

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
MIAMI DIVISION**

UNITED STATES OF AMERICA,

Case No.

Plaintiff,

v.

ROSE M. CHAZULLE individually and
doing business as RMC PROFESSIONAL
SERVICES, LLC, and
RMC PROFESSIONAL SERVICES
CORPORATION,

Defendants.

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COMPLAINT FOR PERMANENT INJUNCTION

The plaintiff, the United States of America, alleges as follows for its complaint to enjoin Rose M. Chazulle, individually and doing business as RMC Professional Services, LLC, and her company, RMC Professional Services Corporation (“RMC, Inc.”), (collectively “Defendants”), from preparing tax returns in violation of the internal revenue laws.

1. The United States of America seeks to permanently enjoin Defendants from:
 - (a) preparing, filing, or assisting in the preparation or filing of, or directing the preparation or filing of, federal tax returns, amended returns, or other tax-related documents and forms, including any electronically-submitted tax returns or tax-related documents, for any entity or person other than Chazulle;
 - (b) preparing, filing, or assisting in the preparation or filing of, or directing the preparation or filing of, federal tax returns or amended returns that she knows will result in an understatement of tax liability or the overstatement of federal tax refunds;

(c) engaging in activity subject to penalty under 26 U.S.C. §§ 6694 and 6695, and 6701;
and

(d) engaging in conduct that substantially interferes with the proper administration and enforcement of the tax laws.

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, pursuant to 26 U.S.C. §§ 7401, 7407 and 7408.

Jurisdiction and Venue

3. Jurisdiction is conferred on this Court by 26 U.S.C. § 7402(a) and 28 U.S.C. §§ 1340 and 1345.

4. Venue is proper in this Court pursuant to 28 U.S.C. § 1391(b) and 26 U.S.C. §§ 7407(a) and 7408(a) because Chazulle resides and has her principal place of business within this judicial district, Chazulle prepares tax returns within this judicial district, and a substantial part of the events giving rise to these claims occurred within this judicial district.

Parties

5. Defendant Rose M. Chazulle is a 51 year old unenrolled tax return preparer. Chazulle is the sole proprietor of RMC Professional Services, LLC, a Florida limited liability company. RMC Professional Services, LLC was converted to RMC Professional Services Corporation (RMC, Inc.) on May 19, 2014.

6. Chazulle has prepared federal income tax returns for customers since at least 2010 to the present. Chazulle operates out of RMC, Inc.'s office in Miami.

7. According to Chazulle's resume provided to the IRS, Chazulle holds a Bachelor's of Science in Business/Accounting and a Master of Business Administration from The University of Phoenix. Chazulle also describes herself as "detail oriented with experience in all areas of Accounting and Bookkeeping" on her resume.

8. Chazulle's resume also states that she provides the following tax return services: (a) preparation of corporate, partnership, and individual tax returns; (b) bank reconciliations; (c) sales tax returns; and (d) quarterly and year end payroll returns.

9. In addition to her tax preparation business, Chazulle prepares "immigration forms, divorce and child support paperwork" for customers out of RMC, Inc.'s office. Chazulle also operates a nail salon in the suite located next to her tax return preparation business.

10. RMC, Inc. is a Florida corporation with its principal place of business located at 2060 NW 22nd Avenue, Suite 2, Miami, Florida 33142.

Summary of Chazulle's Activities

11. Chazulle has prepared thousands of federal income tax returns on behalf of customers since at least filing season 2010 (tax year 2009) to the present.

12. As a paid preparer, Chazulle obtained from the IRS a Personal Tax Identification Number (PTIN) of PXXXXX5301.

13. In order to electronically file returns on behalf of customers, Chazulle obtained an Electronic Filing Information Number (EFIN) of XXXX348 from the IRS for RMC. Chazulle is listed on the EFIN application as the only responsible official and contact for RMC. There are no EFIN's assigned to Chazulle individually.

14. Chazulle handles her tax return preparation business similarly to an assembly line. Data entry is handled by several workers, including Chazulle's daughter and contractors employed by Chazulle. Chazulle reviews all returns before they are filed with the IRS and is the sole person who files returns in her office. According to Chazulle, customers receive their original returns and Chazulle keeps scanned copies of these returns.

15. For the tax years 2011 to 2014, Chazulle prepared and filed federal income tax returns with the IRS that falsely claimed Form 8863 Education Credits (American Opportunity and Lifetime Learning Credits) for customers who did not incur education expenses and did not qualify for these credits.

