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12 IN THE UNITED STATES DISTRICT COURT
13 FOR THE EASTERN DISTRICT OF WASHINGTON

14 United States of America,)
15) Case No. 24-5033
16 Plaintiff,)
17)
18 v.)
19)
20 Donald J. Taylor,)
21)
22 Defendant.)
23 _____)

24 **COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF**

25 The United States of America, at the request of a delegate of the Secretary of the
26 Treasury and at the direction of the Attorney General, brings this action under 26 U.S.C.
27 §§ 7402(a) and 7407 to enjoin Donald J. Taylor, any entity through which he conducts
28 business, and anyone acting in concert or participation with him, from directly or
indirectly:

- a. Acting as a federal tax return preparer, including preparing, directing the preparation of, or assisting in the preparation of federal tax returns, amended tax returns, or other related documents and forms for any other person or entity other than himself or his lawful spouse;

- b. Aiding and assisting in preparing federal tax returns that Taylor knows or reasonably should know will result in the understatement of any tax liability or the overstatement of a federal tax refund;
- c. Owning, managing, controlling, working for, profiting from, or volunteering for any business or entity engaged in tax return preparation;
- d. Using an Electronic Filing Identification Number (“EFIN”), Employer Identification Number (“EIN”), Preparer Tax Identification Number (“PTIN”), Social Security Number (“SSN”), Taxpayer Identification Number (“TIN”), or any other federally issued identification number in order to file or remit federal income tax returns for other persons or entities;
- e. Using, maintaining, renewing, obtaining, transferring, selling, or assigning any PTIN(s) or EFIN(s);
- f. Engaging in any activity subject to penalty under 26 U.S.C. §§ 6694, 6695, 6701, or any other penalty provision in the Internal Revenue Code; and
- g. Engaging in conduct that substantially interferes with the proper administration and enforcement of the Internal Revenue laws and from promoting any false tax scheme.

JURISDICTION AND VENUE

1. This Court has jurisdiction under 28 U.S.C. §§ 1340 and 1345, and 26 U.S.C. §§ 7402 and 7407.

2. Venue is proper in this Court under 28 U.S.C. §§ 1391 and 1396 because Taylor resides in this judicial district and a substantial part of the actions giving rise to this suit took place within this judicial district.

DEFENDANT DONALD J. TAYLOR

3. Donald J. Taylor is a paid tax return preparer who prepares federal income tax returns for others.

4. Between 2002 through 2008, Taylor worked for the IRS as an IRS Revenue Agent in the Small Business/Self-Employed Division.

1 5. As a Revenue Agent, Taylor investigated and audited taxpayers.

2 **Paid Tax Return Preparation at the Accounting Firm**

3 6. In 2009, Taylor left the IRS and entered a private accounting practice at the
4 accounting firm of Thomas M. Owen, CPA, PLLC ("Firm"), located at 100 N. Morain St.
5 #202, Kennewick, WA 99336.

6 7. Taylor's current titles at the Firm are tax manager and tax preparer.

7 8. Taylor prepares tax returns without supervision or review at the Firm.

8 9. Anyone who prepares or helps prepare federal tax returns for
9 compensation must obtain and annually renew from the IRS a Preparer Tax Identification
10 Number ("PTIN").

11 10. PTINs are issued to individual tax return preparers and are not
12 transferrable.

13 11. The IRS issued Taylor the following PTIN: PXXXX3228.

14 **Taylor was an IRS Registered Enrolled Agent**

15 12. Enrolled Agent status is the highest credential given by the IRS to tax return
16 preparers.

17 13. To become an Enrolled Agent, tax return preparers must show substantial
18 knowledge of federal tax law.

19 14. Taylor became an Enrolled Agent on February 11, 2009.

20 15. Taylor was granted Enrolled Agent status through his experience as a
21 former IRS Revenue Agent.

22 16. Taylor would advertise to customers that he was an Enrolled Agent.

23 17. In order to maintain this status, Enrolled Agents must adhere to ethical
24 standards and complete 72 hours of continuing education every three years.

25 18. Taylor status as an Enrolled Agent became inactive on April 1, 2023.

26 19. Taylor's status as an Enrolled Agent became inactive because he failed to
27 provide proof that he completed the required hours for continued education for the years
28 2020 through 2022.

TAYLOR HAS A HISTORY OF RECKLESS OR WILLFUL UNDERSTATEMENT OF HIS CUSTOMER'S TAX LIABILITIES, FOR WHICH HE HAS BEEN PENALIZED

1
2 20. Taylor's abusive tax practices have already resulted in the assessment of tax
3 return preparer return penalties against him.

4 21. 26 U.S.C. § 6694(b) provides that any tax return preparer who prepares a
5 return or a claim for refund that reflects an understatement of liability shall be subject to
6 a minimum penalty of \$5,000 if any part of the understatement is due to the preparer's
7 willful or reckless conduct.

