

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

UNITED STATES OF AMERICA,)	
)	Case No. 6:24-cv-456
Plaintiff,)	
)	
v.)	
)	
HUDRELL LEMONTEZ JONES,)	
BRENDA JACKSON THOMAS, and)	
D&B PROFESSIONAL TAX SERVICES)	
LLC,)	
)	
)	
Defendants.)	
_____)	

COMPLAINT FOR PERMANENT INJUNCTION

The United States complains and alleges as follows:

1. The United States brings this action to permanently enjoin Hudrell Lemontez Jones (“Jones”), Brenda Jackson Thomas (“Thomas”), and D&B Professional Tax Services LLC, (collectively “Defendants”) and all persons and entities in active concert or participation with any of them, from directly or indirectly:
 - a. Preparing, assisting in the preparation of, or directing the preparation of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns, documents, or forms, for any person or entity other than themselves;

- b. Filing, assisting in the filing of, or directing the filing of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns, documents, or forms, for any person or entity other than themselves;
- c. Using, maintaining, controlling, renewing, obtaining, transferring, selling, or assigning any Preparer Tax Identification Number (“PTIN”) or Electronic Filing Identification Number (“EFIN”);
- d. Owning, operating, managing, profiting from, working in, investing in, providing capital or loans to, receiving fees or remuneration from, controlling, licensing, consulting with, franchising, or volunteering at a business that prepares or assists in the preparation of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns, documents, or forms;
- e. Transferring, selling, loaning, assigning, or otherwise profiting from customer lists or other customer information related to the preparation of federal tax returns;
- f. Training, instructing, or teaching others regarding issues related to the preparation of federal tax returns;
- g. Creating or providing guides, memoranda, directions, instructions, or manuals pertaining to the preparation of federal tax returns;
- h. Engaging in any activity subject to penalty under Internal Revenue Code (IRC) §§ 6694, 6695, or 6701; or

- i. Engaging in any other conduct that substantially interferes with the proper administration of the internal revenue laws.

JURISDICTION AND VENUE

2. This action is authorized and requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury of the United States and is commenced at the direction of the Attorney General of the United States in accordance with Internal Revenue Code (IRC) (26 U.S.C.) §§ 7402, 7407, and 7408.

3. This Court has jurisdiction pursuant to IRC §§ 7402(a) and 7407, and 7408(a) and 28 U.S.C. §§ 1340 and 1345.

4. Venue is proper in this Court pursuant to IRC §§ 7407(a) and 7408(a) and 28 U.S.C. § 1391 because, upon information and belief, Jones and Thomas reside in this district and engaged in the conduct described in this complaint in this district. Further, the principal place of business of D&B Professional Tax Services LLC is in this district. Additionally, D&B Professional Tax Services LLC is subject to this Court's personal jurisdiction.

DEFENDANTS

Defendant Jones and D&B Professional Tax Services LLC

5. Jones resides in Longview, Texas, within this judicial district.
6. Jones has a degree in business management from Colorado Tech University and has taken IRS training courses, including those focused on a return preparer's due diligence obligations.

7. Beginning in 2010, Jones worked for TaxPros Unlimited, a tax return preparation business in Longview, Texas. Though he initially worked in data entry and marketing, Jones eventually learned to use return preparation software and became a staff return preparer starting in 2016.

8. In February 2017, the IRS issued a Letter 4858 to Jones because of questions raised by refundable credits (e.g., the earned income tax credit) claimed on returns Jones prepared.

9. In June 2019, the IRS assessed a penalty of \$45,900 against Jones under IRC § 6695(g) for failure to undertake adequate due diligence in determining tax benefits, primarily the earned income tax credit, on returns he prepared with respect to the 2017 tax year, while he was working at TaxPros Unlimited. Jones paid this penalty.

10. Thereafter, Jones began to operate his own return preparation business.

11. In August 2019, Jones formed D&B Professional Tax Services, an unincorporated tax preparation business located in Longview, Texas.

12. D&B Professional Tax Services first operated during the 2020 filing season, which generally covered tax returns for the 2019 tax year.

13. Jones has prepared returns under D&B Professional Tax Services, or its successor D&B Professional Tax Services LLC, for each tax year since 2019.

14. In late 2021, the IRS conducted a second due diligence investigation of Jones, this time with respect to his return preparation practices at D&B Professional Tax Services. This investigation resulted in the assessment, in August 2022, of a \$73,900

penalty, based on a finding of 173 due diligence violations Jones had committed with respect to the 2020 tax year. Jones paid this penalty.