- a. The American Opportunity Tax Credit is a credit for qualified education expenses paid for an eligible student for the first four years of higher education, with a maximum annual credit of \$2,500 per eligible student. If the credit brings the amount of tax owed to zero, the taxpayer can have refunded 40 % of any remaining amount of the credit (up to \$1,000).
- b. The annual amount of the Lifetime Learning Credit is 20% of the first \$10,000 of qualified education expenses paid for all eligible students with a maximum allowable amount of \$2,000 for tax year 2015 ($20\% \times \$10,000$).
- c. Colleges and universities are required by law to provide students with a Form 1098-T, Tuition Statement of tuition billed and paid and report that information to the IRS.

16. In addition to the false education credits, Chazulle also prepared and filed federal income tax returns with the IRS for tax years 2011 to 2014 that falsely claimed Fuel Tax Credits

(“FTC”) for customers who did not qualify for this credit. The FTC allows a taxpayer to claim a refundable tax credit for federal excise taxes on gasoline and diesel fuel purchased when the gas is used in vehicles for farming business purposes, non-highway purposes in a trade or business, or operation of school buses. The FTC is not permitted for fuel used commuting to and from work.

17. Chazulle also prepared and filed federal income tax returns with the IRS for tax years 2011 to 2014 that falsely claimed business losses and/or income reported on Form 1040 Schedule C – Profit or Loss from Business Sole Proprietorship (“Schedule C”). Chazulle typically claimed the false Schedule C losses and/or income for fictitious businesses or otherwise claimed grossly exaggerated or fabricated business expenses on behalf of her customers.

18. Additionally, Chazulle prepared and filed federal income tax returns with the IRS for tax years 2011 to 2014 that falsely claimed Household Help (“HSH”) income, income earned from working in someone else’s home, for customers who did not earn such income.

19. The Earned Income Tax Credit (“EITC”) is a refundable tax credit for working people with low to moderate income. To qualify for the EITC, a taxpayer must have earned income from working for someone or from running or owning a business or farm and meet basic rules set forth by the IRS. Additionally, the taxpayer must either meet additional rules for workers without a qualifying child or have a child that meets all the qualifying child rules for that taxpayer.

20. Chazulle’s schemes described in paragraphs 17-18 above helped understate her customers’ tax liabilities in order to qualify these customers for the EITC and/or create or increase refunds through fraudulent or improper means.

21. Overall, Chazulle cumulatively prepared and filed approximately 10,805 returns with the IRS for tax years 2011 to 2014. Over 90 percent of these returns claimed refunds and over half of the total returns claimed the EITC. The table below shows the approximate number of returns prepared and filed by Chazulle claiming refunds and EITC for tax years 2011 to 2014:

Tax Year	Total Returns	% Refunds	% EITC
2011	2,042	98%	50%
2012	3,175	98%	52%
2013	3,227	93%	54%
2014	2,361	89%	56%
Total	10,805		

22. The IRS selected for examination approximately 1,140 of the returns Chazulle prepared and filed for tax years 2011 to 2013 focusing exclusively on education credits because of the volume of returns filed by Chazulle claiming such credits. During the years 2011 to 2013, over 80 percent of the returns Chazulle prepared contained education credits. Less than 1 percent of the returns examined for the education credits resulted in no change.

23. The IRS has also identified returns with characteristics consistent of fraudulent refund claims in reviewing the returns that Chazulle prepared and filed for tax years 2012 to 2014. An analysis of the 8,763 returns that Chazulle prepared for those years shows that 40 percent of her customers (over 3500) claimed to have a Schedule C business. In addition, 83 percent of the Schedule C businesses that were profitable claimed the EITC. Profitable Schedule C's are often used by abusive return preparers to improperly increase their customers' earned income in order to qualify them for the EITC.

24. The IRS also determined that 20 percent of the returns Chazulle prepared and filed for tax years 2012 to 2014 claimed a FTC. Most of the customers that claimed this credit did not have a business of any kind. Additionally, the quantity of gasoline claimed to have been purchased by those customers claiming the FTC was grossly exaggerated. The IRS identified 1,496 returns that included a \$549 FTC which represents the purchase of exactly 3,000 gallons of non-taxable fuel for off-highway business use. Another 146 returns each falsely claimed a FTC of exactly \$1,041.

