

Jurisdiction and Venue

2. 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 the provisions of IRC §§ 7402, 7407, and 7408.

3. Jurisdiction is conferred on this Court by Sections 1340 and 1345 of Title 28, United States Code, and IRC §§ 7402(a), 7407, and 7408.

4. Venue is proper in this Court under 28 U.S.C. § 1391 because Eric D. Parrish resides in Ecorse, Michigan, and a substantial part of the actions giving rise to this suit took place in this district.

Defendant's Activities

5. Parrish is a commercial tax return preparer doing business under the name "E P Professionals LLC." Parrish formerly worked for James E. Garrett & Associates in River Rouge, Michigan. E P Professionals LLC is located at 18950 Evergreen Road, Detroit, Michigan 48219-3460.

6. Parrish prepared more than 120 federal income tax returns for customers for tax year 2005.

7. The IRS has identified over 60 false or frivolous federal income tax returns prepared or filed by Parrish since 2004.

Fuel Tax Credit Fraud

8. The IRS has identified at least 39 returns Parrish prepared that claim a total of over \$114,000 in false fuel tax credits.

9. Parrish has prepared blatantly fraudulent tax returns for customers using IRS Form 4136, "Credit for Federal Tax Paid on Fuels." In using and preparing these forms, Parrish misapplied IRC § 6421(a) ("Fuel Tax Credit"). The fuel tax credit is a credit available only to taxpayers who operate farm equipment or other off-highway business vehicles. The equipment or vehicles must not be registered for highway uses. Parrish improperly claims the credit for customers who do not meet these requirements.

Overview of IRC § 6421(a): Credit for Fuel Tax Paid on Fuels

10. Fraudulently claiming entitlement to the fuel tax credit is a widespread tax scam that presents a serious enforcement problem for the IRS and is included among the IRS's "2007 'Dirty Dozen' Tax Scams." See "Fraudulent Telephone Tax Refunds, Abusive Roth IRAs Top Off 2007 'Dirty Dozen' Tax Scams" (available online at: <http://apps.irs.gov/newsroom/article/0,,id=167983,00.html>).

11. Section 6421(a) of the IRC provides a credit for fuel used in an off-highway business use. Off-highway business use is any off-highway use of fuel in a trade or business or in an income-producing activity where the equipment or vehicle is not registered and not required to be registered for use on public highways. IRS Publication 225 provides the following examples of off-highway business fuel use: (1) in stationary machines such as generators, compressors, power saws, and similar equipment; (2) for cleaning purposes; and (3) in forklift trucks, bulldozers, and earthmovers. See IRS Publication 225 (2006), Farmer's Tax Guide, Chapter 14 (2006) (available online at: http://www.irs.gov/publications/p225/ch14.html#d0c_19048).

12. IRS Publication 510 defines a highway vehicle as any "self-propelled vehicle designed to carry a load over public highways, whether or not it is also designed to perform other

functions.” A public highway includes any road in the United States that is not a private roadway. This includes federal, state, county, and city roads and streets. These highway vehicles are not eligible for the fuel tax credit. IRS Publication 510 provides the following as examples of highway vehicles, which are not eligible for the fuel tax credit: passenger automobiles, motorcycles, buses, and highway-type trucks and truck tractors. See IRS Publication 510 (2007), Excise Taxes for 2007, Chapter 2 (2007) (available online at: <http://www.irs.gov/publications/p510/ch02.html#d0e3538>).

13. In addition, IRS Publication 510 provides the following example of an appropriate application of the fuel tax credit:

Caroline owns a landscaping business. She uses power lawn mowers and chain saws in her business. The gasoline used in the power lawn mowers and chain saws qualifies as fuel used in an off-highway business use. The gasoline used in her personal lawn mower at home does not qualify.

14. The fuel tax credit does not apply to passenger cars or to trucks or other vehicles that are registered or required to be registered to drive on public highways.

Parrish’s Fraudulent Claims of the Fuel Tax Credit

15. Parrish claimed the bogus fuel tax credits on at least 31 of the 123 federal income tax returns that he prepared for customers for tax year 2005.

16. To claim the credits, Parrish prepares IRS Forms 4136 for his customers’ returns, falsely stating that the customer has used gasoline for off-highway business purposes. Parrish claimed the fuel tax credit for, among others, customers claiming to be a hair stylist, a child-care provider, and a cab driver.

17. Parrish claimed absurdly large credits by falsely reporting purchases of huge quantities of gasoline.

18. For example, Parrish fraudulently prepared a 2005 federal income tax return with a claimed fuel tax credit for an IT consultant based on purported purchases of 81,890 gallons of gasoline for off-highway business use. This customer, whose total reported income for the year was \$57,396, with a net income of \$16,488, would have had to spend \$163,780 to purchase that amount of gas at \$2 per gallon.

19. Similarly, Parrish prepared a 2005 return for another customer falsely claiming that the customer bought 43,401 gallons of gasoline for off-highway business use. At \$2 per gallon, the customer would have had to spend \$86,802 for that fuel. However, the customer's return shows a gross income of only \$13,667. Other returns that Parrish prepared contain similar, blatantly fraudulent claims of the fuel tax credit.

