manis applied to become an authorized e-file provider so that he could file his customers' returns electronically with the IRS.

13. In March 2011, the IRS denied Manis's EFIN application because of his tax crimes described in paragraph 8 above.

14. After the IRS denied Manis's application for an EFIN, Manis illegally used an EFIN belonging to a friend to electronically file his customers' returns with the IRS.

Fraudulent Return Preparation Activities

15. In addition to the unscrupulous activities described above, Manis routinely prepares federal tax returns for individuals and corporations improperly claiming deductions that result in his customers understating their federal tax liabilities.

16. Manis prepares federal tax returns claiming deductions for expenses his customers did not incur or in amounts Manis knows far exceed his customers' actual expenses.

17. Manis also prepares federal tax returns that deduct as business expenses his customers' non-deductible personal expenses.

18. Manis engages in this conduct to illegally reduce his customers' federal tax liabilities and in a misguided attempt to mint his reputation as a uniquely-skilled and knowledgeable tax return preparer.

Examples of Improper Deductions

19. Manis knows (or has reason to know) that taxpayers may only deduct the cost of meals when necessary *while traveling away from home on business* or if the meal is business-related entertainment. Further, Manis knows (or has reason to know) that taxpayers may not deduct daily commuting expenses, no matter how far their home is from their regular place of work.

20. Despite this, Manis prepared a 2011 federal income tax return for a correctional officer at the Marion federal prison improperly deducting the cost of the officer's daily meals and commuting mileage as unreimbursed employee business expenses.

21. When claiming business vehicle expenses on customers' returns, Manis has routinely fabricated or inflated the number of business miles driven during the tax year. Manis inserts bogus and/or wildly inflated mileage numbers (i.e. 40,000 miles in one year) in order to fraudulently boost the claimed vehicle expense for his customers.

22. During audits, the IRS found that Manis's customers drove no miles deductible for business purposes or drove substantially fewer business miles than what Manis reported on their returns.

23. Manis also improperly claims depreciation expenses for non-business vehicles and/or fails to adequately account for personal use of vehicles also used for business purposes.

24. Depreciation is the annual tax-deductible allowance for the wear and tear, deterioration, or obsolescence of certain business property. Manis knows (or has reason to know) that if a taxpayer combines business and personal use of depreciable property, the taxpayer can only deduct depreciation expense for the business use of the property (pro-rated).

25. Manis has prepared many returns improperly deducting 100% of a vehicle's depreciation as a business expense even though he knows the customer only uses the vehicle partially for business purposes, if at all.

26. One customer, GK, told Manis that she used her 1996 Jeep Cherokee 50% of the time for business. Despite knowing this, Manis improperly deducted 100% of the Jeep Cherokee's depreciation as a business expense on GK's 2006 and 2007 federal tax returns. Manis also fabricated business deductions for miscellaneous office expenses on GK's returns. GK incurred no such expenses and did not tell Manis that she did.

27. Upon a review of her returns, GK asked Manis about deviations between the expense amounts Manis reported on GK's returns and the expense figures GK provided Manis. Manis told GK that he increased some numbers so GK would pay less tax.

Deducting Personal Vacations as Business Expenses

28. Manis has prepared federal tax returns for customers improperly deducting the cost of lavish personal vacations as business expenses.

29. For over 20 years, Manis has prepared federal tax returns for JS, the owner of an insurance and investment firm in Carbondale, Illinois.

30. Since at least 2000, Manis has improperly deducted the cost of personal vacations as business expenses on JS's corporate tax returns. Manis has deducted as business expenses the cost of JS and his wife's week-long vacations to Portland, Oregon, in 2000; New Orleans in

2001; Lake Tahoe in 2002; San Antonio in 2003; Estes Park, Colorado, in 2004; Galveston, Texas, in 2005; Michigan and Wisconsin in 2006; Arizona (Phoenix and Sedona) in 2007; Palm Springs in 2008; and a tour of the New England states of Massachusetts, Vermont, New Hampshire, and Maine in 2009.

