

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

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	Case No. 1:20-CV-3313
v.	)	
	)	
PATRICIA RIVERS,	)	
KI'ESHA M. GARY, and	)	
ALPHA II OMEGA TAX,	)	
	)	
Defendants.	)	
_____	)	

**COMPLAINT**

Plaintiff United States of America, at the request of a delegate of the Secretary of the Treasury and at the direction of a delegate of the Attorney General, pursuant to 26 U.S.C. § 7401, brings this action seeking an injunction barring Patricia Rivers (“Rivers”), Ki’ esha M. Gary (“Gary”) and Rivers’s business, Alpha II Omega Tax (the “Company”) (collectively, the “Defendants”) from preparing federal tax returns, engaging in the business of preparing federal tax returns, and employing any person acting as a federal tax return preparer. In support of this action, the United States alleges as follows:

**Jurisdiction and Parties**

1. Jurisdiction exists under 28 U.S.C. §§ 1340 and 1345, and 26 U.S.C. (“Internal Revenue Code” or “I.R.C.”) §§ 7402 and 7407.
2. Rivers resides in Country Club Hills, Illinois, within the jurisdiction of this Court.
3. Gary resides in South Holland, Illinois, within the jurisdiction of this Court.
4. The Company is located in Markham, Illinois, within the jurisdiction of this Court.

### **Overview of Defendants' Tax Preparation Schemes**

5. Rivers has prepared federal income tax returns for customers since 2011.
6. Rivers is the sole owner and operator of the Company, which is organized as a single member LLC with a principal place of business of 16013 South Kedzie Avenue, Markham, Illinois.
7. Through the Company, Rivers and her daughter-in-law, Gary, prepare federal income tax returns for others as paid income tax preparers.
8. Rivers and Gary are the only people who prepare tax returns at the Company. Rivers represented to the IRS that Gary prepares about half of the returns prepared by the Company.
9. Rivers personally reviews all of the returns that Gary prepares before they are filed.
10. Defendants prepare false and fraudulent Form 1040 U.S. Individual Income Tax Returns on behalf of their customers so that their customers underreport their tax liabilities and obtain tax refunds to which they are not entitled.
11. As part of Defendants' preparation of false and fraudulent Forms 1040, they prepare Schedules A containing false or exaggerated charitable donations and false or exaggerated unreimbursed employee expense deductions (the "Deductions Scheme").
12. As part of Defendants' preparation of false and fraudulent Forms 1040, they prepare Schedules C containing false or exaggerated self-employment losses (the "Sole Proprietorship Scheme").

13. As part of Defendants’ preparation of false and fraudulent Forms 1040, they prepare Schedules E containing false or exaggerated rental real estate losses (the “Rental Property Loss Scheme”).

14. Defendants generally charge their customers a fee of between \$400 and \$800 to prepare each federal income tax return. Rivers told the IRS that the fee Defendants charge each customer is based upon the refund amount on the customer’s income tax return. However, Rivers previously told the IRS that Defendants charge fees based upon the complexity of each return prepared.

15. The IRS assigns every return preparer a Preparer Tax Identification Number (“PTIN”), which is a unique identification number that must be affixed to every return the preparer files.

16. As of September 11, 2019, the PTIN assigned to Rivers was affixed to the following numbers of prepared and filed tax returns for processing years 2016 through 2019:

<b>Patricia Rivers, returns filed by PTIN</b>			
Processing Year	Return Type	Number of Returns	% of Returns Receiving Refund
2019	1040	614	98%
2018	1040	749	99%
2017	1040	845	98%
2016	1040	522	97%

17. Gary’s PTIN was affixed to the prepared and filed tax returns of only 41 prepared and filed tax returns for processing years 2016 through 2019 – consisting of 36 returns filed in processing year 2019 and 5 returns filed in processing year 2018. Some customers whose returns bear Gary’s PTIN have stated that Rivers prepared their income tax returns.

### **The IRS's Investigation of Defendants' Tax Preparation Activities**

18. Prior to its civil investigation of Rivers, the IRS conducted a Program Action Case to examine certain federal income tax returns prepared by Rivers for tax years 2012, 2013, and 2014. IRS examiners audited 12 income tax returns prepared by Rivers.