15. In May 2022, the IRS interviewed Jones regarding his return preparation practices. During the interview, Jones represented that he oversees the operations of D&B Professional Tax Services at both of its locations, one in Kilgore, Texas and one in Longview, Texas. Jones also stated that he attracts clients through word of mouth and television, newspaper, and radio advertisements.

16. In July 2022, Defendant Jones formed D&B Professional Tax Services LLC, a limited liability company under Texas law. Upon information and belief, D&B Professional Tax Services LLC continued the same business that had been operated as D&B Professional Tax Services, just in the form of a limited liability company. Jones is listed as the registered agent and manager of D&B Professional Tax Services LLC and the entity's registered address is located in Kilgore, Texas. For the balance of this complaint, unless necessary to distinguish between them, D&B Professional Tax Services and D&B Professional Tax Services LLC will be referred to collectively as "D&B."

Defendant Thomas

17. Thomas resides in Gladewater, Texas, within this judicial district.

18. Upon information and belief, Thomas has worked for or with Jones at D&B as a return preparer since 2020. Additionally, upon information and belief Thomas is a partner in or owner of D&B Professional Tax Services LLC, along with Jones, or otherwise shares in the profits generated by the entity.

19. Thomas worked as a return preparer for other preparation companies in prior tax years, going back to at least 2015.

20. With respect to D&B, Thomas has been a “ghost preparer,” in that she does not sign the returns she prepares. Rather, Thomas prepares and files returns under the names of, and using the PTINs belonging to, Jones and other preparers at D&B.

21. Thomas has worked and prepared returns out of both D&B offices. Additionally, Thomas at times has prepared returns from her personal residence in Gladewater, Texas.

22. Jones has also prepared returns under and using the names of other preparers at D&B. At least some of the other preparers were not aware that their name and PTIN had been used to prepare and file a return.

DEFENDANTS’ ACTIVITIES

23. D&B prepared and filed between 1,200 and 2,100 returns for individual taxpayers each year for the 2019 through 2022 tax years (with the preparation of these returns occurring in 2020 to 2023). Each year, the percentage of returns prepared by D&B claiming a refund has been 98-99 percent.

24. Upon information and belief, most of these returns were prepared by Jones or Thomas, irrespective of who is listed as the preparer on each return. Moreover, based on the IRS’s review, the returns prepared by other preparers at D&B also made false or fraudulent claims.

25. Customers of D&B were charged varying rates for return preparation services, with the fees sometimes reaching \$1,600 per return. At times, customers were charged fees based on a percentage of the refund the customer received.

26. As part of its investigations of Defendants the IRS reviewed 154 returns prepared with respect to 72 D&B customers who filed returns in respect of all or some of the tax years between 2019 and 2022. Of those 154 returns, 123 (approximately 80 percent) were found to have false claims or items. Broken down by customer, of the 72 customers reviewed by the IRS in its investigation of Jones and Thomas, 61 (nearly 85 percent) had false items on their returns. These false claims or items resulted in average per return deficiencies in tax of \$7,122.10 for the 2019 tax year, \$6,005.35 for 2020, \$6,415.75 for 2021, and \$6,278.17 for 2022.

27. In many instances, customers were unaware that their returns contained false claims and understated the tax due.

28. Jones and Thomas, through D&B, prepared and filed returns that understated their customers' tax liabilities through a variety of schemes, including: (1) falsifying and overstating Schedule C or Schedule F deductions or the existence of Schedule C or Schedule F businesses; (2) falsely overstating mortgage interest deductions on Schedule A; and (3) falsifying credits provided to self-employed taxpayers and small businesses under the Families First Coronavirus Response Act by claiming such credits with respect to taxpayers who did not qualify for the credit. Moreover, these false items may have led to taxpayers being improperly qualified for other refundable credits, such as the earned income tax credit.

Fraudulent Schedule C and Schedule F Filings

29. Individuals who operate businesses as sole proprietorships must report the business's income and expenses on a Form Schedule C "Profit or Loss from Business (Sole Proprietorship)" (used to report income and expenses from a sole proprietorship), which is attached to their Form 1040. The net result of the Schedule C business (either net profit or loss) is part of the taxpayer's adjusted gross income (AGI). Consequently, reporting a net loss on a Schedule C reduces the taxpayer's AGI and thereby reduces the taxpayer's taxable income and tax due.

30. Schedule C is a detailed form which requires the preparer of the return to gather information about, and specifically report, the business's gross receipts and expenses (broken down by category).

31. Schedule F "Profit or Loss from Farming" serves the same purpose as Schedule C, except that it used to report the income and expenses of farming-related business activities during the tax year.

