

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

UNITED STATES OF AMERICA,)	
)	
Plaintiff,)	Case No.
)	
v.)	
)	
JESSICA A. LEVERETT, aka)	
JESSICA HARRIS,)	
)	
Defendant.)	
_____)	

COMPLAINT FOR PERMANENT INJUNCTION

Plaintiff, the United States of America alleges as follows:

1. The United States brings this action to restrain and enjoin Defendant Jessica A. Leverett, aka Jessica Harris, and all those acting in concert with or under her direction and/or control, from:

- a. preparing or assisting in the preparation of federal tax returns, amended returns, and other related documents and forms for others;
- b. preparing or assisting in the preparation of federal tax returns that they know will result in the understatement of any tax liability or the overstatement of federal tax refunds;

- c. engaging in any activity subject to penalty under 26 U.S.C. §§ 6694, 6695, 6700, and 6701; and
- d. engaging in any fraudulent or deceptive conduct which substantially interferes with the proper administration and enforcement of the internal revenue laws.

Jurisdiction and Venue

2. This action is authorized by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and is brought at the direction of a delegate of the Attorney General of the United States.

3. This Court has jurisdiction of this action pursuant to 28 U.S.C. §§ 1340, 1345 and 26 U.S.C. § 7402(a).

4. Venue is proper in this Court under 26 U.S.C. §§ 7407 and 7408 and 28 U.S.C. § 1391(b) because the defendant has her principal place of business within this District, she has engaged in specified conduct subject to penalty within this District, and a substantial part of the events or omissions which give rise to the United States' claims in this action occurred within this District.

5. Defendant Jessica A. Leverett resides in Cobb County, Georgia and also goes by the name Jessica Harris. She does business in Jefferson County, Alabama under the names of Tax Money Now, Dynamic Tax Services, Dynamic Tax Solutions, and Express Money Tax.

Leverett's Tax Return Business

6. Jessica Leverett has been a paid tax-return preparer since at least 2011. Leverett currently owns and operates multiple tax return preparation businesses at numerous locations in and around the Birmingham, Alabama area, including Tax Money Now, Dynamic Tax Services, Dynamic Tax Solutions, and Express Money Tax. These businesses use multiple Electronic Filing Identification Numbers (EFINs) that Leverett has acquired, both in her own name and in the name of at least one other person with whom she is associated. Leverett prepares few returns herself, but hires and trains the preparers who prepare returns at her businesses.

7. Leverett's businesses prepared more than 4,000 returns during the years 2013 through 2015. The IRS has examined 264 returns prepared by Leverett's businesses for tax years 2011 through 2013 and determined that 206 understated the tax that was actually due. The average understatement was \$3,859.71 per return for 2011, \$2,319.30 for 2012, and \$4,792.64 for 2013.

8. The returns prepared at Leverett's businesses understate her customer's tax liabilities by fabricating Schedule C businesses and losses and misreporting self-employment income as household employee wages to avoid self-employment tax. In addition, Leverett's businesses prepare returns that claim tax

credits her customers are not entitled to receive, resulting in fraudulent tax refunds. These practices are described in more detail below.

9. Individual taxpayers who operate a business as a sole proprietorship report the profit or loss from that business on a Schedule C – “Profit or Loss from Business”–included with their federal income tax return (Form 1040). When the gross income of a business exceeds its claimed expenses, the Schedule C will report a profit. Conversely, when expenses exceed revenues, the Schedule C reports a loss. The net figure, whether it is a profit or loss, is a component of a taxpayer’s adjusted gross income (along with wage income, interest income, dividends, gains or losses for property sales, etc.).

10. Leverett’s businesses prepare returns that fabricate Schedule C losses for her customers by understating the businesses’ gross receipts, overstating their deductible expenses, or both. In some cases, the taxpayer does not own or operate a business and the Schedule C is entirely fabricated. In other cases, the taxpayer may operate a business, but it did not incur the loss reported on the Schedule C.