25. The IRS also found instances where Chazulle claimed false HSH income on behalf of customers. The IRS determined that Chazulle reported false HSH income on 503 (16 %) returns she filed for tax year 2013.

26. The IRS has been aided in identifying Chazulle's fraudulent practices in part by her customers. The IRS received 16 return preparer complaints against Chazulle regarding the 2011 to 2013 tax years. The majority of these complaints concerned false Schedule C business loss and/or income, and false education credits that Chazulle claimed on behalf of her customers.

27. In interviews with IRS investigators, customers of Chazulle whose returns included a false Schedule C business loss and/or income and/or fabricated credits, told the IRS that they were unaware of the aforementioned fabricated items and did not ask Chazulle to include those items on their returns.

28. The IRS took certain actions to prevent Chazulle from preparing returns containing false and/or inaccurate credits and/or business loss and/or income, and to help Chazulle understand her due diligence responsibilities, including the following:

- (a) The IRS conducted a field visit to Chazulle's office on or about November 11, 2011 regarding Schedule C concerns;
- (b) The IRS mailed Letter 4858 - Alert to Return preparer Related to EITC Claims - to Chazulle on or about January 2, 2013;
- (c) The IRS mailed Letter 5364 -Warning to EITC Return preparer Missing Form 8867 - to Chazulle on or about March 21, 2013;
- (d) The IRS mailed Letter 4833 - EITC Tax Return Preparer Alert - to Chazulle on or about December 2, 2013, warning Chazulle of returns containing inaccurate EITCs and reminding Chazulle of a preparer's EITC due diligence responsibilities;
- (e) The IRS mailed Letter 5138 - Return Preparer EITC Client Audit Notification - to Chazulle on or about October 1, 2014; and
- (f) The IRS mailed a second Letter 4833 to Chazulle on or about October 7, 2014.

29. In 2014 and 2015, respectively, the IRS assessed preparer penalties against Chazulle pursuant to 26 U.S.C. §§ 6694(b) and 6695(g) in an effort to deter Chazulle from violating internal revenue laws as set forth below:

Tax year	Assessment Date	Amount
2012	8/24/2015	\$5,500
2013	12/8/2014	\$500
2013	12/12/2014	\$5,000
2013	2/16/2015	\$500
2013	2/23/2015	\$5,000

30. The IRS reviewed a sample of returns Chazulle filed on behalf of customers after the assessments described in paragraph 29 above were made against Chazulle and found that Chazulle continues to violate internal revenue laws. For example, the IRS reviewed 20 returns Chazulle prepared for tax year 2014 and found that half of the students listed education credits that did not have the corresponding Forms 1098-T. In addition, Chazulle included FTCs on over 500 returns for tax year 2014 and continues to file a higher than average number of returns that include the EITC and Schedule C business losses and expenses.

31. The harm to the Government caused by Chazulle's fraudulent tax preparation activities is significant. Based on the 1,140 returns the IRS examined for tax years 2011 to 2013, the IRS estimates that Chazulle's fraudulent tax preparation activities have resulted in an average deficiency of approximately \$2,167 per return or over \$2.4 million in revenue loss to the Government regarding just the returns audited. The IRS tracked the average dollar loss per audited return to arrive at the average deficiency amount.

32. Application of the average deficiency amount of \$2,167 to 80 percent of the total number of returns Chazulle prepared and filed over tax years 2011 to 2013 (which represents the percentage of returns that contained education credits), the IRS estimates a potential total harm of over \$14 million ($\$2,167 \times (8,444 \times 80\%)$) to the Government over tax years 2011 to 2013.

Specific Allegations of Chazulle's Fraudulent Schemes

33. The returns described below demonstrate the schemes employed by Chazulle by claiming bogus education credits and FTCs, false businesses, income and/or expenses and losses on Schedules C, or false HSH income, in order to understate tax liabilities to generate the EITC

or otherwise create or increase refunds for her customers. To protect taxpayer privacy, the specific customers are referred to as Customers 1-8.

Tax Returns Prepared on Behalf of Customer 1

34. Customer 1 works at a hotel in Miami, Florida.

35. Chazulle prepared and filed Form 1040 U.S. Individual Tax Returns with the IRS on Customer 1's behalf for tax years 2010 to 2013. Customer 1 provided Chazulle with Customer 1's Form W-2 Wage and Tax Statement for each of those tax years along with her bank interest statements in support of the returns.