32. Jones and Thomas, operating through D&B, understate their customers' AGI by fabricating Schedule C or F businesses to claim a loss, or falsely overstating expenses for existing businesses to claim a loss on Schedule C or F. As noted, such a loss has the effect of improperly reducing a taxpayer's taxable income and tax due and, potentially, may result in issuance of a refund to which the customer is not entitled. Additionally, falsely understating a taxpayer's AGI may result in the taxpayer improperly claiming other refundable credits to which they are not entitled, such as the earned income tax credit.

33. Representative examples of Defendants' Schedule C and F abuse include:

- a. Jones prepared Customer 1's returns for the 2019 through 2022 tax years.

On rare occasions, Customer 1 refurbished furniture for compensation, earning income of about \$1,500 per year from this activity. Customer 1 also incurred related expenses of around \$500 per year for items such as paint and paint brushes. Nevertheless, for each year between 2019 and 2022, the returns prepared by Jones stated Schedule C gross income between \$3,500 and \$4,000. Further, the 2019 through 2021 returns claimed substantial car and truck expenses, despite there being no indication that Customer 1 used her car or truck to any substantial extent in her refurbishment work. With respect to the 2022 return specifically, Jones did not even ask Customer 1 whether she was still refurbishing furniture, but still included a Schedule C on the 2022 return. For 2022, Jones also included a deduction of \$5,000 for property tax—which Customer 1 confirmed was paid for her residence rather than any business use property—and business phone expenses, despite Customer 1 having never had a business phone.

- b. For 2019, the Schedule C prepared by Jones for Customer 1's return showed a net loss of \$21,355. For 2020, the Schedule C loss was \$21,740, for 2021 the loss was \$19,706, and for 2022 the loss was \$14,849. In each instance, Customer 1 did not incur the reported loss, the claimed amounts contradicted Customer 1's estimated business profits of approximately \$1,000 per year, and the false claims had the effect of substantially and improperly reducing

Customer 1's taxable income and generating a larger refund than Customer 1 would have otherwise been entitled to.

- c. Jones prepared Customer 2's return for 2022. Customer 2 did repair work for family but did not charge for the work. Consequently, Customer 2's repair activities were not undertaken for profit and any resulting expenses could not be claimed as business expenses on a Schedule C. *See* IRC § 183. Nevertheless, Jones prepared a Schedule C reporting a repair business for Customer 2 and applied the resulting bogus net loss of \$13,920 to improperly reduce Customer 2's taxable income. Moreover, the Schedule C prepared by Jones included advertising expenses Customer 2 never incurred, a rent expense which Customer 2 never incurred, expenses Customer 2 incurred related to his employment (which are not deductible on Schedule C), and an expense for insurance that related to Customer 2's personal vehicle, which played no part in his "repair work" hobby.
- d. Thomas prepared Customer 3's 2022 return. In prior years, Customer 3 had grown vegetables or fruit on land that belonged to another person and either gave the produce away or sometimes sold it. Customer 3 did not engage in that activity in 2022. Even when he did engage in that activity in prior years, Customer 3 did not incur any material expenses; rather, the property owner bore all of the expenses. Nevertheless, on Customer 3's 2022 return Thomas included a Schedule F reporting a net loss of over \$14,500, which had the effect of improperly offsetting all of Customer 3's taxable income and

ensuring a bogus refund of all \$1,738 of tax withheld on Customer 3's 2022 Form W-2.

- e. Thomas prepared Customer 4's 2020 and 2021 returns. In addition to his W-2 earnings, Customer 4 used his lawnmower to mow the lawns of four neighbors. For the 2020 tax year, Thomas prepared a Schedule C for Customer 4 which overstated Customer 4's expenses and resulted in a net loss of \$19,528, including over \$11,000 of vehicle expenses notwithstanding the fact that Customer 4 only mowed the lawns of his neighbors and thus could not reasonably have incurred the claimed vehicle-related expenses. For the 2021 tax year, Defendant Thomas again grossly overstated Customer 4's lawnmowing-related expenses, including claiming mileage of over 11,000 miles, and created a Schedule C for Customer 4's wife, Customer 5, reporting a loss of more than \$6,300 from a janitorial business even though Customer 5 was a stay-at-home mother in 2021 and did not operate a business.

34. These examples are part of a pattern and practice of Jones and Thomas, operating through D&B, to overstate Schedule C or F expenses, or create Schedule C or F businesses out of whole cloth, for the purpose of reducing their customers' taxable income and generating improper refunds.

Mortgage Interest Deduction Abuse

35. Under the Internal Revenue Code, an interest expense relating to personal obligations is generally not deductible. However, IRC § 163(h) provides a limited

exception to this general rule and allows taxpayers, in certain circumstances, to deduct interest on debt incurred in the acquisition of a primary residence on a Form Schedule A “Itemized Deductions.”