11. In addition to offsetting the customer’s taxable income from other sources, Leverett uses fabricated Schedule C’s to increase the Earned Income Tax Credit (EITC) claimed on the return. The EITC is a benefit for working taxpayers with low to moderate income. The amount of EITC for which a person may qualify increases in relation to the taxpayer’s “earned income.” Taxpayers with earned

income above the EITC threshold cannot claim the credit. By fabricating Schedule C losses, Leverett and her associates manipulate her customer's earned income and claim the maximum EITC even though they do not qualify for it. And, because the EITC is a refundable credit, the taxpayer can receive a refund for the amount claimed even when he or she reports no tax due.

12. Leverett and her associates also inflate and/or fabricate education expenses for her customers and their dependents on the returns they prepare. Taxpayers who incur qualified education expenses on behalf of themselves or a qualified dependent may claim education credits, including the American Opportunity Credit, on their income tax returns to help them offset the costs of higher education. The credit is applied in a dollar-for-dollar basis against the reported tax, and like the EITC, any claimed American Opportunity Credit that exceeds the tax reported, is refundable to the taxpayer.

13. Leverett's businesses also prepare returns that incorrectly report the income earned by her self-employed customers as wages to avoid the required self-employment tax. Specific examples of these various schemes follow. To protect the identity of Leverett's customers, the complaint refers to each customer by number, e.g., Customer 1, etc.

A. *False Schedule C's*

14. Customer 1 is an employee of a church and Customer 2 is his wife, a homemaker. Neither customer operates a business of any kind, but an employee of Leverett at Tax Money Now prepared and filed with their joint 2012 return, a Schedule C for a fictitious "assistant" business that purportedly generated gross receipts of \$15,002 and incurred business expenses of \$71,180 for a net loss of \$56,178. These figures, as well as the business itself, were complete fabrications.

15. In the same fashion, the 2013 return Leverett's employee prepared for Customers 1 and 2 fabricated gross receipts of \$12,002 and deducted fictitious business expenses of \$35,386 for a net loss of \$23,384. The effect of fabricating these net business losses for the couple was two-fold: (1) it greatly reduced their taxable income, and thus, their tax liability for the 2012 and 2013 years; and (2) it overstated the Earned Income Tax Credit, and hence, the amount of the refunds Customers 1 and 2 were entitled to receive.

16. The same employee prepared the 2012 and 2013 tax returns of Customer 3 that falsely inflated his losses from his small lawn and pressure washing business in order to reduce his taxable income and tax. Customer 3 worked as a machine operator and was paid wages for which he received a Form W-2 at tax time. Customer 3 also operated a small business. The Schedule C included with Customer 3's 2012 return falsely claimed that Customer 3 paid

wages of \$96,258 to employees of that business. In truth, that amount represented the wages Customer 3 earned in 2012.

17. Likewise, the 2013 return falsely claimed a wage deduction of \$40,821 and deductions for other business expenses Customer 3 did not incur. Altogether, Customer 3's returns reported business losses of \$95,293 and \$46,147 for 2012 and 2013 respectively. When asked about those losses, Customer 3 told the IRS that he had the business, but that he did not pay the significant wage expenses claimed on his Schedules C and certainly did not incur the business losses reflected on his 2012 and 2013 returns. Customer 3 also said that he was unaware that Leverett's business had claimed those losses on the returns it prepared for him until being contacted by the IRS.

18. These schemes were not limited to a single preparer at Tax Money Now. A preparer at Dynamic Tax Solutions, another of Leverett's businesses, prepared the 2012 return of Customer 4, which fabricated a business loss of \$12,431 for a construction business which Customer 4 did not operate during that year. As with the returns of Customers 1, 2, and 3, this fabricated business loss reduced Customer 4's taxable income, and allowed Customer 4 to receive a larger refund than he was otherwise entitled to claim.

19. An employee at Express Money Tax, another of Leverett's businesses, prepared the 2014 return of Customer 5 that fabricated a business loss from his

lawn care business. Customer 5 operated a lawn care business at a profit during that year, but, unknown to him, the return prepared by Leverett's employee falsely claimed a loss for it of \$25,624 in order to reduce Customer 5's tax. The Schedule C attached to Customer 5's return claimed only \$500 in gross receipts but deductible expenses of \$26,124, including \$6,500 for office expense, \$3,500 in advertising expenses, \$6,285 for supplies, and \$6,500 for utilities.