8 22. On October 20, 2014, the IRS assessed four return-preparer penalties against
9 Taylor, pursuant to 26 U.S.C. § 6694(b), for the reckless or willful understatement of tax
10 liability on the returns or refund claims of his customers. The penalties were for tax years
11 2007-2009 and totaled \$15,000.

12 23. On October 20 and 27, 2014, the IRS assessed four additional § 6694(b)
13 penalties against Taylor for the reckless or willful understatement of tax liability on the
14 returns or refund claims of his customers. The penalties were for tax years 2007-2010 and
15 totaled \$12,000.

16 24. On February 16, 2015, the IRS assessed additional § 6694(b) penalties
17 against Taylor for the reckless or willful understatement of tax liability on the returns or
18 refund claims of his customers. The penalties were for tax years 2009 and 2010, totaling
19 \$35,250.

20 25. Each of these penalties was assessed against Taylor because he prepared
21 tax returns that understated his customers' tax liabilities. Taylor submitted tax returns
22 without verifying facts and took positions contrary to the rules and regulations of tax
23 law.

24 26. During the IRS's investigation of these § 6694(b) assessments, Taylor told
25 the IRS that he was "just a copy boy" not exercising due diligence verifying the numbers
26 provided by his customers.

1 27. The § 6694(b) civil penalties described above did not correct Taylor's
2 abusive behavior; Taylor continues to prepare returns that violate the internal revenue
3 laws by engaging in the same conduct he was previously penalized for.

4 **TAYLOR'S ABUSIVE S CORPORATION TAX RETURN SCHEME**

5 28. Taylor has engaged in an abusive scheme on behalf of his customers in an
6 attempt to take advantage of the differences between running a business as a sole
7 proprietor and an S corporation.

8 29. A sole proprietor is someone who owns an unincorporated business by
9 themselves. A sole proprietor reports any income and expenses of the business on
10 Schedule C of their individual Form 1040, federal income tax return. The overall income
11 (or loss) from Schedule C is reported as a line item on the individual's Form 1040 and is
12 a component of the taxpayer's adjusted gross income ("AGI").

13 30. S corporations are small businesses corporations that are not taxed at the
14 corporate level. Rather, net income derived from an S corporation is taxed only at the
15 shareholder level. Thus, for federal income tax purposes, an S corporation's items of
16 income, deduction, loss, or credit retain their character and are "passed through" to the
17 owner(s) of the corporation and reported on their individual Forms 1040.

18 31. The S corporation reports its income, deduction, and loss on a Form 1120-S
19 ("U.S. Income Tax Return for an S Corporation"). The S corporation reports each
20 shareholder's share of its income and deductions on Schedule K-1 (Form 1065). This
21 Schedule K-1 must be provided by the S corporation to the shareholder and included
22 with the shareholder's Form 1040 tax return as a component in determining the
23 shareholder's Form 1040 tax liability.

24 32. Many of Taylor's customers own a business that was once operated as a
25 sole proprietorship. Many of these businesses are in the service industry. For these
26 customers, if the business was not already an LLC, Taylor would advise the customers to
27 set up an LLC and then elect the LLC to be taxed as a S corporation.
28

1 33. Most of Taylor's customers did not understand what it means to be an LLC
2 taxable as an S corporation. They continued to run the business as if it were a sole
3 proprietorship, including, for example:

- 4 a. co-mingling personal with business expenses,
- 5 b. drawing funds from the S corporation to pay personal expenses without any
6 reporting any distributions on the Forms 1120-S, and
- 7 c. expensing personal vehicles using a standard mileage on the Form 1120-S,
8 with no accountable plan or reimbursement policy.

9 34. This scheme reduced individual income taxes, payroll taxes, and self-
10 employment taxes.

11 35. Put simply, Taylor prepares false S corporation information returns and
12 individual income tax returns for his customers, abusing the S corporation's formalities
13 to reduce his customers' overall tax liability.

14 36. Taylor uses Form 1120-S returns in at least three ways to perpetuate fraud
15 on the United States.

- 16 a. First, Taylor willfully or recklessly claims false or unsubstantiated
17 deductions to reduce tax liability without doing due diligence as to whether
18 the deductions can be verified.
- 19 b. Second, Taylor decreases his customer's income and employment taxes by
20 taking deductions for employee paid expenses and employer
21 reimbursements without an accountable plan or reimbursement policy,
22 which is against IRS regulations.
- 23 c. Third, Taylor reduces Social Security tax liability for his employee-
24 shareholder customers by unreasonably decreasing the amount of wages
25 they receive and correspondingly increasing the amount of S corporation
26 distributions made to them.

27 These schemes are described more specifically below.

1 **Unlawful Personal and Unsubstantiated Business Deduction Scheme**

2 37. Taylor willfully or recklessly submits unsubstantiated and personal
3 expenses deducted on the Form 1120-S to reduce his customer’s taxable income.

