

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
McALLEN DIVISION

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	
)	
v.)	
)	
HECTOR RANGEL JR.,)	
individually and doing business as)	Case No.
HECTOR’S INCOME TAX AND)	
BOOKKEEPING, also known as)	
HECTOR’S BOOKKEEPING AND)	
INCOME TAX SERVICE, also known as)	
HECTOR’S BOOKKEEPING AND)	
TAX SERVICE, also known as)	
HECTOR’S INCOME TAX SERVICE,)	
)	
Defendant.)	

COMPLAINT FOR PERMANENT INJUNCTION

Plaintiff, the United States of America, alleges the following:

1. This is a civil action brought by the United States under §§ 7402(a), 7407, and 7408 of the Internal Revenue Code (26 U.S.C.) (I.R.C.) to permanently enjoin Defendant Hector Rangel Jr., individually and doing business as Hector’s Income Tax and Bookkeeping, Hector’s Bookkeeping and Income Tax Service, Hector’s Bookkeeping and Tax Service, and Hector’s Income Tax Service, and anyone in active concert or participation with him, from:
 - a. acting as a federal tax return preparer, or requesting, assisting in, or directing the preparation or filing of federal tax returns (including amended returns) or other related documents or forms, for any person or entity other than himself;

- b. engaging in any conduct subject to penalty under I.R.C. §§ 6694, 6695, 6701, or any other penalty provision of the Internal Revenue Code; and
 - c. engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.
2. Since 2003, Rangel has been unlawfully preparing federal income tax returns that understate the tax liabilities of his customers by claiming false, improper, or inflated deductions or tax credits, including the earned income tax credit (EITC) and the first-time homebuyer credit (FTHBC). Rangel has also engaged in other improper conduct subject to penalty under the Internal Revenue Code, as described below.

Jurisdiction and Venue

3. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General.
4. The Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1340 and 1345 and I.R.C. § 7402(a).
5. Venue is proper under 28 U.S.C. § 1391 because Rangel resides in Mission, Texas and/or Edinburg, Texas, which are near McAllen, Texas and within this judicial district.

Rangel's Tax-Preparation Business

6. Hector Rangel Jr. prepares federal income tax returns for compensation and has been doing so since 2003. He is a "tax return preparer" under I.R.C. § 7701(a)(36).
7. Since 2006, Rangel has been doing business in McAllen, Texas, under several business names, including Hector's Income Tax and Bookkeeping, Hector's Bookkeeping and

Income Tax Service, Hector's Bookkeeping and Tax Service, and Hector's Income Tax Service.

8. Rangel is not an attorney or a certified public accountant.
9. Rangel's only training in taxation and tax preparation consists of a course on updates and changes in tax law sponsored by a tax-preparation firm located in Pharr, Texas, which Rangel attends prior to the beginning of each tax-filing season.
10. Rangel does not have his own electronic filing identification number, which the IRS requires in order to file federal income tax returns electronically. Instead, Rangel provides the returns he prepares for his customers to the tax-preparation firm in Pharr, Texas, which files the returns electronically.
11. Most of Rangel's customers reside in southern Texas.

Description of Rangel's Unlawful Tax-Preparation Activity

12. Since Rangel began preparing federal tax returns in 2003, he has continually and repeatedly understated the tax liabilities of many of his customers.
13. The table below shows the following data from IRS records: the number of federal income tax returns prepared by Rangel that were filed with the IRS during each year from 2003 through 2012, how many of those returns have been examined by the IRS, and how many of the examined returns were determined by the IRS to have understated the tax liabilities of those customers.

Filing Year	No. of Returns Prepared	No. of Returns Examined by IRS	No. of Examined Returns in which IRS Found Understated Tax Liabilities	Percent of Examined Returns in which IRS Found Understated Tax Liabilities
2003	41	41	40	98%
2004	59	32	30	94%
2005	238	25	24	96%
2006	541	15	15	100%
2007	275	14	14	100%
2008	620	13	13	100%
2009	539	23	21	91%
2010	526	65	62	95%
2011	556	70	67	96%
2012	326	40	37	93%
Total	3,721	338	323	96%

14. According to IRS records, Rangel has prepared 314 federal income tax returns that were filed in 2013.
15. Since 2003, Rangel has continually and repeatedly prepared federal tax returns that he knew, or should have known, contained:
- a. False, improper, or inflated itemized deductions on Schedule A (Itemized Deductions);
 - b. False, improper, or inflated business expense deductions on Schedule C (Profit or Loss from Business (Sole Proprietorship));
 - c. False, improper, or inflated farm expense deductions on Schedule F (Profit or Loss from Farming); and/or
 - d. False, improper, or inflated claims for tax credits, including the earned income tax credit (EITC) and the first-time homebuyer credit (FTHBC).