36. To assist with accurate reporting of mortgage interest during the tax year, most lenders are required to issue Forms 1098-INT to their borrowers, setting forth the principal amount of the loan, the interest paid by the borrower during the tax year, and other information. These forms also include the mortgage insurance premiums paid by the taxpayer during the year, which may also be deductible.

37. Defendants operated a scheme that included combining 1) the principal loan balance (which cannot be claimed as a deductible expense) and 2) the mortgage interest paid (which can properly be claimed as a deductible expense), in computing the mortgage interest deduction for a given tax year. This had the obvious effect of vastly overstating the correct amount of the deduction, and thereby improperly reducing the taxpayer’s taxable income.

38. Representative examples include:

- a. Jones prepared Customers 6 and 7’s joint 2022 return. For 2022, Customers 6 and 7 received a Form 1098-T listing mortgage interest paid of \$6,141 and an outstanding mortgage balance of \$59,807. On Customer 6 and 7’s 2022 return, Jones incorrectly deducted both items, mortgage interest paid and the outstanding balance, resulting in a grossly inflated deduction of \$65,948, when Customers 6 and 7’s rightful deduction could have been no more than \$6,141. Additionally, Jones overstated the expenses associated with

Customer 6's carpentry business, including by reporting a \$10,900 rent expense that Customer 6 did not incur. The overstated Schedule A and C expenses on Customers 6 and 7's 2022 return had the effect of falsely offsetting all of Customer 6's 2022 gross income and resulted in a bogus refund of all \$8,955 of Customer 6's 2022 W-2 withholdings. Jones charged Customers 6 and 7 a return preparation fee for their 2022 return equal to 10 percent of their refund from the IRS. Consequently, Jones had an incentive to maximize Customers 6 and 7's refund.

- b. Jones prepared Customer 8's returns for the 2019, 2020, and 2021 tax years. Each year, the return prepared by Jones vastly overstated Customer 8's mortgage interest deduction. Specifically, for 2019, the return claimed a mortgage interest deduction of \$86,149, notwithstanding the 1098-INT for that year reporting mortgage interest paid of \$3,821. For 2020 and 2021, those amounts were \$83,194 (interest deduction reported on tax return) instead of \$2,259 (interest paid as set forth on 1098-INT) and \$83,538 (interest deduction reported on tax return) instead of \$3,433 (interest paid as set forth on 1098-INT) respectively. These deductions led to falsely inflated refunds of \$8,870, \$2,843, and \$2,373 being issued to Customer 8 for the 2019, 2020, and 2021 tax years respectively.
- c. Thomas prepared Customer 9's returns for the 2019, 2020, and 2021 tax years. On each return, individuals other than Thomas were identified as the return preparer, notwithstanding the fact that Thomas prepared the return.

Customer 9 never met the other listed preparers. On Customer 9's 2021 return, Thomas listed mortgage interest paid of \$223,035, despite Customer 9's 2021 1098-INT reporting only \$2,776 of mortgage interest paid during the year. Additionally, Thomas prepared a Schedule F for Customer 9's 2019 return showing a loss of over \$102,000 despite Customer 9 not engaging in any farming operations in 2019.

39. During the IRS's May 2022 interview of Jones, IRS personnel warned Jones that deducting both the interest paid and the principal balance of the loan stated on Form 1098-INT was improper. Nevertheless, on returns Jones prepared *after* the interview and warning, he continued to employ the same practice. For example, Jones prepared Customers 10 and 11's 2022 return in February 2023. That return claimed a mortgage interest deduction of \$273,532, despite the 1098-INT showing mortgage interest paid of \$7,223 for the year. The difference, \$266,309, was the result of Jones *again* improperly combining the principal and interest stated on the taxpayers' 1098-INT.

40. Notably, Customers 10 and 11 reported income from all sources in 2022 totaling slightly over \$100,000, *close to three times less* than the claimed deduction for mortgage interest they purportedly paid during the year.

41. Jones' and Thomas' repeated preparation of returns with vastly overstated mortgage interest deductions on Schedule A—over multiple tax years and in light of numerous facts indicating the unreasonableness of the deductions—shows that these overstated deductions were not isolated errors.

IRS Form 7202 Sick and Family Leave Credit Abuse

42. The Families First Coronavirus Relief Act (FFCRA) was intended to help the United States combat COVID-19 by providing small and midsize employers refundable tax credits that reimburse them, dollar-for-dollar, for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19. The FFCRA extended to self-employed individuals equivalent refundable tax credits, which are claimed on IRS Form 7202 (Form 7202 credits). Because Form 7202 credits are refundable, they can be used to generate a refund larger than the amount of tax paid. In other words, if the credit exceeds the tax, a taxpayer may get a refund of the difference.