B. False Education Credits

20. The IRS has identified 430 returns for the tax years 2012 through 2014 prepared at Leverett's businesses which claimed education credits for which there is no corresponding Form 1098-T filed by an educational institution. As noted above, Taxpayers who incur qualified education expenses on behalf of themselves or a qualified dependent may claim education credits, including the American Opportunity Credit, on their income tax returns to help them offset the costs of higher education. Taxpayers generally report their qualifying educational expenses on a Form 8863 attached to their Form 1040 tax return, while educational institutions substantiate the tuition paid on Forms 1098-T issued to the taxpayer and the IRS. The absence of a Form 1098-T or a mismatch between the amount claimed on a Form 8863 and the amount shown on a Form 1098-T is evidence of a fraudulent claim.

21. A preparer at Leverett's Bessemer, Alabama business Dynamic Tax Service, prepared the 2013 federal income tax return of Customer 6 falsely claiming \$1,196 in education credits. Neither Customer 6, nor her dependent went to school or incurred any education expenses in 2013, and she did not tell the preparer that they had. The return claimed \$1,000 for the American Opportunity Credit, which was refunded to Customer 6.

22. A preparer at the Decatur location of Dynamic Tax Services claimed thousands of dollars in fabricated education credits on the 2012 and 2013 returns of Customer 7 on account of qualified education expenses Customer 7 paid for her son to attend Wallace State Community College. In actuality, Customer 7's son attended Calhoun Community College, where grants paid most of his expenses. Rather than paying the amounts claimed on her return, Customer 7 paid less than \$1,000 in education expenses for her son in each of those years. According to Customer 7, she told the preparer about those expenses, and she does not know why the preparer inflated those expenses on her return.

C. Misreported Self-Employment Income

23. Avoiding self-employment tax otherwise owed by her customers is another staple of Leverett's business model. A preparer at Tax Money Now 2 prepared the 2012 and 2013 returns of Customer 8, reporting household employee wages of \$8,986 and \$9,713, respectively. Customer 8, who watches children in

her own home, is self-employed, and also receives disability income. The return prepared at Leverett's business misreported her self-employment income as household employee wages. By avoiding the self-employment tax owed on that income, Customer 8 claimed an overstated refund. In addition, the return claimed that Customer 8 earned more than she actually received, which allowed her to claim a larger EITC than she was entitled to receive.

24. Similarly, a preparer at Dynamic Tax Solutions, another of Leverett's businesses, prepared the 2012 return of Customer 9 incorrectly reporting self-employment income she made caring for elderly people and doing hairstyling in her home as household employee wages. Another preparer at Tax Money Now 2 prepared the 2012 and 2013 returns for Customer 10 that misreported household employee wages of \$6,893 and \$7,564. In actuality, Customer 10 was a self-employed hair stylist and house-sitter and all of her income should have been reported as such.

Harm Caused by Leverett and Her Businesses

25. Leverett's customers have been harmed by her actions because they paid fees to prepare proper tax returns, but Leverett and her business(es) have prepared returns that substantially understated their customers' correct tax liabilities or created or inflated improper refunds. Many customers now face large income tax deficiencies and may be liable for sizable penalties and interest.

26. Leverett and the associates she employs harm the United States because the returns they prepare misreport her customers' tax liabilities and claim refunds those customers are not entitled to receive. The IRS has examined 264 returns prepared by Leverett's businesses for tax years 2011 through 2013 and determined that 206 understated the tax owed in the total amount of \$876,096. The average understatement was \$3,859.71 for 2011, \$2,319.30 for 2012, and \$4,792.64 for 2013.

27. The harm caused by Leverett and her associates is not limited to the understatements revealed through audits. The IRS has also estimated the potential tax loss caused by Leverett's businesses by identifying suspect returns filed from those locations for tax years 2012 through 2014. Specifically:

(A) The IRS identified 157 returns with questionable Schedule C losses. These taxpayers either did not receive a Form 1099 as evidence of business income, claimed a loss of \$10,000 or more to offset wage income, or the Schedule C reflected an asymmetry between gross receipts and deductible expenses. After identifying the returns, the IRS interviewed a number of those taxpayers who confirmed that the Schedule C losses were bogus. The IRS estimates that the total tax loss generated by these false Schedule C losses likely exceeds \$750,000 for the tax years 2012 through 2014.

