

IN THE UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF ILLINOIS

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	
)	
v.)	Civil No.
)	
MICHAEL J. SINGLETON, individually,)	FILED: DECEMBER 11, 2008
d/b/a/ ITA Services, Inc.,)	08 CV 7112
)	JUDGE GETTLEMAN
LADONNA SINGLETON, individually,)	MAGISTRATE JUDGE SCHENKIER
d/b/a ITA Services, Inc.,)	AO
)	
Defendants.)	
)	

COMPLAINT FOR PERMANENT INJUNCTION

This is a civil action brought by the United States to permanently enjoin defendants Michael J. Singleton, individually and doing business as ITA Services, Inc., and Ladonna Singleton, individually and doing business as ITA Services, Inc., or through any other entity, and any other persons in active concert or participating with them, from preparing federal income tax returns, amended federal income tax returns and other related documents and forms for others; representing customers before the Internal Revenue Service (“IRS”), advising, assisting, counseling, or instructing anyone about the preparation of a federal tax return; engaging in any activity subject to penalty under 26 U.S.C. § § 6694, 6695, or 6701; promoting tax-fraud schemes or other plans or arrangements that advise or encourage taxpayers to attempt to evade the assessment or collection of federal income taxes; or engaging in conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws .

Jurisdiction

1. This action has been requested by the Chief Counsel of the IRS, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General, pursuant to 26 U.S.C. §§ 7401, 7402(a), 7407, and 7408.

2. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and 26 U.S.C. §§ 7401, 7402(a), 7407, and 7408.

3. Defendants Michael J. Singleton and Ladonna Singleton reside within the jurisdiction of this court.

Facts Common to All Counts

4. Defendants Michael J. Singleton and Ladonna Singleton prepare or assist in the preparation of federal income tax returns for other people for compensation.

5. Defendants Michael J. Singleton and Ladonna Singleton operate a business that provides tax return-preparation services under the name ITA Services, Inc. The business has operated from the Singletons' residences in Hillside, Illinois and Homewood, Illinois, and a store front operation in Bellwood Illinois.

6. Defendant Michael J. Singleton prepared 214, 262 and 214 federal income tax returns for clients for the tax years 2005, 2006, and 2007, respectively.

7. Defendant Ladonna Singleton prepared 20 to 30 federal income tax returns per year for the tax years 2005, 2006, and 2007. Ms. Singleton, is the spouse of defendant Michael J. Singleton. She filed those tax returns under Mr. Singleton's preparer tax identification number

(“PTIN.”) Because these tax returns are filed under Mr. Singleton’s PTIN, the IRS has not been able to specifically identify any tax returns prepared by Ms. Singleton.

8. The IRS has examined 52 returns prepared by defendant Michael J. Singleton for the tax years 2005 through 2007. Each of these examinations resulted in additional tax being owed by the taxpayer.

9. The returns that defendant Michael J. Singleton prepared for customers contained fabrication and/or inflation of deductions filed on Schedule E and falsified deductions on Schedule A, including falsified employee business expenses and charitable contributions. In addition, Mr. Singleton created false Schedule C businesses and false Schedule E rental properties on some of those returns for the purpose of claiming excess losses.

10. Defendants’ actions cause harm to the United States and to the public.

11. The IRS has issued erroneous refunds based on fraudulent returns prepared by defendants and has then had to audit defendants’ customers and take collection action to attempt to recoup the money. The IRS has incurred an actual tax loss to date from the examined returns of \$272,696. Based on the average actual tax loss per return of \$5,244, and the fact that 100% of the returns examined by the IRS have been found to be incorrect, the potential annual harm to the United States government is between \$1.23 million and \$1.26 million for every year that the Singletons are allowed to continue preparing federal income tax returns.

12. The IRS has spent considerable time and resources auditing returns prepared by the defendants and collecting the taxes owed and erroneous refunds paid.

13. Defendants have also harmed their customers because they pay defendants to prepare these returns, and, after the fraud is detected, are responsible for paying all taxes, interest, and penalties.