43. The Form 7202 credit amount is generally equivalent to the amount of paid sick or family leave a taxpayer would have received if the taxpayer had been an employee of an employer other than himself, as determined by pro-rating the taxpayer's net earnings from self-employment. Those amounts can readily be determined by gathering net earnings from self-employment reported on a taxpayer's Schedule SE, Self-Employment Tax, from the tax return from which the credit is claimed or the prior year's tax return (Form 7202 gave taxpayers the option of electing to use their net earnings from self-employment for the previous tax year in determining the Form 7202 credit).

44. Eligible self-employed individuals are able to claim Form 7202 credits on their federal income tax returns filed for tax years 2020 or 2021. Defendants' abuse of Form 7202 credits occurred primarily with respect to credits claimed for the 2021 tax year.

45. To calculate the Form 7202 credits, the taxpayer's net earnings from self-employment is entered on the Form 7202. Importantly, if a taxpayer did not report net earnings from self-employment on the tax return from which the credit is claimed or the prior year's tax return, the taxpayer is not entitled to claim Form 7202 credits.

46. Jones and Thomas abused Form 7202 credits by claiming false or fraudulent credits on the returns of taxpayers who were not eligible for the credit.

Representative examples include:

- a. Jones prepared Customers 12 and 13's 2021 joint tax return. Neither taxpayer was self-employed during 2021 and neither taxpayer discussed owning or operating a business with Jones. Customer 12 told Jones that he had taken time off of work due to medical issues and that Customer 13 had not worked at all during the year due to a long-term medical issue. These work absences were not related to COVID-19. Nevertheless, on their 2021 tax return Jones included a Schedule C (listing Customer 12 as the sole proprietor) and reporting a net loss of over \$29,000. Moreover, Customers 12's and 13's return did not include any net earnings from self-employment, nor did it elect to apply any net earnings from self-employment from 2020, at least one of which was a prerequisite to qualifying for a Form 7202 credit for the 2021 tax year.
- b. Despite neither Customer 12 nor Customer 13 being entitled to claim a 7202 credit for 2021, Jones included separate Forms 7202 for Customer 12 (claiming a credit of \$290) and Customer 13 (claiming a credit of \$1,350).

Jones then claimed both credits (i.e., \$1,640 each, or a total of \$3,280) with respect to each taxpayer, thereby improperly doubling the claimed credit.

Notwithstanding the fact that the taxpayers' total tax payments for 2021 were \$3,431, as a result of the false claims, Customers 12 and 13 received a bogus refund of \$8,028 for the tax year, consisting of the tax paid during the year, an earned income tax credit, and the \$3,280 Form 7202 credit.

- c. Thomas prepared Customers 14 and 15's 2019, 2020 and 2021 returns. In all three of those years, Customer 14 worked as a truck driver and Customer 15 worked in health care and both received W-2 wages. Neither taxpayer was self-employed or owned or operated a business between 2019 and 2021, and neither taxpayer ever discussed with Thomas owning or operating a business or taking time off of work due to COVID-19. Nevertheless, on the taxpayers' 2019 to 2021 returns Thomas included Schedule Cs for Customer 14 reporting phony business losses. Moreover, on the taxpayers' 2021 return, Thomas included a Form 7202 for Customer 14 claiming a credit of \$1,520, purportedly based on Customer 14's net earnings from self-employment in 2020, which were in reality non-existent. As a result of Thomas's inclusion of the baseless Schedule C loss and Form 7202 credit in 2021, the taxpayers received a falsely inflated refund of \$5,339.

Miscellaneous Abuse

47. Under IRC § 6109(a)(4), tax return preparers are required to include on any return or claim for refund they prepare “such identifying number for securing proper identification of such preparer, his employer, or both, as may be prescribed.” A return preparer’s PTIN serves as the identifying number.

48. Jones and Thomas, individually and through D&B, prepare tax returns for customers on which they do not identify themselves as the paid preparer, either by failing to list and sign their name as preparer, failing to include the correct PTIN, or by failing to do both. A tax return preparer who fails to sign a tax return that he or she prepares violates IRC § 6695(b). A tax return preparer who fails to report an identifying number of the tax return preparer, the preparer’s employer, or both, as may be prescribed, on a tax return that the preparer prepares, violates IRC § 6695(c).

49. Moreover, numerous clients of D&B were either not provided with copies of their returns or were provided with incomplete copies.

Estimated Harm

50. The actions of Jones and Thomas, individually and through D&B Professional Tax Services LLC, have harmed the government, their specific customers, and the taxpaying public.

51. First, because their returns understated the correct amount of tax due, the Defendants’ customers face IRS examinations and assessments of additional tax, plus interest and penalties. These customers may lack the resources to repay the amounts owed.