31. Manis also prepared a 2008 federal tax return for JS's corporation, where Manis improperly deducted as business expenses almost \$10,000 for a personal cruise vacation and over \$10,000 in depreciation for JS's personal Porsche.

False Adjusting Journal Entries for S-Corporations

32. When preparing federal tax returns for S-corporations (flow-thru entities), Manis has routinely fabricated adjusting journal entries to illegally reduce the amount of tax his customers will have to pay on shareholder distributions.

33. During a typical audit of an S-corporation, IRS agents often examine business bank accounts and attempt to tie gross receipts to deposits and business expenses to withdrawals. Any unaccounted for or unexplained withdrawals (non-expense items) are typically classified as a shareholder distribution. These distributions are then taxable to the shareholders on their individual returns (e.g., a flow-thru entity).

34. Through his 20 plus years of experience representing taxpayers before the IRS, Manis knows the IRS procedures for auditing S-corporations. In order to fraudulently reduce his customers' federal tax liabilities, Manis fabricates business expenses in order to avoid classifying withdrawals as taxable shareholder distributions.

35. In one example of this deceptive practice, Manis sought to illegally reduce taxable shareholder distributions from a Carbondale-based masonry company ("LG") by fabricating over \$150,000 in business expenses.

36. On LG's 2007 federal tax return, Manis fabricated business expenses of \$90,000 for "purchases," \$1,000 for "repairs and maintenance," \$6,000 for "rents," \$515 for "taxes and licenses," \$1,318 for "advertising," and \$6,167 for "employee benefits programs" to offset over \$100,000 in otherwise taxable shareholder distributions.

37. Similarly on LG's 2006 federal tax return, Manis reported a bogus deduction of \$49,755 for "costs of goods sold" to offset otherwise taxable shareholder distributions.

38. LG did not incur the expenses described in paragraphs 36 and 37 above, nor did the customer provide these expense items or amounts to Manis.

39. In another example of Manis's fraudulent practices, Manis fabricated business expenses on the 2007 and 2008 federal tax returns he prepared for a clinical psychologist ("SH") in Belleville.

40. On SH's 2007 and 2008 corporate returns, Manis fabricated rent expense deductions of \$18,000 per year. While SH worked from his home in 2007 and 2008, SH's corporation did not pay him rent to use the space, and therefore, did not incur the rent expense. Manis fabricated the \$18,000 rent expense for both years in order to artificially lower the amount of shareholder distributions flowing through SH's individual tax return.

41. Also on SH's 2007 and 2008 corporate returns, Manis fabricated business deductions for janitorial services in the amount of \$3,600 and \$2,400, respectively. This also artificially lowered the shareholder distributions flowing through to SH's individual tax returns.

42. In April 2012, after the IRS disallowed the bogus business deductions Manis claimed on SH's 2007 and 2008 corporate returns, SH and his wife filed a lawsuit against Manis in St. Clair County Circuit Court. SH and his wife sought more than \$300,000 in damages for

Manis's alleged professional negligence, breach of contract and fraud with respect to Manis's conduct. SH and his wife obtained a default judgment against Manis.

Harm to the Public

43. Manis's fraudulent return preparation activities have caused (and continue to cause) significant harm to Defendants' customers, the U.S. Treasury, and the public at large.

44. Manis's customers have been harmed because they pay him and rely on Manis's stature as a CPA to prepare proper tax returns. Instead, Manis prepares returns that have substantially understated his customers' correct tax liabilities. As a result, some customers may now face large income tax debts and may be liable for sizeable penalties and interest.

45. Manis's fraudulent practices likewise harm the U.S. Treasury in the form of lost tax revenue. The IRS has audited 217 individual federal tax returns prepared by Manis since January 2006. Of those 217 returns, the average tax deficiency was \$11,194.

46. Manis prepares approximately 1,500 returns per year. Assuming Manis prepares 1,500 returns each year with an average deficiency of \$11,194 per return, the loss to the U.S. Treasury as a result of Manis's fraudulent return preparation activities could exceed \$16 million annually.