36. Customer 1's 2011 return falsely claimed a FTC of \$549 and education credits totaling \$4,321. Customer 1 did not provide any information concerning her eligibility for the FTC to Chazulle and did not tell Chazulle that she attended college in 2011. Nor did Customer 1 ask Chazulle to claim those false items on her 2011 return. As a result of the false FTC and false education credits Chazulle claimed on Customer 1's 2011 return, Customer 1's 2011 return claimed a refund of \$6,472 for tax year 2011 that she was not entitled to.

37. Customer 1's 2012 return falsely claimed a FTC of \$641 and education credits totaling \$4,039. Customer 1 did not provide any information concerning her eligibility for the FTC to Chazulle and did not tell Chazulle that she attended college in 2012. Nor did Customer 1 ask Chazulle to claim those false items on her 2012 return. As a result of the false FTC and false education credits Chazulle claimed on Customer 1's 2012 return, Customer 1's 2012 return claimed a refund of \$6,755 for tax year 2012 that she was not entitled to.

38. Customer 1's 2013 return falsely claimed a Schedule C business loss of \$7,489. The 2013 Schedule C also falsely claimed expenses for Supplies of \$6,589 and "Other expenses"

of \$900. Customer 1 did not tell Chazulle that she owned a business in 2013 or to claim the false expenses and loss Chazulle reported on 1's 2013 Schedule C. As a result of the false expenses and false business loss Chazulle reported on Customer 1's 2013 Schedule C, Customer 1's 2013 return claimed a refund of \$4,341 for tax year 2013 that she was not entitled to.

Tax Returns Prepared on Behalf of Customer 2

39. Customer 2 works at a hotel in Miami, Florida.

40. Chazulle prepared and filed individual tax returns with the IRS on Customer 2's behalf for tax years 2011 to 2013. Customer 2 provided her Forms W-2 to Chazulle in support of the returns.

41. Customer 2's 2011 return claimed false education credits totaling \$1,633 and a false Schedule C business loss of \$570. The 2011 Schedule C also included fictitious expenses for supplies of \$890 and other expenses of \$600. Customer 2 did not tell Chazulle that she owned a business in 2011 and to report the false expenses and loss Chazulle reported on her 2011 Schedule C. Customer 2 also did not tell Chazulle that she attended college in 2011 or to claim the false education credits on her return. As result of the false education credits and false Schedule C business loss and expenses Chazulle claimed on Customer 2's 2011 return, Customer 2's 2011 return claimed a refund of \$2,720 for tax year 2011 that she was not entitled to.

42. Customer 2's 2012 return falsely claimed education credits totaling \$1,838. Customer 2 did not tell Chazulle that she attended college in 2012 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 2's 2012 return, Customer 2's 2012 return claimed a refund of \$2,959 for tax year 2012 that she was not entitled to.

43. Customer 2's 2013 return falsely claimed education credits totaling \$1,728.

Customer 2 did not tell Chazulle that she attended college in 2013 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 2's 2013 return, Customer 2's 2013 return claimed a refund of \$2,789 for tax year 2013 that she was not entitled to.

Tax Return Prepared on Behalf of Customer 3

44. Customer 3 works at a hotel in Miami, Florida.

45. Chazulle prepared and filed individual tax returns with the IRS on Customer 3's behalf for tax years 2011 to 2013. Customer 3 provided her Forms W-2 to Chazulle in support of the returns.

46. Customer 3's 2011 return falsely claimed education credits totaling \$2,500.

Customer 3 did not tell Chazulle that she attended college in 2011 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 3's 2011 return, Customer 3's 2011 claimed a refund of \$3,054 for tax year 2011 that she was not entitled to.

47. Customer 3's 2012 return falsely claimed education credits totaling \$1,698.

Customer 3 did not tell Chazulle that she attended college in 2012 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 3's 2012 return, Customer 3's return claimed a refund of \$3,161 for tax year 2012 that she was not entitled to.

48. Customer 3's 2013 return falsely claimed education credits totaling \$1,743.

Customer 3 did not tell Chazulle that she attended college in 2013 or to claim the false education

credits on Customer 3's 2013 return. As result of the false education credits Chazulle claimed on her return, Customer 3's 2013 return claimed a refund of \$3,172 for tax year 2013 that she was not entitled to.

Tax Return Prepared on Behalf of Customer 4

49. Customer 4 works at a hotel in Miami, Florida.

50. Chazulle prepared and filed individual tax returns with the IRS on Customer 4's behalf for tax years 2012 and 2013. Customer 4 provided her Forms W-2 to Chazulle in support of the returns.