52. Second, the actions of Jones and Thomas, individually and through D&B Professional Tax Services LLC, have resulted in tax being underreported and improper refunds being paid out, resulting in a substantial loss of tax revenue to the government.

53. During its investigation, the IRS interviewed dozens of taxpayers whose returns were prepared by Jones or Thomas and included a Schedule A, Schedule C, or Schedule F for all or some of the 2019 to 2022 tax years.

54. From these returns alone, the IRS estimates that taxpayers whose returns were prepared by Jones or Thomas underreported tax by \$149,564 for the 2019 tax year, \$204,182 for the 2020 tax year, \$359,282 for the 2021 tax year, and \$75,338 for the 2022 tax year. When the error rates and deficiency amounts associated with these taxpayers is extrapolated across the entire scope of Defendants' return preparation for those four tax years, the IRS estimates the resulting tax loss to be in the millions of dollars. While the IRS can pursue some taxpayers for these deficiencies, due to the wide-ranging nature of Defendants' actions, it is not reasonable to expect the IRS to be able to recover all or even most of the revenue lost through the schemes outlined in this complaint.

55. Third, Defendants' actions harm the government and the taxpaying public because the government must devote limited and finite resources to attempting to correct the fallout of the scheme, including but not limited to identifying and examining the tax returns of the customers of D&B and collecting tax, penalties, and interest from those taxpayers.

56. Fourth, Defendants' actions undermine the public's confidence in the fairness and integrity of the country's tax system, which necessarily relies on taxpayers' self-compliance with the tax laws.

57. Fifth, Defendants' actions place undue competitive pressures on honest tax return preparation businesses. Honest return preparers who refuse to prepare returns with improper deductions or credits lose customers to abusive preparers.

Count I: Injunction under IRC § 7407

58. The United States incorporates paragraphs 1 to 57 as if set forth fully herein.

59. IRC § 7407 authorizes a district court to enjoin a tax return preparer from engaging in conduct subject to penalty under 26 U.S.C. § 6694 or § 6695. 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 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 tax return preparer. The prohibited conduct justifying an injunction includes, among other things, the following:

- a. Engaging in conduct subject to penalty under IRC § 6694(a), which penalizes a return preparer who prepares a return or claim for refund that contains an unreasonable position and the return preparer knew (or reasonably should have known) of the position;
- b. Engaging in conduct subject to penalty under IRC § 6694(b), which among other conduct, penalizes a return preparer who recklessly or intentionally disregards IRS rules or regulations;
- c. Engaging in conduct subject to penalty under IRC §§ 6695(a),(b), or (c), which respectively require return preparers to provide taxpayers

with copies of their returns, to sign returns they prepare, and list their PTINs on the returns they prepare;

- d. Engaging in conduct subject to penalty under IRC § 6695(g), which penalizes a return preparer who fails to comply with the statutory due diligence requirements; or
- e. Engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

60. IRC § 7701(a)(36) defines tax return preparer to include not only the individual who physically prepares a tax return for compensation, but also anyone “who employs one or more persons” to prepare tax returns for compensation.

61. Here, Jones, Thomas, and D&B Professional Tax Services LLC are tax return preparers under the Internal Revenue Code because they prepare returns for compensation themselves, employ others to prepare returns for compensation, or both.

62. As noted, under IRC § 7407(b) “if the court finds that a tax return preparer has continually or repeatedly engaged in” the conduct specified in § 7407(b)(1), “and that an injunction prohibiting such conduct would not be sufficient to prevent such person’s interference with the proper administration of” the Internal Revenue Code, “the court may enjoin such person from acting as a return preparer.”

63. Jones, Thomas, and D&B Professional Tax Services LLC have continually and repeatedly engaged in conduct subject to penalty under IRC § 6694 by preparing federal tax returns that understate their customers’ liabilities based on unrealistic, frivolous and reckless positions. Defendants, through the actions described above, also recklessly or intentionally disregard IRS rules or regulations.

64. Jones, Thomas, and D&B Professional Tax Services LLC engage in fraudulent or deceptive conduct which substantially interferes with the proper administration of the internal revenue laws because it causes taxpayers' tax returns to claim deductions and credits to which the taxpayers not entitled, as Jones and Thomas knew, and results in the understatement of tax on potentially thousands of tax returns across multiple tax years.

65. Notably, Jones's conduct has continued even after the IRS assessed substantial penalties against him under IRC § 6695(g) in 2019 and 2022 for failing to be diligent in determining eligibility for certain refundable credits, *and* even after being warned by the IRS regarding his return preparation practices in May 2022. These facts demonstrate that monetary penalties are not sufficient to deter Jones from further interference with the proper administration of the internal revenue laws.

