

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

UNITED STATES OF AMERICA,)	
)	Case No. 16-1944
Plaintiff,)	
)	
v.)	
)	
GEORGINA LOPEZ, PAMELA MIRANDA,)	
JORGE A. MIRANDA, and)	
SERVICIOS LATINOS, INC.,)	
)	
Defendants.)	
_____)	

COMPLAINT FOR PERMENANT INJUNCTION AND OTHER RELIEF

The United States of America brings this action pursuant to 26 U.S.C. §§ 7401, 7402(a), 7407 and 7408, with the authorization of a delegate of the Secretary of the Treasury and at the direction of a delegate of the Attorney General, to enjoin defendants Georgina Lopez, Pamela Miranda, Jorge A. Miranda, Servicios Latinos, Inc., and anyone in active concert or participation with them, from acting as federal tax return preparers and from engaging in conduct subject to penalty under the Internal Revenue Code (“I.R.C.”) (26 U.S.C.).

Jurisdiction and Venue

1. Jurisdiction is conferred on this court pursuant to 28 U.S.C. §§ 1340, 1345 and I.R.C. § 7402(a).

2. Venue is proper in the Northern District of Illinois pursuant to 26 U.S.C. §§ 7407, 7408, and 28 U.S.C. § 1391 because Georgina Lopez, Pamela Miranda, and Jorge A. Miranda reside in the district, and a substantial part of the activities giving rise to this suit took place in the district.

Defendant's Activities

3. Georgina Lopez is a tax return preparer who prepares for compensation federal tax returns for individuals, and she has her own preparer tax identification number ("PTIN").

4. Pamela Miranda is a tax return preparer who prepares for compensation federal tax returns for individuals, and she has her own PTIN.

5. Jorge A. Miranda is a tax return preparer who prepares for compensation federal tax returns for individuals, and he has his own PTIN.

6. Servicios Latinos, Inc., ("Servicios Latinos") is an Illinois Domestic Business Corporation that was incorporated on or about January 25, 2005, and is located at 685 W. Ohio St., Chicago, IL, 60654. Servicios Latinos employs 40 tax return preparers and operates out of approximately 84 stores in as many as 30 states, including offices located in the following geographical areas: New Jersey; Kennet Square, Pennsylvania; Kansas City, Kansas; Kansas

City, Missouri; Northern California; Southern California; Reno, Nevada; and Las Vegas, Nevada.

7. Georgina, Jorge, and Pamela are the principal officers and owners of Servicios Latinos.

8. Servicios Latinos began preparing federal income tax returns in January 2012, and its employees have prepared at least 42,844 tax returns.

9. Servicios Latinos' employees collect information from customers in order to have tax returns prepared remotely, and in some instances, the employees who collect the information also prepare the returns that are later filed by Servicios Latinos.

10. Georgina's PTIN appears on approximately 10,526 individual income tax returns filed in 2012; 3,431 individual income tax returns filed in 2013; 2,923 individual income tax returns filed in 2014; and, at least, 1,594 individual income tax returns filed in 2015. Upon information and belief, Georgina did not prepare all of the tax returns that bear her PTIN.

11. Pamela's PTIN appears on approximately 843 individual income tax returns filed in 2014; and, at least, 1,320 individual income tax returns filed in 2015. Upon information and belief, Pamela did not prepare all of the tax returns that bear her PTIN.

12. Jorge's PTIN appears on approximately 1,414 individual income tax returns filed in 2013; 1,163 individual income tax returns filed in 2014; and, at least, 1,842 individual income

tax returns filed in 2015. Upon information and belief, Jorge did not prepare all of the tax returns that bear his PTIN.

Falsely Claimed Child Tax Credits, Earned Income Tax Credits, Filing Status, and Income and Expenses

13. One of the predominate strategies that Servicios Latinos and its employees have used to reduce their customers' reported tax liabilities is to falsely claim child tax credits and earned income tax credits.

14. Additionally, Servicios Latinos and its employees prepared returns that improperly reduced their customers' reported tax liabilities by falsely claiming tax filing statuses that did not apply to the taxpayers and by falsely reporting income and expenses.

15. In order to further obscure Servicios Latinos' activities, falsified client intake sheets were prepared and included in, at least, some client files.

16. Upon information and belief, Georgina, Pamela, and Jorge are aware of the statutory requirements to claim a child tax credit and earned income credits, to report a taxpayer's filing status, and to report income and expenses.

17. On November 18, 2013, the IRS sent Georgina Form Letter 5025-Q, which warned her that she "may have violated the tax law by submitting inaccurate returns." The letter further stated that the IRS had reviewed some of the returns that Georgina prepared for tax year 2012 and that the IRS was concerned that earned income tax credits claimed on returns that she prepared did not meet the statutory requirements.

18. On December 20, 2013, the IRS sent Jorge Form Letter 5272, which advised him of his responsibility to meet the due diligence requirements to verify a child claimed for the child tax credit. The letter further advised Jorge of the specific requirements to claim a child for the child tax credit.