51. Customer 4's 2012 return falsely claimed education credits totaling \$2,500. Customer 4 did not tell Chazulle that she attended college in 2012 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 4's 2012 return, Customer 4's 2012 return claimed a refund of \$3,068 for tax year 2012 that she was not entitled to.

52. Customer 4's 2013 return falsely claimed education credits of \$2,500. Customer 4 did not tell Chazulle that she attended college in 2013 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 4's 2013 return, Customer 4's 2013 return claimed a refund of \$3,035 for tax year 2013 that she was not entitled to.

Tax Returns Prepared on Behalf of Customer 5

53. Customer 5 works at hotels in Miami, Florida.

54. Chazulle prepared and filed individual tax returns with the IRS on Customer 5's behalf for tax years 2012 and 2013. Customer 5 provided her Forms W-2 to Chazulle in support of the returns.

55. Customer 5's 2012 return falsely claimed education credits totaling \$1,000. Customer 5 did not tell Chazulle that she attended college in 2012 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 5's 2012 return, Customer 5's 2012 return claimed a refund of \$5,868 for tax year 2012 that she was not entitled to.

56. Customer 5's 2013 return falsely claimed education credits totaling \$1,438 and a false Schedule C business loss of \$7,189. The 2013 Schedule C also claimed fictitious expenses for supplies of \$6,589 and other expenses of \$600. Customer 5 did tell Chazulle that she owned a business in 2013 or to claim the false expenses and loss on her 2013 Schedule C. Customer 5 also did not tell Chazulle that she attended college in 2013 or to claim the false education credits on Customer 5's 2013 return. As result of the false education credits and false Schedule C business loss and expenses Chazulle claimed on Customer 5's 2013 return, Customer 5's 2013 return claimed a refund of \$5,882 for tax year 2013 that she was not entitled to.

Tax Return Prepared on Behalf of Customer 6

57. Customer 6 worked as a food server in 2012 and received W-2 income from her job.

58. Chazulle prepared and filed an individual tax return with the IRS on Customer 6's behalf for tax year 2012. Customer 6 provided Chazulle with her Form W-2 in support of the return.

59. Customer 6's 2012 return falsely claimed education credits totaling \$1,266.

Customer 6 did not tell Chazulle that she attended college in 2012 or to claim the false education credits on her return. As result of the false education credits Chazulle claimed on Customer 6's 2012 return, Customer 6's 2012 return claimed a refund of \$2,141 for tax year 2012 that she was not entitled to.

Tax Return Prepared on Behalf of Customer 7

60. Customer 7's occupation is listed as "student" on his 2011 individual tax return.

Customer 7 received W-2 income in 2011.

61. Chazulle prepared and filed an individual tax return with the IRS on Customer 7's behalf for tax year 2011. Customer 7 provided his Form W-2 to Chazulle in support of the return.

62. Customer 7's 2011 return falsely claimed a Schedule C business loss of \$6,509.

The 2013 Schedule C also falsely claimed expenses for supplies of \$5,600 and Other expenses of \$2,469. Customer 7 did not own a business in 2013 and did not incur the expenses and business loss Chazulle reported on his 2011 Schedule C.

63. As a result of the false expenses and business loss Chazulle reported on Customer 7's 2011 Schedule C, Customer 7's 2011 return claimed a refund of \$4,853 for tax year 2011 that he was not entitled to.

Tax Returns Prepared on Behalf of Customer 8

64. Customer 8 received W-2 income in both 2012 and 2013 as well as rental property income for those years.

65. Customer 8 attended a college in 2012 and 2013. Customer 8 did not receive a Form 1098-T from this college for tax year 2012. Customer 8 told the IRS that he paid for books and some classes out of pocket in 2012. Customer 8 received a Form 1098-T from the college for tax year 2013 showing that Customer 8 paid \$1,199.20 for tuition that year.

66. Chazulle prepared and filed individual tax returns with the IRS on Customer 8's behalf for tax years 2012 and 2013. Customer 8 provided his Forms W-2, rental property income information and 2013 Form 1098-T to Chazulle in support of the returns.

67. Customer 8's 2012 return falsely claimed education credits totaling \$2,500 and a FTC of \$549. Customer 8 did not tell Chazulle to claim the false education credits on his 2012 return. In addition, Customer 8 did not provide any information to Chazulle regarding his eligibility for the FTC and did not tell Chazulle to claim the false FTC on his 2012 return.