Claiming Improper Deductions

16. In some instances, Rangel asks his customers to estimate the amounts of certain personal expenses (such as meals, commuting mileage, insurance, gifts, or vacations) and then lists

those expenses as deductions on Schedules A, C, or F, while knowing or having reason to know that the expenses are not deductible.

17. In other instances, Rangel fabricates deduction amounts listed on his customers' Schedules A, C, or F without documents to substantiate those amounts.
18. Rangel has also claimed fake expense deductions on Schedules C or F for customers who did not operate businesses or farms and/or did not provide him with documents to substantiate those deductions.

Preparing Improper EITC Claims

19. For some of Rangel's customers, the false deductions artificially decrease the customers' incomes so that they appear to be eligible to claim the EITC or to claim a higher EITC amount. Rangel wrongfully claims the EITC for those customers on their returns.
20. The EITC is a refundable tax credit available to certain low-income individuals. The amount of the credit is based on the taxpayer's income, filing status, and number of claimed dependents.
21. Because the EITC is a refundable credit, claiming the credit can reduce a taxpayer's federal income tax liability below zero, entitling the taxpayer to a tax refund.
22. In 1997, Congress authorized the Secretary of the Treasury to impose "due diligence" requirements on tax preparers who claim the EITC for customers. *See* I.R.C. § 6695(g). Under final regulations originally enacted in 2000 and subsequently amended, among other requirements, tax preparers must document the eligibility determination and credit computation for any of their customers claiming the EITC and retain that documentation for three years. *See* 26 C.F.R. (Treas. Reg.) § 1.6695-2.

23. Rangel has continually and repeatedly failed to comply with the due diligence requirements imposed by Treas. Reg. § 1.6695-2 by, among other things, failing to create or retain accurate EITC documentation.

Preparing Improper FTHBC Claims

24. Rangel has also prepared returns claiming the FTHBC for customers that he knew, or should have known, did not qualify for the credit.
25. In 2008, a first-time homebuyer could claim a refundable tax credit (the FTHBC) equal to the lesser of ten percent of the home's purchase price or \$7,500 if, among other requirements, the individual purchased a home on or after April 9, 2008 and before January 1, 2009, and had not owned a home in the three years prior to the purchase.
26. Rangel continually and repeatedly prepared false claims for the FTHBC on IRS Forms 5405, which were attached to his customers' federal income tax returns.
27. In some instances, Rangel made no attempt to determine whether his customers who claimed the FTHBC were eligible to do so.
28. In other instances, Rangel claimed the FTHBC for customers that he knew or should have known were ineligible to claim the credit.
29. Rangel claimed the FTHBC for individuals who had not purchased homes between April 9, 2008 and January 1, 2009, or did not own a home at all. Rangel also entered incorrect acquisition dates on some of his customers' Forms 5405 in order to obtain tax credits for which they did not qualify.

Failing to Sign Returns or Provide Identification Number

30. As shown in the above table, IRS records indicate that Rangel prepared 539 tax returns that were filed in 2009, 526 tax returns that were filed in 2010, and 556 tax returns that were filed in 2011.
31. However, customer lists that Rangel provided to the IRS show that he prepared over 100 additional returns for tax years 2008 through 2010.
32. On information and belief, Rangel did not sign all of those additional returns as a tax return preparer and/or did not provide his identification number on those returns, in violation of I.R.C. §§ 6695(b) and 6695(c).

Examples of Rangel's Unlawful Tax-Preparation Activity

33. Rangel prepared the 2005 and 2006 federal income tax returns of a married couple and asked them questions about their commuting mileage between home and workplace, home utility expenses, and meals purchased at the workplace.
34. When interviewed by an IRS agent, the taxpayers could not identify the amounts that Rangel had listed on their Schedule C as deductions for various expenses (e.g., legal and professional expenses, supplies, and office expenses), and they did not have documentation to substantiate many of the expenses.
35. The IRS disallowed the taxpayers' Schedule C deductions and EITC claims for 2005 and 2006.
36. The 2007 through 2009 federal income tax returns of another of Rangel's customers included various Schedule C deductions, including expenses for commissions, insurance, legal and professional services, supplies, and utilities. However, the customer told an IRS

agent that the customer did not have a business and did not provide Rangel with any documentation for expenses.