Count I:
Injunction under 26 U.S.C. § 7408 for Violation of 26 U.S.C. § 6701

14. The United States incorporates by reference the allegations in paragraphs 1 through 13.

15. A court is authorized to issue an injunction if an income tax preparer engages in conduct subject to penalty under 26 U.S.C. § 6701, pursuant to 26 U.S.C. § 7408.

16. Section 6701 penalizes any person (1) who aids or assists in, procures, or advises with respect to, the preparation or presentation of any portion of a return, affidavit, claim or other document; (2) who knows (or has reason to believe) that such portion will be used in connection with any material matter arising under the internal revenue laws; and (3) who knows that such portion (if so used) would result in an understatement of the liability for tax of another person.

17. Defendants prepare or assist in the preparation of federal income tax returns for their customers.

18. Defendants know or have reason to believe that these income tax returns will be filed with the IRS and thus will be used in connection with a material matter arising under the internal revenue laws.

19. Defendants know that the federal tax returns they prepare will result in understatements of other persons' tax liabilities.

20. If defendants are not enjoined, they are likely to continue to engage in conduct which violates § 6701.

Count II:
Injunction under 26 U.S.C. § 7407 for Violation of 26 U.S.C. §§ 6694 and 6695

21. The United States incorporates by reference the allegations in paragraphs 1 through 20.

22. A court is authorized to issue an injunction if an income tax return preparer engages in conduct subject to penalty under 26 U.S.C. § 6694 or § 6695, pursuant to 26 U.S.C. § 7407.

23. Section 6694(a) penalizes a tax return preparer if (1) the preparer prepares a return or claim for refund that includes an understatement of liability due to a position for which there is not a realistic possibility of being sustained on the merits; (2) the preparer knew (or reasonably should have known) of such position; and (3) the position was not disclosed in accordance with § 6662(d)(2)(B)(ii) or was frivolous.

24. Section 6694(b) penalizes a tax return preparer who prepares a return or claim with an understatement of liability (1) in a willful attempt to understate the liability or (2) with a reckless and intentional disregard of rules or regulations.

25. Defendants' conduct as described above is subject to penalty under §§ 6694(a), and 6694(b).

26. Defendants have prepared income tax returns that include understatements of their customers' liability which had no realistic possibility of being sustained on the merits; defendants knew or reasonably should have known about these understatements; defendants did not disclose

them in accordance with 26 U.S.C. § 6662(d)(2)(B)(ii); and such understatements are frivolous. Defendants have thus engaged in conduct subject to penalty under § 6694(a).

27. Defendants prepare returns for customers with false entries in a willful attempt to understate the customers' liability or with a reckless and intentional disregard of rules and regulations. Defendants have thus engaged in conduct subject to penalty under § 6694(b).

28. Defendants have continually and repeatedly engaged in conduct that violates §§ 6694. An injunction merely prohibiting defendants from engaging in conduct subject to penalty under § 6694 would not be sufficient to prevent their interference with the proper administration of the tax laws. Accordingly, defendants should be permanently enjoined from acting as income tax return preparers.

**Count III:
Injunction under I.R.C. § 7402(a) for Unlawful Interference
with Enforcement of the Internal Revenue Laws
and Appropriateness of Injunctive Relief**

29. The United States incorporates by reference the allegations in paragraphs 1 through 28.

30. A court is authorized to issue orders of injunction as may be necessary or appropriate to enforce the internal revenue laws, pursuant to 26 U.S.C. § 7402(a).

31. Section § 7402(a) expressly provides that its injunction remedy is "in addition to and not exclusive of" other remedies for enforcing the internal revenue laws.

32. Defendants, through the actions described above, have engaged in conduct that interferes substantially with the enforcement of the internal revenue laws.

33. Defendants' conduct causes irreparable harm to the United States and to their customers.

34. Defendants are causing and will continue to cause substantial revenue losses to the United States Treasury, much of which may be unrecoverable.

35. If defendants are not enjoined, they are likely to continue to engage in conduct that interferes with the enforcement of the internal revenue laws.