68. As result of the false education credits and false FTC Chazulle claimed on Customer 8's 2012 return, Customer 8's 2012 return claimed a refund of \$3,379 for tax year 2012 that he was not entitled. Additionally, Customer 8 was required to repay the false education credits Chazulle claimed on his 2012 return to the IRS plus penalties and interest thereon.

Harm to the United States

69. Defendants have engaged in a pattern of preparing returns with fictitious tax credits, including education credits and FTCs, that are refundable and/or decrease the amount of tax on her customers' returns. Education credits were routinely claimed for customers who did not attend college and had no education expenses. Many of these customers were housekeepers who had no college experience. Likewise, FTCs were claimed for customers who did not own

businesses and did not qualify for this credit. In addition, Defendants fabricated Schedule C trade or business income and/or losses on behalf of customers and inflated income through false HSH income.

70. Defendants' improper actions have caused customers to understate their tax liabilities and/or qualify those customers for refundable tax credits or otherwise receive refunds they were not entitled to receive. As shown in paragraph 32, the United States estimates a tax harm of over \$14 million for tax years 2011 to 2013 alone.

71. Aside from the immense financial loss to the Government from lost tax revenue or erroneous refunds resulting from Defendants' schemes, the United States is also harmed by Defendants' improper conduct because the United States must devote scarce resources to detect and examine improper returns prepared and filed by Defendants on behalf of their customers. The United States must also expend valuable resources in an attempt to assess and collect the unpaid taxes from or erroneous refunds issued to Defendants' customers.

72. Unless enjoined by this Court, Defendants will likely continue to prepare and file tax returns that improperly understate tax liability or create or overstate refunds claiming improper EITC, as well as FTC and education tax credits.

COUNT I
INJUNCTION UNDER 26 U.S.C. § 7407 FOR CONDUCT
SUBJECT TO PENALTY UNDER 26 U.S.C. §§ 6694 AND 6695

73. The United States incorporates by reference the allegations in paragraphs 11 through 72 as if fully set forth herein.

74. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin a person who is a tax return preparer from engaging in certain prohibited conduct or from further

acting as a tax return preparer. The prohibited conduct justifying an injunction includes, *inter alia*, the following:

- (a) Engaging in conduct subject to penalty under 26 U.S.C. § 6694(a), which penalizes a tax return preparer who prepares a return that contains an understatement of tax liability or an overstatement of a refund due to an unreasonable position that the return preparer knew or should have known was unreasonable;
- (b) Engaging in conduct subject to penalty under 26 U.S.C. § 6694(b), which penalizes a return preparer who prepares a return that contains an understatement of tax liability or overstatement of a credit or refund which is due to a willful attempt to understate the liability for tax or reckless or intentional disregard of rules or regulations;
- (c) Engaging in conduct subject to penalty under 26 U.S.C. § 6695(g), which penalizes a tax provider for failing to exercise due diligence in determining eligibility for the EITC; and
- (d) Engaging in any other fictitious or deceptive conduct which substantially interferes with the proper administrations of the internal revenue laws. 26 U.S.C. § 7407(b).

75. Under 26 U.S.C. § 7407(b), in order for a court to issue such an injunction, the court must find that:

- (a) The tax return preparer engaged in the prohibited conduct; and
- (b) Injunctive relief is appropriate to prevent the recurrence of such conduct.

76. If a tax return preparer's conduct is continual or repeated and the court finds that a narrower injunction (i.e., against only the conduct) would not be sufficient to prevent the

preparer's interference with the proper administration of the internal revenue laws, the court may permanently enjoin the person from acting as a tax return preparer. *See* 26 U.S.C. § 7407(b).

77. Defendants have continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6694(a) by preparing returns that understate the filers' tax liabilities and overstate their refunds based on unreasonable and reckless positions. As described above, Chazulle has falsely claimed education credits and FTCs on customers' returns who did not qualify for those credits. Chazulle has also prepared returns that have claimed false or inflated Schedule C losses and/or income, as well as false HSH income, in order to claim EITC credits to which her customers were not entitled or to maximize those credits. Chazulle did so with the knowledge that the positions she took on the returns were unreasonable and lacked substantial authority. Chazulle has thus engaged in conduct subject to penalty under 26 U.S.C. § 6694(a).