37. The IRS disallowed the customer's Schedule C deductions and EITC claims for 2007 through 2009.
38. The IRS also disallowed the customer's FTHBC claim for 2008. The customer had only expressed to Rangel an interest in buying a house and had not actually purchased a qualifying home during the eligible period.
39. The 2009 through 2011 federal income tax returns of another of Rangel's customers included various Schedule A deductions for unreimbursed employee business expenses, including meals, home office expenses, tools, and cell phone expenses. However, the customer told an IRS agent that an employer reimbursed the customer for any such expenses. The IRS disallowed those and other deductions for that customer.
40. Rangel also prepared the 2009 through 2011 federal income tax returns of a married couple who provided Rangel with Forms W-2. Rangel included a Schedule F with the 2009 and 2011 returns claiming deductions for various farming expenses. The taxpayers did not own a farming business and never provided any farm-expense documentation to Rangel. The IRS disallowed the deductions and assessed penalties against the couple.
41. The 2009 through 2011 federal income tax returns of yet another of Rangel's customers contained Schedule A deductions for commuting expenses to and from an employer's workplace and for charitable contributions to family members to pay their personal expenses – neither of which is properly deductible. Moreover, the customer lacked any documents to substantiate those deductions. The IRS disallowed the deductions and assessed penalties against the customer.

Other Wrongful Conduct by Rangel

Claiming Improper Tax Credits on His Own Tax Returns

42. The IRS examined Rangel's individual federal income tax returns for tax years 2008 through 2010.
43. The IRS determined that, for each of those years, Rangel claimed improper earned income tax credits and child tax credits, which the IRS disallowed.
44. The IRS also imposed accuracy-related penalties under I.R.C. § 6662 against Rangel for each of those tax years.
45. The IRS ultimately assessed over \$20,000 against Rangel for unpaid taxes and penalties for tax years 2008 through 2010.

Providing False Information about His Income to a Bank and/or the IRS

46. In April and May 2007, Rangel applied for a mortgage loan from Laredo National Bank to purchase property in Edinburg, Texas.
47. In the course of applying for that loan, Rangel provided IRS Forms 1040 for tax years 2005 and 2006 to the bank showing that he had earned certain amounts of Schedule C gross receipts and net profit.
48. However, IRS records indicate that Rangel reported substantially lower amounts of gross receipts and net profit on the Forms 1040 that he filed with the IRS for those tax years.
49. Rangel thus provided false information about his income to either the IRS or the bank, or both.

Failing to Issue Tax Forms to Employees

50. Rangel also failed to issue IRS Forms W-2 or Forms 1099-MISC to two individuals who worked for him preparing tax returns in 2006. Rangel told an IRS agent that he did not know how to prepare those forms.

Harm Caused by Rangel's Unlawful Tax-Preparation Activity

51. Many of Rangel's customers are harmed by his behavior because they pay him to prepare proper tax returns and he does not do so. Because Rangel understates many of his customers' federal income tax liabilities, those customers now face assessments for tax deficiencies, interest, and penalties.
52. Rangel's conduct also harms the United States because his customers' understated tax liabilities result in lost tax revenue. Based on its examination of 338 tax returns prepared by Rangel and filed from 2003 through 2012, the IRS calculated that those returns understated the taxes due by \$1,156,050, or approximately \$3,420 per return.
53. The IRS estimates that the total tax harm from Rangel's unlawful tax-preparation activities from 2003 through 2012 could be over \$15 million.
54. Rangel's conduct also harms the United States because the IRS must devote its limited resources to identifying and examining the tax returns of Rangel's customers; ascertaining their correct tax liabilities; collecting any taxes, interest, and penalties they owe; and recovering any tax refunds erroneously issued to them.

Count I
Injunction under I.R.C. § 7407

55. The United States incorporates by reference the allegations in paragraphs 1 through 54.
56. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin a tax return preparer from, among other things, engaging in conduct subject to penalty under I.R.C.

§§ 6694 or 6695, or engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws, if the court finds that the preparer has engaged in such conduct and that injunctive relief is appropriate to prevent the recurrence of such conduct.