47. Manis's conduct also harms honest tax return preparers who refuse to engage in such unscrupulous conduct and who may unfairly lose business to Manis as a result of his willingness to break the law.

48. Finally, Manis's misconduct harms the public at large by undermining public confidence in the federal tax system and encouraging widespread violations of the internal revenue laws. The public is further harmed because the IRS must devote scarce resources to identifying and recovering lost tax revenues from Manis's customers. Moreover, given the IRS's

limited resources, identifying and recovering all revenues lost from Manis's preparation of false and fraudulent returns may be impossible.

49. Without an injunction, Manis is likely to continue preparing false and fraudulent federal income tax returns causing harm to Manis's customers, the government, and the public at large. An injunction will serve the public interest because it will put a stop to Manis's illegal conduct and the harm that such conduct causes Manis's customers, the U.S. Treasury, and the public.

Count I – Injunction under 26 U.S.C. § 7407

50. The United States incorporates by reference paragraphs 1 through 49 above.

51. Section 7407 of the Code authorizes a district court to enjoin a tax return preparer from (1) engaging in conduct subject to penalty under I.R.C. §§ 6694; (2) from engaging in any conduct subject to criminal penalty under the Code; (3) from misrepresenting his or her eligibility to practice before the IRS; or (4) from engaging in any other fraudulent or deceptive conduct which substantially interferes with the proper administration of the Internal Revenue laws. 26 U.S.C. § 7407(b)(1)(A)-(D).

52. If the Court finds that the preparer has continually and repeatedly engaged in any of the conduct described in paragraph 51 and that an injunction prohibiting such conduct would not be sufficient to prevent that person's interference with the proper administration of internal revenue laws, the court may enjoin that person from acting as a tax return preparer. 26 U.S.C. § 7407.

53. Section 6694 of the Code imposes a penalty against a tax preparer who prepares a federal tax return understating the taxpayer's liability due to an unreasonable position (one for

which there is no substantial authority), and the preparer knew or should have known of the position. 26 U.S.C. § 6694(a).

54. Section 6694 also imposes a penalty against a tax preparer who prepares a federal tax return understating the taxpayer's liability due to the preparer's own willful or reckless conduct. 26 U.S.C. § 6694(b).

55. Manis has continually and repeatedly prepared federal income tax returns that understate his customers' tax liabilities based on unreasonable positions Manis knew or should have known were unreasonable.

56. Manis has continually and repeatedly engaged in willful or reckless conduct when preparing federal income tax returns that understate his customers' federal tax liabilities.

57. Manis has also engaged in criminal conduct under the Code by willfully failing to file his own federal income tax returns.

58. Manis has misrepresented his eligibility to practice before the IRS by completing Power of Attorney declarations (IRS Forms 2848) swearing under penalties of perjury that he is duly qualified to practice as a certified public accountant in the state of Illinois when he knew he did not have a valid CPA license.

59. In addition to specific conduct that violates the Internal Revenue Code, Manis, through the actions described above, has engaged in fraudulent and deceptive conduct that substantially interferes with the administration of internal revenue laws.

60. Pursuant to 26 U.S.C. § 7407, the Court should permanently enjoin Manis from preparing or filing federal tax returns for others.

Count II: Injunction under 26 U.S.C. § 7408

61. The United States incorporates by reference paragraphs 1 through 60 above.

62. Section 7408 of the Code authorizes a district court to enjoin any person from engaging in conduct that is subject to penalty under 26 U.S.C. § 6701 if injunctive relief is appropriate to prevent recurrence of that conduct.

63. Section 6701(a) of the Code imposes a penalty against any person who aids or assists in, procures, or advises with respect to the preparation of any portion of a federal income tax return, refund claim, or other document knowing (or having reason to believe) that it will be used in connection with any material matter arising under the internal revenue laws and knowing that if it is so used it would result in an understatement of another person's tax liability.