78. Defendants have continuously and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6694(b) by willfully understating their customers' liability and acting with a reckless and intentional disregard of rules and regulations.

79. Defendants have continuously and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6695(g) by failing to exercise due diligence in determining eligibility for the EITC. The false Schedule C items and false HSH income Chazulle reported on her customers' returns improperly qualified those customers for the EITC.

80. Defendants have continually and repeatedly engaged in conduct that violates 26 U.S.C. §§ 6694 and 6695 and which substantially interferes with the administration of the internal revenue laws. Injunctive relief is necessary to prevent this misconduct because, absent

an injunction, Chazulle is likely to continue preparing false federal tax returns on behalf of her customers.

81. A narrower injunction only against Defendants' conduct – as opposed to enjoining their activity as tax return preparers – would be insufficient to prevent Defendants' interference with the administration of the federal tax laws. Chazulle has employed a number of schemes during an extended period of time that resulted in harm potentially in excess of \$14 million to the Government over tax years 2011 to 2013. This includes the fabrication of false refundable education credits and FTCs to create or increase refunds as well as fictitious Schedule C business income and/or expenses and false HSH income to help qualify her customers for the EITC. Indeed, Chazulle has continued this improper conduct despite repeated warnings by the IRS and after the IRS assessed preparer penalties against her in 2014 and 2015.

82. A narrower injunction only against Defendants' conduct is also unlikely to encompass all of Defendants' schemes. Indeed, it is likely that the IRS has not yet identified all of Chazulle's schemes used to understate her customers' liabilities or overstate tax refunds. Moreover, failure to permanently enjoin Defendants will require the IRS to spend additional resources to uncover all of Defendants' future schemes. Accordingly, only a permanent injunction is sufficient to prevent future harm.

**COUNT II:
INJUNCTION UNDER 26 U.S.C. § 7408
FOR CONDUCT SUBJECT TO PENALTY UNDER 26 U.S.C. § 6701**

83. The United States incorporates by reference the allegations contained in paragraphs 11 through 72 as if fully set forth herein.

84. Section 7408 of the Internal Revenue Code authorizes a district court to enjoin any person from engaging in conduct subject to penalty under 26 U.S.C. § 6701. Section 6701 penalizes a person who aids or assists in the preparation of any portion of a tax return when the person knows or has reason to believe that such portion will be used in connection with a material matter arising under the internal revenue laws and will result in a material understatement of the tax liability of another person.

85. Defendants have engaged in conduct subject to penalty under 26 U.S.C. § 6701 by preparing or directing the preparation of income tax returns that claim credits Chazulle knew that the taxpayer was not eligible to take, and by preparing returns that claim deductions she knew to be false or inflated.

86. Defendants' repeated actions such as those described in paragraphs 33 through 68, above, fall within 26 U.S.C. § 7408(c)(1), and injunctive relief is appropriate to prevent recurrence of this conduct. Accordingly, Defendants should be permanently enjoined from preparing any returns that improperly claim false or inflated deductions and/or credits.

COUNT III
INJUNCTION UNDER 26 U.S.C. §7402 FOR UNLAWFUL INTERFERENCE
WITH THE ENFORCEMENT OF INTERNAL REVENUE LAWS

87. The United States incorporates by reference the allegations contained in paragraphs 11 through 72 as if fully set forth herein.

88. Section 7402(a) of the Internal Revenue Code authorizes a court to issue orders of injunction as may be necessary or appropriate for the enforcement of internal revenue laws.

89. Defendants have repeatedly and continually engaged in conduct that interferes substantially with the administration and enforcement of internal revenue laws.

90. If Chazulle continue to act as a tax return preparer, Defendants' conduct will result in irreparable harm to the United States, and the United States has no adequate remedy at law.

91. Defendants' conduct has caused and will continue to cause substantial tax losses to the United States Treasury, much of which may be undiscovered and unrecoverable. Moreover unless Defendants are enjoined from preparing returns, the IRS will have to devote substantial and unrecoverable time and resources auditing their customers individually to detect false, fraudulent, or overstated credits and deductions in future returns, assessing any deficiencies against the customers, and collecting any deficiencies or recovering any erroneous refunds issued.

