

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

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	
)	
v.)	Civil No.
)	
NATALIE BRADFORD, individually, and)	
d/b/a/ K & N Tax Pros, Inc., and)	
)	
KRISTINE BURKLAND-VALDEZ,)	
(a/k/a Kristine Valdez), individually,)	
d/b/a K & N Tax Pros, Inc. and)	
Tax Pros, Inc.,)	
)	
Defendants.)	
)	

COMPLAINT FOR PERMANENT AND PRELIMINARY INJUNCTION

This is a civil action brought by the United States to permanently enjoin defendants Natalie Bradford, individually and doing business as K & N Tax Pros, Inc., and Kristine Burkland-Valdez (a/k/a Kristine Valdez), individually and doing business as K & N Tax Pros, Inc. and Tax Pros, Inc., or through any other entity, and any other persons in active concert or participation with them, from preparing federal income tax returns, amended federal income tax returns and other related documents and forms for others; filing federal income tax returns 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 Internal Revenue Service, 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. §§ 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. §§ 7402(a), 7407, and 7408.

3. Natalie Bradford (“Ms. Bradford”) and Kristine Burkland-Valdez (“Ms. Valdez”), collectively “the Defendants,” reside within the jurisdiction of this Court and provide federal income tax preparation services from a location in Elmhurst, Illinois.

Facts Common to All Counts

4. Defendants prepare or assist in the preparation of federal income tax returns for other people for compensation. Ms. Valdez is Ms. Bradford’s daughter.

5. Defendants own equal one-half interests in K & N Tax Pros, Inc. (“K&N.”) This entity was involuntarily dissolved on June 12, 2009, based on information obtained from the Illinois Secretary of State website.

6. In January 2009, Ms. Valdez formed a second entity, Tax Pros, Inc., after Ms. Valdez learned of an Internal Revenue Service (“IRS”) investigation of tax returns prepared by K & N Tax Pros, Inc. Ms. Valdez owns an equal one-half interest in Tax Pros, Inc. with a third party.

7. The website for K&N falsely described the Defendants as graduates of Triton College and as “registered IRS agent[s].”

8. As of July 31, 2009, the IRS has determined that K&N prepared 23,823 individual federal income tax returns for calendar years 2005 through 2009. The IRS has examined 100 of those 23,823 returns prepared by K&N and has determined that 94 (or 94.0%) of those returns contained misstatements. The examinations of these returns have resulted in the assessment of additional taxes totaling \$830,147.

9. As of July 31, 2009, the IRS has determined that Ms. Bradford personally prepared 5,045 federal income tax returns for calendar years 2005 through 2009. The IRS has examined 25 of those 5,045 returns prepared by Ms. Bradford and has determined that 22 (or 88.0%) of those returns that were examined contained errors. The examinations of these returns have resulted in the assessment of additional taxes totaling \$218,479.

10. As of July 31, 2009, the IRS has determined that Ms. Valdez personally prepared 8,243 tax returns for calendar years 2005 through 2009. The IRS has examined 44 of those 8,243 of those returns prepared by Ms. Valdez and has determined that 41 (or 93.18%) of those returns that were examined contained errors. The examinations of these returns have resulted in the assessment of additional taxes totaling \$480,935.¹

¹ The 63 defective returns personally prepared by Ms. Bradford or by Ms. Valdez are included in the total of 94 defective returns prepared by K&N referenced in paragraph 8.

11. The returns that Defendants prepared for customers contained fabricated or falsified deductions such as employee business expenses, mileage, cash contributions, rental losses and medical expenses. In addition, Ms. Bradford erroneously informed two of her customers that the filing of a corporate income tax return relieved those individuals from the obligation of filing an individual federal income tax return.

12. Defendants' actions cause harm to the United States and to the public.

13. 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 94 incorrect returns prepared by Defendants, or others under their supervision, of \$830,147, or an average of \$8,301 per return. The IRS estimates that for every year that Defendants continue to prepare federal income tax returns, the government loses millions of dollars of tax revenue.

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

15. 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

16. The United States incorporates by reference the allegations in paragraphs 1 through 15.

17. 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.

18. 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.

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

20. 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.

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

22. 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

23. The United States incorporates by reference the allegations in paragraphs 1 through 22.

24. 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.

25. 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.

26. 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.

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

28. 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).

29. 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).

30. 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**

31. The United States incorporates by reference the allegations in paragraphs 1 through 30.

32. 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).

33. 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.

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

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

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

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

38. 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.

39. 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 Ms. Bradford and Ms. Valdez 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 defendants Ms. Bradford and Ms. Valdez 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 their interference with the proper administration of the tax laws and that they should be enjoined from acting as income tax return preparers;

C. That the Court find that Ms. Bradford and Ms. Valdez 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 Ms. Bradford, individually and doing business as K&N, and Ms. Valdez, individually and doing business as K&N and Tax Pros, 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 Ms. Bradford, individually and doing business as K&N, and Ms. Valdez, individually and doing business as K&N and Tax Pros, 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 Ms. Bradford, individually and doing business as K&N, and Ms. Valdez, individually and doing business as K&N and Tax Pros, 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. Filing or assisting in the filing of a federal income tax return for anyone other than themselves;
4. Owning, managing, controlling, working for, or volunteering for a tax-return-preparation business;
5. Representing customers in connection with any matter before the IRS; and
6. 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, 7407, and 7408, require Ms. Bradford and Ms. Valdez 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 to provide the United States with a list of everyone for whom they have prepared (or helped to prepare) a federal tax return since January 1, 2005, 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' 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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United States Attorney

/s/ Lisa L. Bellamy

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