19. On October 6, 2014, the IRS sent Georgina another Form Letter 5025-Q, which again advised Georgina about the requirements to claim an earned income tax credit.

20. On October 7, 2014, the IRS sent Pamela Form Letter 4833, which warned her that the IRS had reviewed returns that she prepared in 2013 that claimed the earned income tax credit, and the review of those returns indicated improper claims for the earned income tax credits. The letter further advised Pamela of her responsibility to know the legal requirements to claim the earned income tax credits, to inform her clients of those requirements, and to perform the required due diligence when preparing returns that include claims for the earned income tax credits.

21. In 2015, the IRS randomly selected 351 individual income tax returns prepared by Servicios Latinos for tax year 2014. Of these 351 returns, the IRS examined 170 (the “Examined Returns”). After interviewing the taxpayers, it found that 89 of the 170 returns had fabricated or inflated claims, including false claims for child tax credits and earned income tax credits, that improperly reduced the taxpayer’s reported tax liability

Harms Caused by the Defendants

22. The Defendants' customers have been harmed because they paid fees to have proper tax returns prepared, but the Defendants prepared returns that substantially understated their customers' correct tax liabilities. Many customers now face income tax deficiencies and may be liable for penalties and interest.

23. The Defendants' conduct harms the United States because their customers are under reporting and under paying their correct tax liabilities based on false claims.

24. Of the Examined Returns for 2014, the actual tax harm to the government from improperly reported information, including false claims for child tax credits and earned income tax credits, totaled over \$135,290.

25. Based upon the Examined Returns, the IRS estimates, with 95% confidence, an error rate of 52.35% ($\pm 9\%$) in the tax returns prepared by Servicios Latinos in 2015. Given that error rate, the IRS further estimates that the tax returns prepared by Servicios Latinos in 2015 caused a total tax harm to the United States Treasury of between \$4.7 million and \$8.2 million.

26. Georgina's PTIN appears on 19 of the Examined Returns. Of these returns, 7 included improperly reported information that resulted in actual tax harm of \$7,632.

27. Jorge's PTIN appears on 32 of the Examined Returns. Of these returns, 18 included improperly reported information that resulted in actual tax harm of \$18,384.

28. Pamela's PTIN appears on 14 of the Examined Returns. Of these returns, 13 included improperly reported information that resulted in actual tax harm of \$19,645.

29. As of October 14, 2015, the IRS audited 68 additional tax returns containing the Employer Identification Number for Servicios Latinos. Based upon these audits, the actual tax harm to the government from these 68 tax returns is \$345,054.

30. As of October 14, 2015, the IRS had 315 additional ongoing audits of tax returns containing the Employer Identification Number for Servicios Latinos.

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

32. The Defendants' conduct further harms the United States because the Internal Revenue Service must devote its limited resources to investigating the Defendants' tax return preparation, including time-intensive investigations of each individual customers' correct tax liability, attempts to recover any refunds erroneously issued, and attempts to collect any additional taxes and penalties.

33. The Defendants also cause intangible harm to honest tax return preparers because they gain an unfair competitive advantage over those preparers by preparing returns that falsely reduce their customers' tax liabilities and/or fraudulently inflate their customers' refunds.

Count I
Injunction Against the Defendants Under I.R.C. § 7407

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

35. Section 7407 of the I.R.C. (26 U.S.C.) authorizes a district court to enjoin a tax return preparer from engaging in conduct subject to penalty under I.R.C. §§ 6694 or 6695, and from 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.

36. Additionally, if the Court finds that a preparer has continually or repeatedly engaged in such conduct, and 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.

37. The Defendants have continually and repeatedly engaged in conduct subject to penalty under I.R.C. § 6694 by preparing federal tax returns that understate their customers' liabilities based on unrealistic, frivolous, reckless, and even fraudulent positions.

38. The Defendants' continual and repeated violations of I.R.C. § 6694 fall within I.R.C. § 7407(b)(1)(A) and (D), and thus are subject to injunction under I.R.C. § 7407.

39. The Defendants have repeatedly engaged in conduct subject to penalty under I.R.C. § 6695 by allowing or directing their employees to prepare tax returns using PTIN numbers that do not belong to the employ that prepared the return.

40. If not enjoined, the Defendants are likely to continue to prepare and file false and fraudulent tax returns.

41. The Defendants have continually and repeatedly engaged in conduct subject to an injunction under I.R.C. § 7407, including continually and repeatedly claiming and reporting, on behalf of their customers, false and fraudulent child tax credits, earned income tax credits, and income and expenses as to which they know the IRS will need to expend considerable resources to identify. This conduct demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent the Defendants' interference with the proper administration of the internal revenue laws. Thus, they should be permanently barred from acting as a return preparer.

Count II
Injunction Against the Defendants Under I.R.C. § 7408

42. The United States incorporates by reference the allegations in paragraphs 1 through 41.

43. Section 7408 of the I.R.C. authorizes a district court to enjoin any person from engaging in conduct subject to penalty under I.R.C. § 6701 if the injunctive relief is appropriate to prevent recurrence of such conduct.