92. The United States has no other adequate remedy at law besides a permanent injunction to prevent the harm Defendants will continue to cause through preparation of a large volume of erroneous returns which generate substantial tax losses. Much of these tax losses will never be discovered. Of those that are discovered, the United States will be unable to recover all those losses through the typical notice and collection procedures available to it. In any event, none of the significant resources necessary to discover and recover these losses are themselves recoverable by the United States.

93. The irreparable harm to the United States without the injunction far outweighs any harm the injunction might cause Defendants. Defendants' business and income are derived largely from the preparation of fraudulent income tax returns, which is not an interest that this Court should weigh in deciding whether to issue a permanent injunction. Moreover, Defendants will be able to pursue other financial endeavors to support themselves, but the United States

cannot recover the additional moneys lost if Defendants are allowed to continue preparing tax returns.

94. It will be strongly in the public interest to enjoin Defendants from continuing to prepare tax returns so as to put a stop to their abusive schemes which have thus far generated potentially over \$14 million in losses to the Government during tax years 2011 to 2013. The public is best served by having only ethical and honest tax return preparers in business. Permanently enjoining Defendants would also ensure that members of the public are not unknowingly subject to Defendants' fraudulent return preparation practices, which in turn could subject them to audits by the IRS, liabilities for additional taxes, interest and penalties, and IRS collection actions.

95. The public interest is also served by having each person voluntarily pay the full amount of taxes that they owe and by having the Government collect the full amount of taxes to which it is entitled. This prevents those people whose tax returns are correctly prepared from shouldering a greater portion of the tax burden at the expense of people whose tax returns were fraudulently prepared.

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

A. That the Court find that Defendants have repeatedly and continually engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695, and that injunctive relief is appropriate under 26 U.S.C. § 7407 to prevent recurrence of that conduct, and that an injunction tailored only to the specific conduct described would be insufficient to prevent Defendants' interference with the proper administration of the internal revenue laws;

B. That the Court find that Defendants have repeatedly and continually engaged in conduct subject to penalty under 26 U.S.C. § 6701 and that injunctive relief is appropriate under 26 U.S.C. § 7408 to prevent recurrence of that conduct;

C. That the Court find that Defendants have repeatedly and continually engaged in conduct that substantially interferes with the proper enforcement and administration of the internal revenue laws, and that injunctive relief against them is appropriate to prevent the recurrence of that conduct pursuant to 26 U.S.C. § 7402(a);

D. That the Court enter a permanent injunction prohibiting Defendants or any other person working in concert or participation with them from directly or indirectly:

(1) preparing, filing, or assisting in the preparation or filing of, or directing the preparation or filing of, federal tax returns, amended returns, or other tax-related documents and forms, including any electronically-submitted tax returns or tax-related documents, for any entity or person other than Chazulle;

(2) preparing, filing, or assisting in the preparation or filing of, or directing the preparation of, federal tax returns or amended returns Defendants know will result in an understatement of tax liability or the overstatement of federal tax refunds;

(3) engaging in activity subject to penalty under 26 U.S.C. §§ 6694, 6695, and 6701; and

(4) engaging in conduct that substantially interferes with the proper administration and enforcement of the tax laws.

E. That the Court enter an injunction requiring Chazulle, at her own expense:

(1) To send by United States mail, and, if an email address is known, by email, a copy of the final injunction entered against Chazulle in this action, as well as a copy of the Complaint setting forth the allegations as to how Chazulle fraudulently prepared federal income tax returns, to each person for whom she prepared federal income tax returns or any other federal tax forms after January 1, 2010;

(2) To turn over to the United States copies of all returns or claims for refund that she prepared after January 1, 2010;

(3) To turn over to the United States a list with the name, address, telephone number, email address, and social security number or other taxpayer identification number of all customers for whom she prepared returns after January 1, 2014;

(4) To file a sworn statement with the Court evidencing Chazulle's compliance with the foregoing directives within forty-five (45) days of entry of the final injunction in this action; and

(5) To keep records of Chazulle's compliance with the foregoing directives, which may be produced to the Court, if requested, or the United States pursuant to paragraph H, below;

F. That the Court authorize, without further proceeding, the immediate revocation of any PTIN, pursuant to 26 U.S.C. § 6109, and EFIN held by, assigned to, or used by Defendants;

G. That the Court enter an order allowing the United States to monitor Defendants' compliance with the injunction and to engage in post-judgment discovery in accordance with the Federal Rules of Civil Procedure; and

H. That the Court grant the United States such other and further relief as the Court deems appropriate.

Dated: April 18, 2016

Respectfully submitted,

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