4 38. 26 U.S.C § 162(a) allows businesses to deduct all ordinary and necessary
5 expenses paid or incurred during the taxable year in carrying on any trade or business.
6 By contrast, under 26 U.S.C § 262, “no deduction shall be allowed for personal, living, or
7 family expenses.” Taxpayers are required to maintain records to support all expenses for
8 which a deduction is claimed. *See* 26 U.S.C § 6001; Treas. Reg. § 1.6001-1(e) (books and
9 records “shall be kept at all times available for inspection by authorized internal revenue
10 officers or employees, and shall be retained so long as the contents thereof may become
11 material in the administration of any internal revenue law.”).

12 39. Taylor fails to ascertain whether his customers qualify for the expenses he
13 claims on Forms 1120-S, and whether his customers maintained adequate proof that the
14 expenses being claimed can be substantiated if audited by the IRS.

15 **Employer Paid Reimbursements without Accountable Plan Scheme**

16 40. Taylor submits personal business deductions on behalf of his customer’s S
17 corporations even though the S corporations do not have accountable plans or
18 reimbursement policies that meet IRS regulations.

19 41. An accountable plan is an IRS-approved reimbursement program that
20 allows a business to reimburse employees for business expenses they incur as part of their
21 work. The business is then able to deduct those reimbursed amounts as if the business
22 had incurred the initial expense. When using an accountable plan, reimbursements for
23 business expenses are not considered compensation to employees. The benefit to the
24 business is that these reimbursements do not increase payroll taxes due on wages or an
25 employee’s income tax liability. S corporations with no accountable plan, or with one that
26 does not follow IRS regulations, must include the reimbursements to the employee’s
27 wages, which increases the businesses’ total tax liability.
28

1 42. Taylor submits personal deductions on behalf of his customers, without
2 accountable plans. Rather than add the reimbursements to the employee's wages—as
3 required by IRS regulations—Taylor treats them as if the business had an Accountable
4 Plan to reduce his customer's tax liability.

5 **Unreasonable Compensation to Shareholder Officer Scheme**

6 43. Taylor structures his customers' S corporations in a way to avoid paying
7 taxes by unreasonably decreasing the amount of wages shareholder-employees receive
8 from the S corporation and correspondingly increasing the amount the S corporation
9 distributes to them.

10 44. Because wages paid to shareholder-employees of S corporations are subject
11 to Social Security taxes (i.e., Federal Insurance Contributions Act and Federal
12 Unemployment Tax Act taxes), while S corporation distributions are not, shareholder-
13 employees have an opportunity for significant tax savings by withdrawing funds from
14 the S corporation in the form of distributions rather than wages.

15 45. Taylor has continually, repeatedly, knowingly, or recklessly prepared
16 federal income tax returns for his customers that fraudulently under-report or reduce his
17 customers' taxable income by submitted tax returns without verifying facts, deducting
18 bogus expenses, and took positions contrary to the rules and regulations of tax law.

19 **EXAMPLES OF TAYLOR'S FRAUDULENT TAX RETURN PREPARATION**

20 **Business 1**

21 46. Taylor helped set up Business 1 ("B1") as an S corporation. Taylor prepared
22 and filed B1's 2020 Form 1120-S tax return. Taylor deceitfully reported that B1 owned a
23 building worth \$70,000, land worth \$20,000 and mortgage of \$89,930, taking a
24 depreciation deduction of \$2,545. Taylor also falsely claimed a \$17,577 outside services
25 deduction for the cost of a new roof for this same building. According to Customer 1
26 ("C1"), who is the President of B1, Taylor knew that B1 did not own any building, land,
27 or have a mortgage. Further, CI stated that Taylor knew who actually owned the building
28 (another officer of B1), because Taylor prepares the actual owner's personal income tax

1 return. Taylor also falsely claimed many deductions, including \$28,259 labeled as
2 supplies, \$3,747 as salon product, \$1,177 labeled as travel, and \$1,891 labeled as auto and
3 truck expenses. B1 does not have an accountable plan, reimbursement policy and does
4 not pay a vehicle allowance. According to C1, the supplies and salon product should not
5 have been expensed.

6 **Business 2**

7 47. Taylor prepared and filed Business 2's ("B2") 2020 Form 1120-S tax return.
8 Taylor falsely expensed \$67,471 in depreciation for three vehicles. According to the
9 Customer 2 ("C2"), Taylor knew the vehicles were privately owned. B2 does not have an
10 accountable plan, reimbursement policy and does not pay a vehicle allowance. Taylor
11 falsely claimed many deductions including \$12,833 as auto and truck expenses, \$14,017
12 as insurance, \$640 as repairs and maintenance, and \$1,863 as telephone. According to C2,
13 the officers use company bank cards to pay the insurance, gas, and maintenance of
14 privately owned vehicles. Nor does B2 own telephone accounts and the accounts Taylor
15 falsely expensed belonged to one of the shareholders personally.