66. Similarly, Thomas has flouted the law by repeatedly, and over multiple tax years, preparing returns with baseless Schedule C and F deductions, claiming baseless Form 7202 credits, by abusing the mortgage interest deduction, and by obfuscating her status as the preparer of returns, among other violations of the tax laws. These actions, as described in this complaint, substantially interfere with the proper administration of the internal revenue laws and warrant an injunction barring Thomas from future return preparation.

67. The Defendants also fail to comply with 26 U.S.C. § 6695(a), which requires that a tax return preparer provide a copy of the completed tax return to the taxpayer.

68. The Defendants also fail to comply with 26 U.S.C. §§ 6695(b) and 6695(c), which require that a tax return preparer identify the actual paid preparer of the tax return, by signing the return and including the correct PTIN on the return.

69. The Defendants' continual and repeated violations of IRC §§ 6694 and 6695 fall within IRC § 7407(b)(1)(A), and thus are subject to an injunction under IRC § 7407.

70. The Defendants' continual and repeated fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws, as described in this complaint, falls within IRC § 7407(b)(1)(D), and thus is subject to an injunction under IRC § 7407.

71. Injunctive relief is appropriate to prevent the recurrence of such conduct. If the Defendants are not enjoined from all tax preparation, they and those acting in concert with them and at their direction are likely to continue to prepare and file false and fraudulent tax returns.

72. The Defendants' continual and repeated conduct, including their continual and repeated fabrication of expenses, deductions, credits, and entire businesses is so egregious that it demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent the Defendants' further interference with the proper administration of the internal revenue laws. Accordingly, pursuant to IRC § 7407, the Defendants should be permanently barred from acting as federal tax return preparers, and from owning, operating, managing, investing in, controlling, licensing, franchising, or working for a tax return preparation business.

Count II: Injunction under IRC § 7408

73. The United States incorporates paragraphs 1 to 57 as if set forth fully herein. Section 7408 of the Internal Revenue Code 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.

74. IRC § 6701(a) 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. Under IRC § 6701(c)(1), the term "procures" includes "ordering (or otherwise causing) a subordinate to do an act," as well as "knowing of, and not attempting to prevent, participation by a subordinate in an act."

75. Here, the actions of Jones and Thomas, individually and through D&B Professional Tax Services LLC, violated IRC § 6701.

76. Jones and Thomas, individually and through D&B Professional Tax Services LLC, prepared returns which regularly claimed false or fraudulent Schedule C or Schedule F losses, mortgage interest deductions on Form Schedule A, and Form 7202 credit claims. Jones and Thomas knew that the returns claiming these baseless claims would be presented to the IRS in satisfaction of the taxpayers' annual return filing requirement and knew that inclusion of these deductions and credits on the returns would result in a material understatement of the taxpayers' tax liabilities.

77. Consequently, the Defendants violated IRC § 6701 and should be enjoined under IRC § 7408 from further engaging in any conduct which violates IRC § 6701.

Count III: Injunction under IRC § 7402

78. The United States incorporates by reference the allegations in paragraphs 1 through 57, as if set forth fully herein.

79. Section 7402(a) permits the Court to issue orders of injunction as may be necessary or appropriate for the enforcement of the internal revenue laws.

80. Through the schemes described in this complaint, Jones and Thomas, individually and through D&B Professional Tax Services LLC, have engaged in conduct that substantially interferes with the enforcement of the internal revenue laws, injures the taxpaying public, and undermines confidence in the country's tax system.

81. The injuries caused by Jones, Thomas, and D&B Professional Tax Services LLC are irreparable. While some of the tax which should have been reported and paid to the IRS may be collected, and while some of the refunds improperly paid out by the IRS due to Defendants' actions may be recovered, it is not possible for the IRS to identify and collect or recover all of the resulting unreported tax or improper refunds.

82. Additionally, absent an injunction, Defendants' actions are likely to cause further harm to the public and may influence or inspire others to engage in abusive, yet financially lucrative, return preparation practices.

83. Absent an injunction, the United States will suffer irreparable injury from future fraudulent returns and the diminished revenue and improper refunds they result in.

84. An injunction barring Jones, Thomas, and D&B Professional Tax Services LLC from future return preparation and granting the other relief requested in this complaint is in the public interest because, backed by this Court's contempt powers, it is likely to stop their return preparation activity and the resulting harm to the United States.