36. The United States will suffer irreparable injury if defendants are not enjoined. This outweighs the harm to defendants from being enjoined from return-preparation and violating tax laws.

37. The public interest would be advanced by enjoining defendants because an injunction will stop their illegal conduct and the harm that conduct is causing to the United States Treasury.

WHEREFORE, the United States of America, prays for the following:

A. That the Court find that defendants Michael J. Singleton and Ladonna Singleton have engaged in conduct subject to penalty under 26 U.S.C. § 6701, and that injunctive relief under 26 U.S.C. § 7408 is appropriate to prevent a recurrence of that conduct;

B. That the Court find that defendant Michael J. Singleton and Ladonna Singleton have continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. §§ 6694, and that, pursuant to 26 U.S.C. § 7407, an injunction prohibiting such conduct would not be sufficient to prevent defendants' interference with the proper administration of the tax laws and that defendants should be enjoined from acting as income tax return preparers;

C. That the Court find that defendants are interfering with the enforcement of the internal revenue laws and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to 26 U.S.C. § 7402(a) and the Court's inherent equity powers;

D. That this Court, pursuant to 26 U.S.C. § 7408, enter a permanent injunction prohibiting defendant Michael J. Singleton, individually and doing business as ITA Services Inc., and defendant Ladonna Singleton, individually and doing business as ITA Services Inc., or under any other name or using any other entity, and their representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with them, from directly or indirectly:

1. Engaging in activity subject to penalty under 26 U.S.C. § 6701, including aiding or assisting in, procuring, or advising with respect to, the preparation or presentation of any portion of a return, affidavit, claim or other document; knowing (or having reason to believe) that such portion will be used in connection with any material matter arising under the internal revenue laws; and knowing that such portion (if so used) would result in an understatement of the liability for tax of another person; and
2. Engaging in any other activity subject to penalty under 26 U.S.C. § 6701 or any other provisions of the Internal Revenue Code.

E. That this Court, pursuant to 26 U.S.C. § 7407, enter a permanent injunction prohibiting defendant Michael J. Singleton, individually and doing business as ITA Services Inc., and defendant Ladonna Singleton, individually and doing business as ITA Services Inc., or under any other name or using any other entity, and their representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with them, from directly or indirectly acting as a federal income tax return preparer;

F. That this Court, pursuant to 26 U.S.C. § 7402(a), enter a permanent injunction prohibiting defendant Michael J. Singleton, individually and doing business as ITA Services Inc., and defendant Ladonna Singleton, individually and doing business as ITA Services Inc., or under any other name or using any other entity, and their representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with them, from directly or indirectly:

1. Preparing or assisting in the preparation of any federal tax return for anyone other than themselves;
2. Advising, counseling, or instructing anyone about the preparation of a federal tax return;
3. Owning, managing, controlling, working for, or volunteering for a tax-return-preparation business;
4. Representing customers in connection with any matter before the IRS; and
5. Engaging in other similar conduct that substantially interferes with the administration and enforcement of the internal revenue laws.

G. That this Court, pursuant to 26 U.S.C. § 7402(a), require defendants Michael J. Singleton and Ladonna Singleton at their own expense to contact by mail all customers for whom they have prepared federal tax returns or assisted in preparing tax returns, and send them a copy of this Complaint and the permanent injunction order, and to certify to the Court within eleven days of entry of the permanent injunction that they have complied with this provision;

H. That this Court require defendants Michael J. Singleton and Ladonna Singleton to provide the United States with a list of everyone for whom they have prepared (or helped to prepare) a federal tax return for the years 2005 through 2007 and set forth on said list all of the

names, addresses, e-mail addresses, telephone numbers, and social security numbers of the customers.

I. That this Court permit the United States to conduct post-judgment discovery to ensure defendants Michael J. Singleton's and Ladonna Singleton's compliance with the permanent injunction; and

J. That this Court grant the United States such other relief, including costs, as is just and equitable.

Respectfully submitted,

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/s/ Lisa L. Bellamy

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