16 **Business 3**

17 48. Taylor prepared and filed Business 3's ("B3") 2018 and 2019 Form 1120-S
18 tax returns and Customer 3's ("C3") individual Forms 1040 for the same years. C3 started
19 B3 as a sole proprietorship. At Taylor's suggestion, B3 became a Limited Liability
20 Company electing to be taxed as a S corporation. C3 is the only person who provides
21 services and works on behalf of B3.

22 49. On the 2018 Form 1120-S, Taylor reported \$24,000 in officer compensation
23 to C3. He reported \$30,000 in officer compensation in 2019. B3's 2018 and 2019 Profit &
24 Loss Statements did not reflect any officer compensation or salaries and wages paid.
25 Although required, Taylor prepared no payroll reports or W-2s for 2018 and 2019 or
26 advise C3 to do so, even though Taylor reported officer salary on the business returns.

27 50. On B3's 2018 Form 1120-S, Taylor deceitfully claimed \$4,594 labeled as
28 "Taxes - US Treasury," which was C3's personal federal income tax liability.

1 unknown assets valued at \$79,560 according to the balance sheet. Taylor did not attach a
2 depreciation schedule.

3 **Business 5**

4 55. Taylor prepared and filed Business 5's ("B5") 2019 Form 1120-S tax return.
5 Taylor claimed \$376,675 as other deductions. An IRS examination concluded that
6 Customer 5 failed to verify \$43,466 of these deductions. Taylor, without proof, claimed
7 \$4,603.87 labeled truck and auto expenses, \$15,500 for employee reimbursement
8 expenses, \$3,000 for supplies expenses, and \$2,062 for "training expenses." Taylor
9 duplicated \$18,300 of employment services expenses. Taylor also duplicated \$18,300 of
10 employment services expense (Line 18 of the 2019 Form 1120-S), which was also claimed
11 as part of the other deductions (Line 19 of the 2019 Forms 1120-S).

12 **Business 6**

13 56. Taylor prepared and filed Business 6's ("B6") 2019 Form 1120-S tax return.
14 According to Customer 6 ("C6"), Taylor did not ask them to fill out a questionnaire or
15 organizer before the preparation of the return. C6 told the IRS that the officers took about
16 \$45,000 in distributions in 2020, and that those distributions would be visible in
17 QuickBooks. Although C6 gave B6's QuickBooks to Taylor, Taylor did not report any
18 distributions. Taylor falsely depreciated a Toyota Tundra on the depreciation schedule
19 with a \$66,475 cost basis. C6 owned the Toyota Tundra, not B6. Taylor falsely claimed a
20 \$2,991 depreciation for the Tundra. Taylor also took a deduction of \$10,867 for insurance
21 expenses, which includes insurance for the personally owned Tundra. Taylor also falsely
22 took a \$9,351 deduction for automobile expenses.

23 **Business 7**

24 57. Taylor prepared and filed Business 7's ("B7") 2019 Form 1120-S tax return..
25 B7 does not have an accountable plan, reimbursement policy and does not pay a vehicle
26 allowance. Taylor did not report any distributions or fringe benefits. Taylor falsely took
27 a \$46,422 depreciation deduction for both qualified property (other than listed property)
28 and listed property. According to Taylor, the listed properties include five trucks valued

1 at \$198,000. C7 either personal owned or personally guaranteed the trucks claimed on
2 B7's return. B7's 2020 balance sheet classifies the personal vehicles as assets with the loans
3 for the vehicles as liabilities. Based on the status of the vehicles, they should not have
4 been deducted as corporate expenses. Yet Taylor depreciated the vehicles (all of which
5 were placed in service in 2020) in the following ways: \$25,000 for a 1981 Kenworth,
6 \$31,000 for a 2015 Ram 3500, \$49,000 for a 2017 Ram 3500 and \$66,000 for a 2018 Ram
7 3500. Taylor should have known that no vehicle is able to be depreciated under 26 U.S.C.
8 § 179. Taylor also falsely deducted \$2,543 in automobile expenses, and \$15,197 in truck
9 fuel. All payments or expensing costs of the personal vehicles are a fringe benefit and
10 should be reported on the W-2 subject to employment taxes. Taylor reported Gross
11 Receipts of \$321,092, Compensation of officers of \$23,580, total expenses of \$349,244 for a
12 loss of \$28,152 in 2020 that then flowed to the joint shareholder's Form 1040. Taylor
13 unreasonably reported \$23,580 for one shareholder and did not report any W-2 wages
14 paid to the second shareholder.

15 Business 8

16 58. Taylor prepared and filed Business 8's ("B8") 2019 Form 1120-S tax return.
17 Taylor claimed \$11,479 in auto and truck expenses based on mileage reimbursement for
18 the business use of the sole shareholder's vehicle. When asked by the IRS to support these
19 expenses, B8 could not provide a copy of any reimbursement policy or copies of any
20 written requests for reimbursement. Nor did B8 establish that the expenses were incurred
21 for business purposes; no documents were provided to show the amount of
22 reimbursement payments made to Customer 8.