19. Certain examined returns exhibited the Deductions Scheme. Rivers included on her customers' Schedules A false charitable donations and exaggerated or bogus unreimbursed employee expenses. Most of Rivers' customers stated that they did not provide the information, and did not donate the amounts, that were reflected on their Schedules A as charitable donations and unreimbursed employee expenses.

20. Certain examined returns also exhibited the Sole Proprietorship Scheme. Rivers included on her customers' Schedules C fabricated businesses with losses in order to reduce taxable income. Rivers' customers stated that they did not provide any information to her related to the Schedule C businesses reflected on their federal income tax returns.

21. The IRS examiners determined that the 12 tax returns prepared and filed by Rivers on behalf of her customers caused actual tax losses of \$117,932.

22. The IRS then ran Automated Underreporter Reports ("AUR") for federal income tax returns prepared and filed by the Company in processing years 2016, 2017, and 2018. AUR utilizes computer matching of tax returns with corresponding information reflected in a taxpayer's IRS Information Returns Master File. These specific AUR reports focused on the difference between the federal income tax withholding reported by the Company on a customer's tax return and the actual withholding reported to the IRS by third parties (such as employers). They also focus on the differences between qualified education expenses reported to the IRS on

Form 1099-T and the qualified education expenses reported on the tax returns prepared by the Company.

23. The AUR reports reflected the following underreporting on tax returns prepared by the Company:

Processing Year	Number of Returns Overstating Withholding	Amount of Overstated Tax Withholding	Amount of Overstated Education Credits	Total Loss
2018	149	\$29,446	\$56,117	\$85,563
2017	200	\$53,941	\$85,107	\$139,048
2016	195	\$15,811	\$151,573	\$167,384

24. The IRS also investigated Rivers's diligence in determining her customers' eligibility for the Child Tax Credit, American Opportunity Credit, and Earned Income Credit. An IRS examiner reviewed 50 returns that Rivers prepared for tax year 2016, and discovered that Rivers had violated the due diligence requirements set forth in 26 U.S.C. § 6695(g) for 38 of those returns. As a result of Rivers's due diligence violations for tax year 2016, the IRS assessed penalties against her under IRC § 6695(g) in the amount of \$17,340 in March of 2018.

25. The IRS has received at least 13 complaints from customers connected to the tax return preparation of Rivers and the Company. In these complaints, customers allege, among other things, that Rivers amended a customer's return without consent in order to retaliate against the customer by increasing her tax liability; that Rivers fabricated businesses and created false business losses on Schedules C; that Rivers fabricated deductions on Schedules A; and that Rivers reported false information about purported rental properties on Schedules E.

26. In its civil investigation of Defendants, the IRS interviewed 38 customers of the Company to determine the accuracy of their 2018 federal income tax returns, which were prepared by Rivers and Gary in processing year 2019.

27. Through these interviews, the IRS determined that Defendants engaged in a pattern and practice of violating the federal tax laws through abusive federal income tax return preparation activities, including: (1) fabricating charitable donations and unreimbursed employee expenses on Schedules A; (2) preparing false Schedules C with inflated or entirely fraudulent losses designed to reduce taxable income, and, in certain instances, returns which listed entirely fictitious business entities; and (3) asserting bogus Schedule E rental deductions, including deductions based on falsely classifying the customer's primary residence as rental property. These frivolous and fraudulent claims have resulted in understated tax liabilities on Defendants' customers' tax returns and unwarranted income tax refunds that were paid to their customers.

28. On at least one occasion, Rivers used her own home address as the Schedule E rental property generating bogus losses on a customer's income tax return.

29. Defendants utilize these schemes in furtherance of their fraudulent preparation business strategy by taking advantage of the fact that most self-employment income (reported on Schedule C), charitable donations and unreimbursed employee expenses (reported on Schedule A), and rental income (reported on Schedule E) are self-reported and not subject to independent verification from third-party information reports. Accordingly, the IRS can verify the numbers reported on Schedules A, C, and E only by conducting an examination.

30. Defendants were still preparing and filing fraudulent federal income tax returns on behalf of their customers claiming false deductions, bogus expenses and illegal deductions post-2018, even though Defendants were aware that: (a) their customers were being audited by

the IRS; and (b) Rivers's failure to abide by the due diligence requirements of the EITC led to a \$17,340 fine in March of 2018.