57. Additionally, § 7407 provides that if the court finds that a tax return preparer has continually or repeatedly engaged in such conduct, and that an injunction prohibiting only such conduct would not be sufficient to prevent that person's interference with the proper administration of the Internal Revenue Code, then the court may enjoin the person from further acting as a tax return preparer.
58. For returns prepared after May 25, 2007, § 6694 of the Internal Revenue Code imposes a penalty on any tax return preparer who prepares any return or claim for refund with respect to which any part of an understatement of liability is due to (a) an unreasonable position of which the preparer knew or reasonably should have known, (b) a willful attempt to understate the liability, or (c) a reckless or intentional disregard of rules or regulations.
59. For returns prepared before May 25, 2007, § 6694 imposes a penalty on any tax return preparer who prepares any return or claim for refund with respect to which any part of an understatement of liability is due to (a) an undisclosed or frivolous position, of which the preparer knew or reasonably should have known, and for which there was not a realistic possibility of being sustained on its merits; (b) a willful attempt to understate the liability; or (c) a reckless or intentional disregard of rules or regulations.
60. Section 6695(b) of the Internal Revenue Code imposes a penalty on any tax return preparer who fails to comply with Treasury Regulations requiring the preparer to sign the returns that he or she prepares.

61. Section 6695(c) of the Internal Revenue Code imposes a penalty on any tax return preparer who fails to comply with I.R.C. § 6109(a)(4), which requires tax return preparers to use identifying numbers on returns they prepare, as required by Treasury Regulations.
62. Section 6695(g) of the Internal Revenue Code imposes a penalty on any tax return preparer who fails to comply with due diligence requirements imposed by Treasury Regulations for determining eligibility for, or the amount of, the EITC.
63. Rangel has continually and repeatedly engaged in conduct subject to penalty under I.R.C. § 6694 by preparing federal income tax returns that understate his customers' liabilities based on unreasonable, unrealistic, and frivolous positions of which he knew or should have known, as well as his reckless disregard of rules or regulations.
64. Rangel has continually and repeatedly engaged in conduct subject to penalty under I.R.C. §§ 6695(b) and 6695(c) by failing to comply with Treasury Regulations requiring him to sign all tax returns he prepares and provide his identification number on those returns. Rangel's conduct demonstrates a reckless disregard of these regulations.
65. Rangel has continually and repeatedly engaged in conduct subject to penalty under I.R.C. § 6695(g) by preparing federal income tax returns that claim the EITC without conducting or documenting the required due diligence procedures. Rangel's conduct demonstrates a reckless disregard of these regulations.
66. Rangel has continually and repeatedly engaged in fraudulent or deceptive conduct that substantially interferes with tax law administration by understating his customers' tax liabilities – and his own tax liabilities – through false or inflated deductions or credits.
67. If the Court does not enjoin Rangel, he is likely to continue engaging in conduct subject to penalty under I.R.C. §§ 6694 and 6695, as well as engaging in other fraudulent or deceptive

conduct that substantially interferes with tax law administration. Rangel's preparation of returns claiming improper deductions and credits has been continuing since 2003 and is widespread among many of his customers. Moreover, Rangel's other tax-related misconduct further demonstrates that he is likely to continue preparing false or erroneous tax returns.

68. Injunctive relief is therefore appropriate under I.R.C. § 7407.
69. The continuing and repetitive nature of Rangel's misconduct demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent him from continuing to interfere with the proper administration of the tax laws. Thus, the Court should permanently enjoin Rangel from acting as a tax return preparer.

Count II
Injunction under I.R.C. § 7408

70. The United States incorporates by reference the allegations in paragraphs 1 through 69.
71. Section 7408 of the Internal Revenue Code authorizes a district court to enjoin any person from engaging in conduct subject to penalty under I.R.C. § 6701 (among other provisions) if injunctive relief is appropriate to prevent the recurrence of such conduct.
72. Section 6701 of the Internal Revenue Code imposes a penalty on any person who aids or assists in, procures, or advises with respect to, the preparation or presentation of a federal tax return or refund claim, 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.
73. Rangel prepares federal tax returns for his customers that he knows (or has reason to believe) will be filed with the IRS and that he knows will understate the customers' tax

liabilities because Rangel knowingly prepares returns that claim false or inflated deductions or credits. Rangel's conduct is thus subject to penalty under I.R.C. § 6701.

74. If the Court does not enjoin Rangel, he is likely to continue to engage in conduct subject to penalty under I.R.C. § 6701. Rangel's preparation of returns claiming improper deductions and credits has been continuing since 2003 and is widespread among many of his customers. Moreover, Rangel's other tax-related misconduct further demonstrates that he is likely to continue preparing false or erroneous tax returns.
75. Injunctive relief is therefore appropriate under I.R.C. § 7408.