23 Business 9

24 59. Taylor prepared and filed Business 9's ("B9's") 2017, 2018, and 2019 Form
25 1120-S tax returns, B9's sole shareholder's, Customer 9 ("C9"), individual I Forms 1040,
26 and payroll tax returns for B9 and C9.

27 60. C9 did not have any education or background in bookkeeping, taxation, or
28 accounting and no knowledge of S corporation tax law.

1 Taylor never asked whether B10 had a reimbursement policy or accountable plan. C10
2 told the IRS that B10 does not have any assets or cars. On the return, Taylor falsely
3 depreciated an unknown building claiming \$1,875.

4 **HARM TO THE UNITED STATES**

5 65. Taylor's conduct harms the United States in several respects:

- 6 a. The returns he prepares misreport his customers' tax liabilities and
7 he claims refunds for customers, which they otherwise would not
8 have been entitled to receive.
- 9 b. Taylor's customers are under-reporting and under-paying their
10 correct tax liabilities.
- 11 c. On most returns prepared by Taylor and examined by the IRS, the
12 IRS has identified many problems, including continual and repeated
13 claims of false expenses and deductions and under-reporting of
14 customers' income.

15 66. For tax year 2017, Taylor prepared 2,894 tax returns, of which 209 were
16 Form 1120-S returns. The IRS randomly interviewed 25 customers of Taylor's 209 Form
17 1120-S customers. Based on the IRS's interviews, the IRS estimates a 100% error rate on
18 the 209 returns prepared by Taylor. The IRS audited six of the 209 Form 1120-S customers.
19 The total tax harm to the government on these six returns was \$431,745, or an average of
20 \$71,957.50 per exam. Based on these audits, the IRS estimates a 100% error rate on the 209
21 returns prepared by Taylor for a total deficiency of \$11,129,911.83 with an average
22 deficiency of \$53,253.17.

23 67. For tax year 2018, Taylor prepared 2,507 tax returns, of which 193 were
24 Form 1120-S returns. The IRS randomly audited 38 of Taylor's 193 Form 1120-S
25 customers. Based on these audits, the IRS estimates a 92% error rate on these Form 1120-
26 S returns with a total deficiency of \$20,291,344.55 and an average tax deficiency of
27 \$105,136.50 per exam.

1 68. For tax year 2019, Taylor prepared 2,416 tax returns, of which 186 were
2 Form 1120-S returns. The IRS randomly audited 33 of Taylor's 186 Form 1120-S
3 customers. Based on the Form 1120-S audits, the IRS estimates a 94% error rate on these
4 Form 1120-S returns with total deficiency of \$9,380,241.58 and an average tax deficiency
5 of \$50,431.41 per exam.

6 69. For tax year 2020, Taylor prepared 3,148 tax returns, of which 191 were
7 Form 1120-S returns. The IRS randomly interviewed 19 of Taylor's 186 Form 1120-S
8 customers. Based on the Form 1120-S interviews, the IRS estimates a 100% error rate on
9 these Form 1120-S returns with total deficiency of \$1,710,666.37 and an average tax
10 deficiency of \$8,956.37 per exam.

11 70. In total, Taylor prepared and filed 779 Form 1120-S returns between tax
12 years 2017 and 2020. Based on the IRS's investigation, there is a 96% error rate and total
13 tax harm to the United States of \$42,512,164.34, or an average of \$56,607.41 per exam.

14 71. Taylor's misconduct is both wide in scope and longstanding. Taylor has
15 continued to take unreasonable positions preparing returns that understate the liabilities
16 despite the prior assessment of § 6694(b) preparer penalties for the 2007 to 2011 tax years.

17 72. Taylor's customers have been harmed because they paid fees to prepare
18 proper tax returns, but Taylor prepared returns that substantially understated his
19 customers' correct tax liabilities or created or inflated improper refunds. Many customers
20 now face large income tax deficiencies and may be liable for sizable penalties and interest.

21 73. Along with the direct harm caused by preparing tax returns that understate
22 his customers' tax liabilities or overstate their refunds, Taylor's misconduct harms the
23 public at large by undermining public confidence in the federal tax system and
24 encouraging widespread violations of the internal revenue laws.

25 74. As a result of Taylor's activities, the United States is harmed because the
26 IRS must devote some of its resources to identifying their customers, ascertaining their
27 correct tax liabilities, pursuing refunds erroneously issued, and collecting additional
28 taxes and penalties.

1 75. Taylor's illegal conduct also causes intangible harm to honest tax return
2 preparers, because by preparing returns that falsely or fraudulently inflate their
3 customers' refunds, Taylor gains an unfair competitive advantage over tax return
4 preparers who prepare returns in accordance with the law and who as a result may have
5 fewer customers.