(B) The IRS identified 430 returns that claimed education credits for which no Form 1098-T was received. The unsupported education credits claimed on these returns exceed \$600,000.

(C) Finally, the IRS identified 699 returns that report household employee wages of at least \$5,000 without a corresponding Form W-2. The IRS estimates that the potential lost self-employment tax from these returns could be as high as \$1.2 million.

28. In addition to the direct harm caused by preparing tax returns that understate her customers' tax liabilities and/or overstate their refunds, Leverett's activities undermine public confidence in the administration of the federal tax system and encourage noncompliance with the internal revenue laws.

29. As a result of Leverett's activities, the IRS must devote its limited resources to identify her customers, ascertain their correct tax liabilities, pursue refunds erroneously issued, and collect additional taxes and penalties.

Count I: Injunction under 26 U.S.C. § 7407

30. The United States incorporates by reference the allegations in paragraphs 1 through 29 above.

31. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin a tax return preparer from, inter alia, (1) engaging in conduct subject to penalty under 26 U.S.C. § 6694, which penalizes a return preparer who prepares a

return that contains an understatement of tax liability or overstatement of a refund that is due to an unreasonable position (as defined by section 6694(a)(2)) which the return preparer knew or should have known was unreasonable; or (2) engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

32. In order for a court to issue such an injunction, the court must find (1) that the preparer has engaged in conduct subject to penalty under 26 U.S.C. § 6694 and (2) that injunctive relief is appropriate to prevent the recurrence of the conduct.

33. Leverett, through her businesses and associates, has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6694 by preparing federal income tax returns that understate customers' liabilities or overstate refunds based on unrealistic, frivolous, and reckless positions that they knew, or should have known, were unreasonable and reckless.

34. Leverett's continual and repeated violations of § 6694 fall within 26 U.S.C. § 7407(b)(1)(A) and (D). As explained above, her businesses prepare returns that contain understatements of tax liability and overstatements of refunds based on items reported on customers' tax returns that Leverett knows, or should know, are false. Thus, Leverett's conduct is subject to an injunction under § 7407.

35. The court may permanently enjoin the person from further acting as a federal tax preparer if it finds that a preparer has continually or repeatedly engaged

in such conduct, and the court further finds that a narrower injunction (i.e., prohibiting only that specific enumerated conduct) would not be sufficient to prevent that person's interference with the proper administration of the internal revenue laws.

36. If she is not enjoined, Leverett is likely to continue to operate businesses which prepare and file false and fraudulent tax returns, causing economic loss to the United States, causing the United States to commit finite, scarce, and unrecoverable resources to the examination of her customers, and exposing her customers to large liabilities that include penalties and interest.

37. Leverett's continual and repeated conduct in violation of section 6694, including her audacious and repeated bogus claims of business losses, education expenses, and misreported self-employment income, demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent her interference with the proper administration of the internal revenue laws. Thus, she should be permanently barred from acting as a tax return preparer under 26 U.S.C. § 7407, including operating any business that prepares returns.

Count II: Injunction under 26 U.S.C. § 7408

38. The United States incorporates by reference the allegations in paragraphs 1 through 29 above.

39. 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 if injunctive relief is appropriate to prevent recurrence of such conduct.

40. Section 6701 of the Internal Revenue Code penalizes any person who aids or assists the preparation or presentation of any portion of a federal 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 knows that if it is so used it will result in an understatement of another person's tax liability.

41. Leverett, through her businesses and associates, prepares federal tax returns for customers that she knows or should know will understate their correct tax liabilities, because Leverett's employees prepare returns claiming improper expenses and credits with her knowledge and under her supervision. Leverett's conduct is thus subject to a penalty under § 6701.

42. If the Court does not enjoin Leverett, she is likely to continue to engage in conduct subject to penalty under § 6701. Her preparation of returns claiming improper expenses and credits is widespread over many customers and tax years. Injunctive relief is therefore appropriate under 26 U.S.C. § 7408.