Count III
Injunction under I.R.C. § 7402(a)

76. The United States incorporates by reference the allegations in paragraphs 1 through 75.
77. Section 7402(a) of the Internal Revenue Code authorizes a district court to issue orders of injunction as may be necessary or appropriate for the enforcement of the internal revenue laws.
78. Through the actions described above, Rangel has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws.
79. Unless enjoined, Rangel is likely to continue to engage in such conduct and interfere with the enforcement of the internal revenue laws.
80. If Rangel is not enjoined from engaging in such conduct, the United States will suffer irreparable injury by mistakenly providing federal income tax refunds to individuals not entitled to receive them, as well as expending time and resources to identify the individuals, determine their proper federal tax liabilities, and recover the erroneous refunds from them, if possible.

81. Enjoining Rangel from engaging in such conduct is in the public interest because an injunction, backed by the Court's contempt powers, is likely to stop Rangel's illegal conduct and the harm it causes to his customers and the United States.
82. The Court should thus grant injunctive relief under I.R.C. § 7402(a).

WHEREFORE, the United States of America requests the following:

- A. That the Court find that Hector Rangel Jr. has continually or repeatedly engaged in conduct subject to penalty under I.R.C. §§ 6694 and 6695 and continually or repeatedly engaged in fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws;
- B. That the Court find that injunctive relief under I.R.C. § 7407 is appropriate to prevent the recurrence of such conduct and that a narrower injunction prohibiting only this specific misconduct would not be sufficient to prevent Rangel's interference with the proper administration of the internal revenue laws;
- C. That the Court find that Hector Rangel Jr. has engaged in conduct subject to penalty under I.R.C. § 6701 and that injunctive relief under I.R.C. § 7408 is appropriate to prevent the recurrence of such conduct;
- D. That the Court find that Hector Rangel Jr. has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws and that injunctive relief is necessary and appropriate to prevent the recurrence of such conduct pursuant to the Court's inherent equity powers and I.R.C. § 7402(a);

- E. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Hector Rangel Jr., and all those in active concert or participation with him, from:
- a. acting as a federal tax return preparer, or assisting in or directing the preparation or filing of federal tax returns (including amended returns) or other related documents or forms for any person or entity other than himself;
 - b. engaging in any conduct subject to penalty under I.R.C. §§ 6694, 6695, 6701, or any other section of the Internal Revenue Code; and
 - c. engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.
- F. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Hector Rangel Jr., within 30 days of receiving the Court's order, to contact by U.S. mail and, if an e-mail address is known, by e-mail, all persons for whom he prepared federal tax returns, amended returns, or claims for refund for tax years 2010 through 2012, and to inform them of the permanent injunction entered against him by sending each of them a copy of the order of permanent injunction;
- G. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Hector Rangel Jr., within 30 days of receiving the Court's order, to produce to counsel for the United States a list that identifies by name, social security number, address, e-mail address (if known), telephone number, and tax period, all persons for whom he prepared federal tax returns, amended returns, or claims for refund for tax years 2010 through 2012;
- H. That the Court retain jurisdiction over this action to enforce any permanent injunction entered against Hector Rangel Jr.;

- I. That the Court order that the United States be entitled to conduct discovery to monitor Rangel's compliance with the terms of any permanent injunction entered against him; and
- J. That the Court grant the United States such other relief, including costs, as is just and proper.

KENNETH MAGIDSON
United States Attorney

KATHRYN KENEALLY
Assistant Attorney General
Tax Division

/s/ Gregory E. Van Hoey
GREGORY E. VAN HOEY
Maryland Bar
Trial Attorney, Tax Division
U.S. Department of Justice
P.O. Box 7238
Washington, DC 20044
(202) 307-6391 (telephone)
(202) 514-6770 (facsimile)
gregory.van.hoey@usdoj.gov

ATTORNEY-IN-CHARGE
UNITED STATES OF AMERICA

/s/ David Guerra
David Guerra
Assistant United States Attorney
U.S. Attorney's Office
Southern Dist. of Texas
1701 W. Hwy. 83, Suite 600
McAllen, Texas 78501
(956) 618-8010
(956) 618-8016 (fax)
Texas Bar No.08575200
Southern District of Texas No. 14435

OF COUNSEL
UNITED STATES OF AMERICA