6 76. Taylor's conduct is more serious because he was previously employed by
7 the IRS. As part of his training, he would have known of a return preparer's duty of due
8 diligence, and of the consequences of failing to discharge that obligation.

9 **COUNT I: Injunction Under 26 U.S.C. § 7407**

10 77. The United States incorporates by reference the allegations in the preceding
11 paragraphs.

12 78. 26 U.S.C. § 7407 authorizes a district court to enjoin a tax return preparer
13 from specified misconduct (which is described in 26 U.S.C. §§ 6694 and 6695, and 26
14 U.S.C. § 7407 itself) if the court finds that the preparer has engaged in such conduct and
15 injunctive relief is appropriate to prevent the recurrence of such conduct. Additionally, if
16 the court finds that a preparer has continually or repeatedly engaged in such conduct,
17 and the court finds that a narrower injunction (*i.e.*, prohibiting only specific enumerated
18 conduct) would be insufficient to prevent the person's interference with the proper
19 administration of the internal revenue laws, the court may enjoin the person from acting
20 as a federal tax return preparer.

21 79. To issue such an injunction, the court must find: (1) that the preparer has
22 engaged in conduct subject to penalty under 26 U.S.C. § 6694; and (2) that injunctive relief
23 is appropriate to prevent the occurrence of the conduct.

24 80. Under 26 U.S.C. § 6694(a), a tax return preparer is subject to penalty if he
25 prepares a return or claim for refund understating a customer's tax liability based on a
26 position for which there was not a reasonable belief that the position would more likely
27 than not be sustained on the merits, and the preparer knew or should have known of the
28 position.

1 81. Under 26 U.S.C. § 6694(b), a tax return preparer is subject to penalty for a
2 willful attempt in any way to understate the liability for tax on the return or claim, and
3 for a reckless or intentional disregard of internal revenue rules or regulations.

4 82. Under 26 U.S.C. § 7701(a)(36), a “tax return preparer” is defined as a person
5 who prepares for compensation or who employs one or more persons to prepare for
6 compensation, any return or a substantial portion thereof.

7 83. Taylor is a tax return preparer as defined by 26 U.S.C. § 7701(a)(36).

8 84. Taylor has continually and repeatedly engaged in conduct subject to
9 penalty under 26 U.S.C. §§ 6694 and 6695 by preparing federal income tax returns that
10 understate his customers’ liabilities for which he knew or should have known there was
11 no substantial authority, or willfully understated his customers’ tax liabilities by claiming
12 overstated refunds.

13 85. Taylor took unreasonable positions for which there was no substantial
14 authority and willfully filed false tax returns (26 U.S.C. § 6694(a)) and/or filed in reckless
15 disregard of the tax rules or regulations (26 U.S.C. § 6694(b)). Taylor’s continual and
16 repeated violations of 26 U.S.C. § 6694 fall within 26 U.S.C. § 7407(b)(1)(A) and (D). As
17 explained above, Taylor prepares returns that understate tax liabilities and overstate of
18 refunds based on items reported on customers’ tax returns that are unreasonable, willful,
19 reckless, and blatantly false. Thus, Taylor’s conduct is subject to an injunction under 26
20 U.S.C. § 7407.

21 86. If Taylor is not enjoined, Taylor is likely to continue to prepare and file false
22 and fraudulent tax returns, causing economic loss to the United States, causing the United
23 States to commit finite resources to the examination of his customers, and exposing his
24 customers to large liabilities that include penalties and interest.

25 87. Taylor’s continual and repeated violations of 26 U.S.C. § 6694 – including
26 the repeated improper use of Form 1120-S tax returns and bogus claims of business
27 income/expenses, unreimbursed employee business expenses, low or fabricated
28 compensation of officers, fabrication of expenses without the consent or knowledge of

1 the taxpayer, fabricated balance sheets (Schedule L) on Forms 1120-S demonstrate that a
2 narrow injunction prohibiting only specific conduct would be insufficient to prevent
3 Taylor's interference with the proper administration of the internal revenue laws.

4 88. Thus, he should be permanently barred from acting as a federal tax return
5 preparer under 26 U.S.C. § 7407.

6 **COUNT II: Injunction Under 26 U.S.C. § 7408**

7 89. The United States incorporates by reference the allegations in the preceding
8 paragraphs.

9 90. 26 U.S.C. § 7408 authorizes a district court to enjoin any person from
10 engaging in conduct subject to penalty under 26 U.S.C. § 6701 if injunctive relief is
11 appropriate to prevent recurrence of such conduct. 26 U.S.C. § 7408(c)(1).

12 91. Any person who advises or assists in the "preparation or presentation of
13 any portion of a [federal tax] return . . . who knows (or has reason to believe) that such
14 portion will be used in connection with any material matter arising under the internal
15 revenue laws, and who knows that such portion (if it is so used) would result in an
16 understatement of the liability for tax of another person," is subject to penalty under 26
17 U.S.C. § 6701(a).