Relief Requested

In light of the foregoing, the United States respectfully requests that the Court:

A. Find that Jones and Thomas, individually and through D&B Professional Tax Services LLC, repeatedly engaged in conduct subject to penalty under IRC §§ 6694 or 6695, or both, and that injunctive relief against Jones, Thomas, and D&B Professional Tax Services LLC is appropriate under IRC § 7407;

B. Find that Jones and Thomas, individually and through D&B Professional Tax Services LLC, repeatedly engaged in conduct subject to penalty under IRC § 6701 and that injunctive relief against Jones, Thomas, and D&B Professional Tax Services LLC is appropriate under IRC § 7408;

C. Find that Jones and Thomas, individually and through D&B Professional Tax Services LLC, repeatedly engaged in conduct that substantially interfered with the proper administration and enforcement of the internal revenue laws and that injunctive relief against Jones, Thomas, and D&B Professional Tax Services LLC is appropriate under IRC § 7402(a) to prevent the recurrence of such conduct;

D. Enter a permanent injunction prohibiting Jones, Thomas, D&B Professional Tax Services LLC, and any other entity through which they conduct business, and all persons and entities in active concert or participation with them from directly or indirectly:

1. Preparing, assisting in the preparation of, or directing the preparation of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns or documents, for any entity or person other than themselves;
2. Filing, assisting in the filing of, or directing the filing of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns or documents, of any entity or person other than themselves;
3. Using, maintaining, controlling, renewing, obtaining, transferring, selling, or assigning any PTIN or EFIN;
4. Owning, operating, managing, profiting from, working in, investing in, providing capital or loans to, receiving fees or remuneration from, controlling, licensing, consulting with, franchising, or volunteering at a business that prepares or assists in the preparation of federal tax returns, amended returns, or other federal tax-related documents or forms, including any electronically submitted returns or documents;
5. Transferring, selling, loaning, assigning, or otherwise profiting from their customer lists or other customer information related to the preparation of federal tax returns;
6. Training, instructing, or teaching others about issues related to the preparation of federal tax returns;

7. Creating or providing guides, memoranda, directions, instructions, or manuals pertaining to the preparation of federal tax returns;
8. Engaging in activity subject to penalty under IRC §§ 6694, 6695, or 6701.
9. Engaging in conduct that substantially interferes with the proper administration or enforcement of the internal revenue laws.

E. Enter an order requiring Defendants at their own expense:

1. To send by email or regular mail, a copy of the final injunction entered against them in this action to each person for whom they prepared federal tax returns, other tax forms, or claims for refund (whether or not the Defendants are identified on the return or form as the preparer), after January 1, 2020, within 30 days of entry of the final injunction in this action.
2. To provide the United States a list of names, Social Security numbers, addresses, phone numbers, and email addresses of each person for whom Jones, Thomas, or any other preparer at D&B Professional Tax Services (either before or after its conversion to an LLC) prepared federal tax returns, other federal tax forms, or claims for refund of federal tax after January 1, 2020, within 30 days of entry of the final injunction in this action;
3. To prominently post, within 10 days of entry of the final injunction in this action, a copy of the injunction in each office of D&B Professional Tax Services LLC or any other location at which Jones and Thomas have prepared returns for compensation since January 1, 2020;

4. To deliver a copy of the injunction to D&B Professional Tax Services' (both prior to and after its conversion to an LLC) employees, contractors, and vendors since January 1, 2020, within 30 days of entry of the final injunction in this action, and provide to the United States, within 45 days of entry of the final injunction, a signed acknowledgement of receipt of the final injunction from all employees, contractors, and vendors to whom the Defendants provided a copy of the injunction;
 5. To file a sworn statement with the Court evidencing Defendants' compliance with the foregoing directives within 60 days of entry of the final injunction in this action; and
 6. To keep records of Defendants' compliance with the foregoing directives, which may be produced to the Court, if requested, or the United States pursuant to paragraph F, below;
- F. Allow the United States to monitor Defendants' compliance with the injunction through discovery in accordance with the Federal Rules of Civil Procedure;
- G. Retain jurisdiction over Defendants and this action to enforce any permanent injunction entered, including for any potential civil and/or criminal contempt proceedings arising from the Defendants' failure to comply with the injunction; and
- H. Award the United States its costs incurred in connection with this action, along with such other relief as justice requires.

//

//

Date: December 10, 2024

DAVID A. HUBBERT
Deputy Assistant Attorney
General

DAMIAN M. DIGGS
United States Attorney

/s/ Christopher J. Rajotte
CHRISTOPHER J. RAJOTTE
DANIEL A. APPLGATE
Trial Attorneys, Tax Division
U.S. Department of Justice
P.O. Box 7238
Washington, D.C. 20044
202-514-6491 (v) (Rajotte)
202-353-8180 (v) (Applegate)
202-514-6770 (f)
Christopher.Rajotte@usdoj.gov
Daniel.A.Applegate@usdoj.gov