64. Manis prepares fraudulent federal tax returns on which he intentionally inflates or fabricates his customers' business expense deductions, knowing (or having reason to believe) that those returns would result in his customers' understating their federal tax liabilities.

65. If the Court does not enjoin Manis, he is likely to continue to engage in penalty conduct under 26 U.S.C. § 6701. Injunctive relief is therefore appropriate under 26 U.S.C. § 7408.

Count III – Injunction under 26 U.S.C. § 7402

66. The United States incorporates by reference paragraphs 1 through 65 above.

67. Section 7402 of the Code authorizes courts to issue injunctions "as may be necessary or appropriate for the enforcement of the internal revenue laws." The remedies available to the United States under that statute "are in addition to and not exclusive of any and all other penalties." 26 U.S.C. § 7402(a).

68. Manis, through the actions described above, has engaged in conduct that substantially interferes with the administration and enforcement of the internal revenue laws, and he is likely to continue to engage in such conduct unless enjoined.

69. Manis' conduct is causing irreparable injury to the United States and its citizenry and an injunction under 26 U.S.C. § 7402(a) is necessary and appropriate.

70. If Manis is not enjoined from preparing tax returns for others, the United States will suffer irreparable injury by erroneously providing tax refunds to persons not entitled to receive them and by taxpayers not reporting and paying the correct amount of taxes.

71. Unless Manis is enjoined from preparing federal tax returns for others, the IRS will have to devote substantial time and resources to identify and locate his customers, and then examine those customers' tax returns. Pursuing all individual customers may be impossible given the IRS's limited resources.

72. Enjoining Manis from preparing federal tax returns is in the public interest because an injunction will stop his illegal conduct and the harm it causes the United States and its citizenry.

73. The Court should therefore order injunctive relief under 26 U.S.C. § 7402(a).

WHEREFORE, the United States of America requests the following relief:

- A. That the Court find that Ronald Manis has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6701;
- B. That the Court find that Ronald Manis has continually and repeatedly engaged in conduct subject to criminal penalty under the Code;
- C. That the Court find that Ronald Manis has continually and repeatedly misrepresented his eligibility to practice before the IRS;
- D. That the Court find that Ronald Manis has engaged in fraudulent and deceptive conduct that substantially interferes with the administration of internal revenue laws;

- E. That the Court find that Ronald Manis has engaged in conduct that interferes with the enforcement of the Internal Revenue laws, and that injunctive relief against him and anyone acting in concert with him is appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers and 26 U.S.C. § 7402(a);
- F. That the Court, under 26 U.S.C. §§ 7407, 7408, and 7402(a), enter a permanent injunction order prohibiting Ronald Manis from preparing, assisting in the preparation of, or filing federal tax returns or other federal tax related documents for others and from representing taxpayers before the IRS;
- G. That the Court require that Ronald Manis, within 30 days of the Court's entry of a final injunction order, contact by U.S. mail (or by e-mail if a postal address is unknown) all persons for whom he has prepared a federal tax return since January 1, 2010, to inform them of the Court's findings in this matter and to provide – at his own expense – a copy of any injunction order entered by this Court and that any correspondence sent with the order be pre-approved by counsel for the United States or the Court;
- H. That the Court require that Ronald Manis, within 30 days of the Court's entry of a final injunction order, provide to counsel for the United States a customer list identifying the name, address, tax identification number, and telephone number of all individuals or entities for whom Ronald Manis has prepared a federal tax return since January 1, 2010.

- I. That the Court require that Ronald Manis, within 35 days of the Court's entry of a final injunction order, file a certification signed under penalty of perjury that he has complied with the requirements in paragraphs E and F above;
- J. That the Court authorize the United States to engage in post-judgment discovery pursuant to the Federal Rules of Civil Procedure in order to monitor compliance with the Court's injunction; and
- K. That the Court grant the United States such other and further relief as the Court deems appropriate.

Dated: July 22, 2013

Respectfully submitted,

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