18 92. Taylor repeatedly engages in conduct subject to penalty under 26 U.S.C.
19 § 6701(a).

- 20 a. Taylor prepares federal tax returns for customers that he knows will
21 understate his customers' correct tax liabilities.
- 22 b. Taylor knowingly prepares returns that claim false or unsubstantiated
23 deductions to reduce tax liability without doing due diligence as to whether
24 the deductions can be verified.
- 25 c. Taylor takes deductions for employee paid expenses and employer
26 reimbursements without the business having accountable plans or
27 reimbursement policies against IRS regulations.
- 28

1 d. Taylor reduces Social Security tax liability for his employee-shareholder
2 customers by unreasonably decreasing the amount of wages they receive
3 and correspondingly increasing the amount of S corporation distributions
4 made to them.

5 93. If the Court does not enjoin Taylor, he is likely to continue to engage in
6 conduct subject to penalty under 26 U.S.C. § 6701(a). Taylor has continued his abusive
7 actions after he first learned about the § 6694(b) preparer penalties in February 2013.
8 There is sufficient evidence to demonstrate that the specified conduct is likely to recur
9 given that Taylor has continued to take unreasonable positions preparing returns that
10 understate the liabilities despite the prior assessment of § 6694(b) preparer penalties for
11 the 2007 to 2011 tax years. Penalties alone will not change Taylor's behavior given that he
12 has already been assessed substantial penalties with no change in behavior. Because
13 Taylor's abusive actions are widespread over many customers and tax years.

14 94. Injunctive relief is therefore appropriate under 26 U.S.C. § 6701(a).

15 **COUNT III: Injunction Under 26 U.S.C. § 7402(a)**

16 95. The United States incorporates by reference the allegations in the preceding
17 paragraphs.

18 96. 26 U.S.C. § 7402(a) authorizes a district court to issue orders of injunction
19 as may be necessary or appropriate to enforce the internal revenue laws.

20 97. As alleged above, Taylor has engaged in conduct that substantially
21 interferes with the enforcement of the internal revenue laws.

22 98. Unless enjoined, Taylor is likely to continue to engage in such improper
23 conduct and interfere with the enforcement of the internal revenue laws. If Taylor is not
24 enjoined, the United States will suffer irreparable injury by wrongfully providing federal
25 income tax refunds to individuals not entitled to receive them, much of which may never
26 be discovered and recovered. The United States will also suffer irreparable injury because
27 it will have to devote substantial time and resources auditing Taylor's customers to detect
28 future returns understating the customers' liability or overstating their refund.

1 99. While the United States will suffer irreparable injury if Taylor is not
2 enjoined, he will not be harmed by being compelled to obey the law.

3 100. Enjoining Taylor is in the public interest because an injunction, backed by
4 the Court's contempt powers if needed, will stop Taylor's illegal conduct and the harm it
5 causes the United States. The Court should therefore impose injunctive relief under 26
6 U.S.C. § 7402(a).

7 **COUNT IV: Disgorgement under 26 U.S.C. § 7402(a)**

8 101. The United States incorporates by reference the allegations in the preceding
9 paragraphs.

10 102. 26 U.S.C. § 7402 authorizes a district court to issue orders, judgments, and
11 decrees as may be necessary or appropriate for enforcing the internal revenue laws.

12 103. Taylor's conduct described above in the preceding paragraphs,
13 substantially interferes with the enforcement of the internal revenue laws and has caused
14 the United States to issue tax refunds to individuals not entitled to receive them and to
15 issue refunds larger than what taxpayers were entitled to receive. Taylor has unjustly
16 profited at the expense of the United States by charging customers fees for preparing and
17 filing false returns that understated the customer's tax liability.

18 104. Taylor is not entitled to these ill-gotten gains. But for the Taylor's conduct,
19 the refunds issued would have been smaller or no refunds would have been issued at all.

20 105. The Court should enter an order under 26 U.S.C. § 7402(a) requiring Taylor
21 to disgorge to the United States the ill-gotten gains (in the form of fees subtracted from
22 customers' tax refunds and of payments made by customers) that Taylor received for
23 preparing federal tax returns making false and/or fraudulent claims, including those that
24 contained: (1) false or unsubstantiated deductions to reduce tax liability, (2) deductions
25 for employee paid expenses and employer reimbursements without the business having
26 accountable plans or reimbursement policies, and 3) reporting unreasonably low wages
27 to employee-shareholders and correspondingly issuing higher distributions to reduce
28 Social Security tax liability.