Telephone Excise Tax Refund Fraud

20. Parrish also prepares returns with bogus telephone excise tax refund credits. The filing of fraudulent claims for telephone excise tax refunds was the number one fraudulent scheme among the IRS's "2007 'Dirty Dozen' Tax Scams."

21. The Telephone Excise Tax Refund ("TETR") is a one-time credit available on 2006 federal income tax returns, designed to refund previously collected federal excise taxes on long-distance or bundled telephone service from February 2003 through August 2006. Taxpayers could claim the standard TETR credit, which ranged from \$30 to \$60, or could request a refund based on the actual amount of telephone excise tax they paid.

22. Taxpayers claiming the TETR based on the actual amount of telephone excise taxes they paid were required to report that amount on an IRS Form 8913, "Credit for Federal Telephone Excise Tax Paid," which had to be attached to their 2006 federal income tax return.

23. Parrish prepared at least 17 federal income tax returns for tax year 2006 that claimed inflated TETR credits, totaling over \$10,000 in fraudulent credits.

24. For example, one 2006 federal income tax return that Parrish prepared for a customer falsely claimed a \$1,084 TETR credit on the Form 8913 attached to the customer's return. For the customer to have paid this amount of excise tax, the customer would have to have paid approximately \$1,900 per month for bundled service over the claimed period.

25. Similarly, Parrish prepared another customer's 2006 income tax return falsely claiming TETR credit in the amount of \$1,957 for excise taxes allegedly paid over a 31-month period. To be entitled to that amount, the customer would have to have paid more than \$1,850 per month for service.

Head of Household and other False Claims

26. Parrish's fraudulent federal tax return preparation is not limited to preparing returns with bogus fuel tax credits and false TETR credits. Parrish also prepared returns that falsely claim head-of-household status, the earned income tax credit, and dependent exemptions.

27. Parrish falsely claimed head-of-household status, a child tax credit, and an earned income credit on his own 2003 federal income tax return.

Failure to Comply with IRS Request for Information under IRC § 6107(b)

28. Parrish failed to provide the IRS with copies of returns or claims, or a list of all returns and claims, prepared by Parrish after December 31, 2004, as requested by the IRS on May 25, 2007 under IRC § 6701(b).

Harm Caused by Parrish

29. Parrish's customers have been harmed because they paid Parrish fees to prepare tax returns that substantially understate their correct tax liabilities. Many customers now face large income tax deficiencies and may be liable for sizeable penalties and interest.

30. Parrish's conduct harms the United States because his customers are under-reporting and under-paying their correct tax liabilities. The IRS's examination of the approximately 228 returns Parrish prepared since tax year 2003 has revealed over 60 fraudulent federal income tax returns claiming over \$124,000 in fraudulent fuel tax credits and false TETR credits. Parrish's refund rate on returns prepared for his customers has ranged from 93% to 100% annually over this period, an unusually high rate that shows that Parrish is falsifying returns he prepares.

31. In addition to the direct harm caused by preparing tax returns that understate customers' tax liabilities, Parrish's activities undermine public confidence in the administration of the federal tax system and encourage noncompliance with the internal revenue laws.

32. Parrish further harms the United States because the Internal Revenue Service must devote its limited resources to identifying Parrish's customers, ascertaining their correct tax liabilities, recovering any refunds erroneously issued, and collecting any additional taxes and penalties.

Count 1 Injunction under IRC § 7407

33. The United States incorporates by reference the allegations in paragraphs 1 through 32.

34. Section 7407 of the IRC authorizes a district court to enjoin an income tax preparer from:

- (a). engaging in conduct subject to penalty under IRC § 6694;
- (b). engaging in conduct subject to penalty under IRC § 6695;
- (c). misrepresenting his eligibility to practice before the Internal Revenue Service or his experience or education;
- (d). guaranteeing the payment of any tax refund or the allowance of any tax credit; or
- (e). 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 the conduct. Additionally, if the court finds that a preparer has continually or repeatedly engaged in such conduct, and the court further finds that a narrower injunction (i.e., prohibiting only that specific enumerated conduct) would not be sufficient to prevent that person's interference with the proper administration of the internal revenue laws, the court may enjoin the person from further acting as a federal income tax preparer.

35. Parrish has continually and repeatedly engaged in conduct subject to penalty under IRC § 6694 by preparing federal income tax returns that understate his customers' liabilities based on unrealistic, frivolous, and reckless positions.

36. Parrish has engaged in conduct subject to penalty under IRC § 6695 by not complying with the IRS's request pursuant to IRC § 6701(b) that Parrish provide to the IRS a customer list or copies of all federal tax returns prepared by Parrish after December 31, 2004.

37. Parrish's continual and repeated violations of IRC §§ 6694 and 6695 fall within IRC § 7407(b)(1)(A) and (D), and thus are subject to an injunction under IRC § 7407.