Count III: Injunction under 26 U.S.C. § 7402(a)

43. The United States hereby incorporates by reference the allegations in paragraphs 1 through 29 above.

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

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

46. Unless enjoined, Leveret is likely to continue to engage in such improper conduct and interfere with the enforcement of the internal revenue laws. If she is not enjoined from engaging in fraudulent and deceptive conduct, the United States will suffer irreparable injury by wrongfully providing federal income tax refunds to individuals not entitled to receive them, much of which will never be discovered and recovered. The United States will also suffer irreparable injury because it will have to devote substantial unrecoverable time and resources auditing Leverett's customers to detect future returns understating the customers' liability or overstating their refund.

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

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

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

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

A. That the Court find that Leverett has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6694 and has continually and repeatedly engaged in other fraudulent and deceptive conduct that substantially interferes with the administration of the tax laws, and that injunctive relief is appropriate under 26 U.S.C. § 7407 to bar her from acting as a federal tax return preparer or operating a business which prepares federal tax returns to prevent recurrence of that conduct;

B. That the Court find that Leverett has 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 Leverett, has engaged in conduct that substantially 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 26 U.S.C. § 7402(a);

D. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Leverett, and all those in active concert or participation with her from:

- (1) acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns, amended returns, or other related documents or forms for any person or entity other than themselves;
- (2) preparing or assisting in preparing or filing federal tax returns, amended returns, or other related documents or forms that understate federal tax liability or overstate federal tax refunds based on positions that she knows or reasonably should know are unreasonable;
- (3) engaging in any other activity subject to penalty under 26 U.S.C. §§ 6694, 6695, 6701, or any other penalty provision in the Internal Revenue Code; and
- (4) engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

E. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring that Leverett, within 30 days of entry of the injunction (i) contact by United States mail and, if an e-mail address is known, by e-mail, all persons for whom she, Tax Money Now, L.L.C., Dynamic Tax Services, Dynamic Tax Solutions, Express Money Tax, and any other tax return preparation business in which she has a direct or indirect interest prepared a federal tax return since January 1, 2011, to inform them of the permanent injunction entered against Leverett, including sending a copy of the order of permanent injunction but not enclosing any other documents or enclosures unless agreed to by counsel for the United States or approved by the Court, and (ii) file with the Court a sworn certificate stating that he has complied with this requirement;

F. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Leverett to produce to counsel for the United States within 30 days a list that identifies by name, social security number, address, e-mail address, telephone number, and tax period(s) all persons for whom she, Tax Money Now, L.L.C., Dynamic Tax Services, Dynamic Tax Solutions, Express Money Tax, and any other tax return preparation business in which she has a direct or indirect interest prepared federal tax returns or claims for refund since January 1, 2011;

G. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Leverett to produce to counsel for the United States within 30 days copies of all federal income tax returns that she, Tax Money Now, L.L.C., Dynamic Tax Services, Dynamic Tax Solutions, Express Money Tax, and any other tax return preparation business in which she has a direct or indirect interest have prepared since January 1, 2011;

H. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Leverett to (i) provide a copy of the Court's Order within 15 days of entry of the injunction to all principals, officers, managers, employees, and independent contractors of Tax Money Now, L.L.C.'s, Dynamic Tax Service's, Dynamic Tax Solutions', Express Money Tax's, and any other tax return preparation business in which she has a direct or indirect interest, and (ii) provide to counsel for the United States within 30 days a signed and dated acknowledgment or receipt of the Court's order for each person to whom she provided a copy of the Court's order;

I. That the Court, without further proceedings, authorize the IRS to immediately revoke any Preparer Tax Identification Number (PTIN) issued pursuant to 26 U.S.C. § 6109 that is held by, or assigned to, or used directly or indirectly by Leverett;

J. That the Court, without further proceedings, authorize the IRS to immediately revoke any Electronic Filing Identification Number (EFIN) held by, assigned to, or used by Leverett, Tax Money Now, L.L.C., Dynamic Tax Solutions, Dynamic Tax Service, Express Money Tax, and any other tax return preparation business in which Leverett has a direct or indirect interest.

K. That the United States be entitled to conduct discovery to monitor Leverett's compliance with the terms of any permanent injunction entered against her;

L. That the Court retain jurisdiction over Defendant and over this action to enforce any permanent injunction entered against her; and

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

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/s/ Michael W. May
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