RELIEF SOUGHT

WHEREFORE, Plaintiff, the United States of America, prays for judgment on Counts I through IV of the complaint as follows:

A. That the Court find that Taylor has continually and repeatedly 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 bar him from acting as a federal tax return preparer or operating a business that prepares federal tax returns to prevent recurrence of that conduct and that a narrower injunction prohibiting only this specific misconduct would be insufficient;

B. That the Court find that Taylor 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 Taylor 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 under the Court's inherent equity powers and 26 U.S.C. § 7402(a);

D. That the Court, under I.R.C. §§ 7402, 7407 and 7408, enter a permanent injunction prohibiting Taylor 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 related documents or forms for any person or entity other than himself;
2. Preparing or assisting in preparing federal tax returns that he knows or reasonably should know would result in an understatement of tax liability or the overstatement of federal tax refund(s) as penalized by 26 U.S.C. § 6694;
3. Owning, operating, managing, working in, investing in, providing capital or loans to, receiving fees or remuneration from, controlling, licensing, consulting with, or franchising a tax return preparation business;

- 1 4. Providing office space, equipment or services for, or in any other way
2 facilitating, the work of any person or entity that prepares, assists in the
3 preparation of, or files federal tax returns or other federal tax documents or
4 forms for others or represents persons before the IRS;
- 5 5. Training, advising, counseling, instructing, or teaching anyone regarding
6 tax preparation, or creating or providing anyone with cheat sheets,
7 memoranda, directions, instructions or manuals relating to the preparation
8 of a federal tax return;
- 9 6. Advertising tax return preparation services through any medium,
10 including print, radio, television, online, and social media;
- 11 7. Maintaining, assigning, holding, using, or obtaining a PTIN or an Electronic
12 Filing Identification Number (EFIN);
- 13 8. Representing any person in connection with any matter before the IRS;
- 14 9. Employing any person to work as a federal tax return preparer;
- 15 10. Referring any person to a tax preparation firm or a tax return preparer, or
16 otherwise suggesting that a person use any tax preparation firm or tax
17 return preparer;
- 18 11. Selling, providing access, or otherwise transferring to any person some or
19 all proprietary assets generated by his tax return preparation activities,
20 including, but not limited to, Customer lists.
- 21 12. Engaging in any other activity subject to penalty under 26 U.S.C. §§ 6694,
22 6701, or any other penalty provision in the Internal Revenue Code; and
- 23 13. Engaging in any conduct that substantially interferes with the proper
24 administration and enforcement of the internal revenue laws.

25 E. The Court should enter an order under 26 U.S.C. § 7402(a) requiring Taylor
26 to disgorge to the United States the ill-gotten gains (in the form of fees subtracted from
27 customers' tax refunds and of payments made by customers) that Taylor's firm received
28 from Taylor's customers for the tax returns Taylor prepared.

1 F. That the Court, pursuant to 26 U.S.C. §§ 7402(a) and 7407, order Taylor to
2 prominently post a copy of this order of permanent injunction (with dimensions of at
3 least 12 by 24 inches) at all physical locations where Taylor conducts any type of business
4 and requiring Taylor to prominently post an electronic copy of the permanent injunction
5 on any website or social media site or social media profile that Taylor maintains or creates
6 over the next five years, excluding solely personal social media;

7 G. That the Court, pursuant to 26 U.S.C. §§ 7402(a) and 7407, order Taylor to
8 produce to counsel for the United States, within 30 days of the Court's order, a list that
9 identifies by name, social security number, address, email address and telephone number
10 and tax period(s) all persons for whom Taylor prepared federal tax returns or claims for
11 a refund, for tax years beginning January 1, 2016, and continuing through this litigation;

12 H. That the Court, pursuant to 26 U.S.C. §§ 7402(a) and 7407, order Taylor,
13 within 30 days of receiving the Court's order, to contact by email, if an email address is
14 known, or otherwise by U.S. mail, all persons for whom Taylor prepared federal tax
15 returns, amended tax returns, or claims for refund since January 1, 2017, as well as all
16 employees or independent contractors Taylor has had since January 1, 2017, and to
17 inform them of the permanent injunction entered against Taylor by sending each of them
18 a copy of the order of permanent injunction, with no other text, enclosures, or
19 attachments unless approved in writing by the Department of Justice;

20 I. That the Court, pursuant to 26 U.S.C §§ 7402 and 7407, order Taylor to
21 disclose and surrender to the Secretary of the Treasury or his delegate all PTINs as well
22 as any EFIN numbers held by held by, assigned to, or used by Taylor.

23 J. That the Court, pursuant to 26 U.S.C. §§ 7402(a) and 7407, order Taylor,
24 within 45 days of receiving the Court's order, to file a declaration, signed under penalty
25 of perjury, confirming that Taylor have received a copy of the Court's order and are
26 complying with the terms described in Paragraphs D-I of this Complaint;

27 K. That this Court permit the United States to conduct post-judgment
28 discovery to ensure Taylor's compliance with the permanent injunction;

1 L. That this Court retain jurisdiction over Taylor and over this action to
2 enforce any injunction entered against him; and

3 M. That this Court grant the United States any other relief that the Court finds
4 appropriate.

5 Dated: April 2, 2024

6 Respectfully submitted,

7 DAVID A. HUBBERT
8 Deputy Assistant Attorney General

9 s/ Khashayar Attaran

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