38. If he is not enjoined, Parrish is likely to continue to file false and fraudulent tax returns.

39. Parrish's continual and repeated conduct subject to an injunction under IRC § 7407, including his continual and repeated misapplication of several credits and deductions, and his flagrant misuse of the fuel tax credit and TETR claims, demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent Parrish's interference with the proper administration of the internal revenue laws. Thus, he should be permanently barred from acting as a return preparer.

Count II
Injunction under IRC § 7408

40. The United States incorporates by reference the allegations in paragraphs 1 through 39.

41. Section 7408 of the IRC authorizes a district court to enjoin any person from engaging in conduct subject to penalty under either IRC § 6700 or § 6701 if injunctive relief is appropriate to prevent recurrence of such conduct.

42. Section 6701(a) of the IRC penalizes any person who aids or assists in, procures, or advises with respect to the preparation or presentation of a federal 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 will result in an understatement of another person's tax liability.

43. Parrish prepares federal tax returns for customers that he knows will understate their correct tax liabilities. Parrish's conduct is thus subject to a penalty under IRC § 6701.

44. If the Court does not enjoin Parrish, he is likely to continue to engage in conduct subject to penalty under IRC § 6701. Injunctive relief is therefore appropriate under IRC § 7408.

Count III
Injunction under IRC § 7402(a)
Necessary to Enforce the Internal Revenue Laws

45. The United States hereby incorporates by reference the allegations in paragraphs 1 through 44.

46. Section 7402 of the IRC authorizes a district court to issue orders of injunction as may be necessary or appropriate for the enforcement of the internal revenue laws.

47. Parrish, through the actions described above, has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws.

48. Unless enjoined, Parrish is likely to continue to engage in such improper conduct and interfere with the enforcement of the internal revenue laws. If Parrish is not enjoined from engaging in fraudulent and deceptive conduct, the United States will suffer irreparable injury by wrongfully providing federal income tax refunds to individuals not entitled to receive them.

49. While the United States will suffer irreparable injury if Parrish is not enjoined, Parrish will not be harmed by being compelled to obey the law.

50. Enjoining Parrish is in the public interest because an injunction, backed by the Court's contempt powers if needed, will stop Parrish's illegal conduct and the harm it causes the United States.

51. The Court should impose injunctive relief under 26 U.S.C. § 7402(a).

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

A. That the Court find that Eric Parrish has continually and repeatedly engaged in conduct subject to penalty under IRC §§ 6694 and 6695, and has continually and repeatedly engaged in other fraudulent or deceptive conduct that substantially interferes with the administration of the tax laws, and that a narrower injunction prohibiting only this specific misconduct would be insufficient;

B. That the Court, pursuant to IRC § 7407, enter a permanent injunction prohibiting Eric Parrish from acting as a federal income tax return preparer;

C. That the Court find that Eric Parrish has engaged in conduct subject to a penalty under IRC § 6701, and that injunctive relief under IRC § 7408 is appropriate to prevent a recurrence of that conduct;

D. That the Court find that Eric Parrish has engaged in conduct that interferes with the enforcement of the internal revenue laws, and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers and IRC § 7402(a);

E. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Eric Parrish, and all those in active concert or participation with him, from:

- (1). acting as a federal income tax return preparer, or assisting in or directing the preparation or filing of federal tax returns for any person or entity other than himself, or appearing as a representative on behalf of any person or organization whose tax liabilities are under examination by the Internal Revenue Service;

- (2). understating customers' liabilities as prohibited by IRC § 6694;
- (3). engaging in any other activity subject to penalty under IRC §§ 6694, 6695, 6701, or any other penalty provision in the IRC; and
- (4). engaging in conduct that substantially interferes with the proper administration and enforcement of the internal revenue service laws and from promoting any false tax scheme.

F. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an injunction requiring Eric Parrish to contact, within fifteen days of the Court's order, by United States mail and, if an e-mail address is known, by e-mail, all persons for whom he prepared federal tax returns or claims for a refund since December 31, 2004, to inform them of the permanent injunction entered against him;

G. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an injunction requiring Eric Parrish to produce to counsel for the United States, within fifteen days of the Court's order, a list that identifies by name, social security number, address, e-mail address, and telephone number and tax period(s) all persons for whom he prepared federal tax returns or claims for a refund since December 31, 2004;

H. That the Court retain jurisdiction over Eric Parrish and over this action to enforce any permanent injunction entered against him;

I. That the United States be entitled to conduct discovery to monitor Parrish's compliance with the terms of any permanent injunction entered against him; and

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

DATED: October 24, 2007

STEPHEN J. MURPHY, III
United States Attorney



DANIEL A. APPLGATE (P70452)
Trial Attorney, Tax Division
U.S. Department of Justice
Post Office Box 7238
Ben Franklin Station
Washington, D.C. 20044
Telephone: (202) 353-8180
Fax: (202) 353-8180
Daniel.A.Applegate@usdoj.gov

Attorneys for Plaintiff
United States of America