44. Section 6701(a) of the I.R.C. 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.

45. The Defendants prepare for customers federal tax returns that they know will understate their customers' correct tax liabilities, by knowingly preparing returns claiming improper expenses, deductions, and credits. The Defendants' conduct is thus subject to a penalty under I.R.C. § 6701.

46. If the Court does not enjoin the Defendants, they are likely to continue to engage in conduct subject to penalty under I.R.C. § 6701. The Defendants' preparation of returns claiming improper expenses, deductions, and credits is widespread over many customers across the country and over several tax years. Injunctive relief is therefore appropriate under I.R.C. § 7408.

Count III
Injunction Against the Defendants Under I.R.C. § 7402(a)
Necessary to Enforce the Internal Revenue Laws

47. The United States hereby incorporates by reference the allegations in paragraphs 1 through 46.

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

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

50. Unless enjoined, the Defendants are likely to continue to engage in such improper conduct and interfere with the enforcement of the internal revenue laws upon which they have built a large nationwide business.

51. If the Defendants are 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, and spending additional resources to investigate and attempt to collect under reported liabilities and undeserved refunds.

52. While the United States will suffer irreparable injury if the Defendants are not enjoined, the Defendants will not be harmed by being compelled to obey the law.

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

54. 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 Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., have continually and repeatedly engaged in conduct subject to penalty under I.R.C. §§ 6694 and 6695, have 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 I.R.C. § 7407, enter a permanent injunction prohibiting Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., from acting as federal tax return preparers;

C. That the Court find that Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., have engaged in conduct subject to a penalty under I.R.C. § 6701 and that injunctive relief under I.R.C. § 7408 is appropriate to prevent a recurrence of that conduct;

D. That the Court find that Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., have 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 I.R.C. § 7402(a);

E. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., and all those in active concert or participation with them, from directly or indirectly:

- (1) Preparing or filing, or assisting in preparing or filing, any federal tax return, amended return, or other federal tax document or form for any person other than themselves;
- (2) Representing any person before the IRS, or advising, assisting, counseling, or instructing anyone about preparing a federal tax return;
- (3) Having an ownership interest in an entity that is in the business of preparing federal tax returns or other federal tax documents or forms for other persons or representing any person before the IRS, or advising, assisting, counseling, or instructing anyone about preparing a federal tax return;
- (4) Engaging in conduct subject to penalty under I.R.C. §§ 6694, 6695, 6700, and 6701;
- (5) Maintaining, assigning, holding, using, or obtaining a Preparer Tax Identification Number or an Electronic Filing Identification Number;
- (6) Employing any person who Defendants know prepares or files, or assists in preparing or filing, any federal tax return, amended return, or other federal tax document or form for any person, without regard to whether such preparation or filing activities are within the scope of such persons employment by the Defendants;

- (7) Advertising tax return preparation services through any medium, including the internet and social media; and
- (8) Engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

F. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., to send to counsel for the United States, within 30 days of the issuance of this order, a complete customer list of all persons for whom they have prepared or assisted in preparing a federal income tax return since January 1, 2012 and a copy of each customer's file. This customer list will contain the customers' names, addresses, telephone numbers, and social security numbers, tax identification numbers, and email address, if known; and the customer files will contain all documents that the Defendants collected and/or used in the preparation of the customers' tax returns;

G. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., send to counsel for the United States, within 30 days of receiving the Court's order, a complete list of all persons who have acted as tax return preparers as employees or at the direction of any of the Defendants since January 1, 2012. This list will contain the tax return preparers' names,

addresses, telephone numbers, preparer tax identification numbers, and email addresses, if known;

H. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., to send a copy of the Court's order, within 60 days of the issuance of this order to each person who has acted as a tax return preparer as an employee or at the direction of any of the Defendants since January 1, 2012, and to any other business now owned or operated by the Defendants. This mailing shall include a cover letter in a form either agreed to by counsel for the United States or approved by the Court, and shall not include any other documents or enclosures.

I. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., to mail a copy of the Court's order to all persons or entities for whom they, or their employees, have prepared federal tax returns, amended returns, or other federal tax documents or forms since January 1, 2012. Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., must mail the copies within 60 days of this order. This mailing shall include a cover letter in a form either agreed to by counsel for the United States or approved by the Court, and shall not include any other documents or enclosures.

J. That the Court, pursuant to I.R.C. §§ 7402(a), 7407, and 7408, enter an order requiring Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc.,

within 60 days of receiving the Court's order, to file a declaration, signed under penalty of perjury, confirming that they have received a copy of the Court's order and complied with the terms described in paragraphs F, G, H, I of this Complaint;

K. That the Court retain jurisdiction over Georgina Lopez, Pamela Miranda, Jorge A. Miranda, and Servicios Latinos, Inc., and over this action to enforce any permanent injunction entered against them; and

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

DATED: February 4, 2016

Respectfully submitted,

CAROLINE D. CIRAULO
Acting Assistant Attorney General
U.S. Department of Justice, Tax Division

/s/ James M. Strandjord
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