### **Defendants' Fraudulent Tax Preparation Activities**

31. The goal of Defendants' tax-fraud activities is to significantly underreport the tax liabilities of their customers and, as a result, for Defendants to profit from preparing and filing fraudulent income tax returns by charging fees for their services.

32. To carry out their tax-fraud schemes, Defendants prepare customers' returns by including fraudulent Schedules C, showing inflated or entirely fraudulent losses, in order to offset income on the taxpayers' Forms 1040. Defendants completely fabricate expenses purportedly incurred by customers' purported businesses which often do not exist, either because the customer does not engage in the activity at all or because the activity is a hobby and not a profit seeking venture. If the customer does in fact own a business, the business-related expenses are entirely fabricated by Defendants, or are grossly overstated. Defendants often report high, and false, depreciation expenses on their customers' Schedules C.

33. By fraudulently inflating Schedule C expenses, the returns prepared by Defendants purport to show that the customer has business expenses that offset earned income and the customer is therefore entitled to a refund of income taxes previously withheld and paid to the IRS.

34. Defendants also prepared tax returns that include false Schedule A itemized deductions. Schedule A is used by taxpayers who itemize deductions rather than use the standard deduction from adjusted gross income. Defendants listed false charitable donations and unreimbursed employee expenses.

35. By creating false Schedule A deductions, Defendants are able to offset their customers' earned income to fraudulently obtain a refund of taxes previously withheld and paid to the IRS.

36. For other customers, Defendants have created false Schedule E expenses from rental real estate in order to create significant deductions to taxable income. Schedule E is used to report income or loss from, among other things, rental real estate.

37. As a result of the interviews, the IRS determined that the 39 income tax returns prepared by Defendants for the 38 interviewed customers caused actual tax harm to the United States of \$278,461 – an average underreporting of \$7,140 for each return.

38. The underreporting errors found in the returns were due to Defendants' inclusion of false or fraudulent information on their customers' returns. The federal income tax returns of the interviewed customers underreported the customers' correct tax liability due to Defendants' use of one or more of the schemes described above.

39. Some specific examples of Defendants' fraudulent tax preparation activities are as follows:

#### **CUSTOMER 1**

40. CUSTOMER 1, of Lansing, Illinois, was employed with Ford Motor Company in 2018. Rivers prepared CUSTOMER 1's federal income tax return for 2018 as a paid income tax preparer.

41. CUSTOMER 1's 2018 return claimed a refund of \$11,859, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Rental Property Loss Scheme.

42. Rivers created and filed a false Schedule C with CUSTOMER 1's 2018 tax return reflecting a home renovation sole proprietorship. Rivers reported receipts and expenditures as if

CUSTOMER 1 was self-employed as a “house renovator.” The Schedule C reported \$11,000 in gross receipts and \$42,915 in total business expenses, resulting in a net business loss of \$31,915.

43. CUSTOMER 1 was not self-employed and never informed Rivers that CUSTOMER 1 had a home renovation sole proprietorship. CUSTOMER 1 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

44. Rivers also submitted a false Schedule E with CUSTOMER 1’s 2018 income tax return. The Schedule E reported that CUSTOMER 1 had no rental real estate income but incurred rental real estate expenses of \$47,381, largely based upon property depreciation in the amount of \$39,950, resulting in a deductible rental real estate loss of \$25,000.

45. CUSTOMER 1 did not own rental real estate property and never informed Rivers that CUSTOMER 1 rented any property out to others during 2018. CUSTOMER 1 never provided records to support the expenses for a rental property reported on the Schedule E created by Rivers.

46. Rivers reported false sole proprietorship business expenses and rental property expenses on CUSTOMER 1’s federal income tax return in order to fraudulently reduce CUSTOMER 1’s tax liabilities and to falsely increase CUSTOMER 1’s tax refund for tax year 2018.

## **CUSTOMER 2**

47. CUSTOMER 2, of Chicago, Illinois, was employed as a speech therapist in 2018. Rivers prepared CUSTOMER 2’s federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 2 paid Defendants between \$500 and \$700 to prepare CUSTOMER 2’s federal income tax return.

48. CUSTOMER 2's 2018 return claimed a refund of \$8,613, based in large part on Rivers's use of the Sole Proprietorship Scheme.

49. Rivers created and filed a false Schedule C with CUSTOMER 2's 2018 tax return reflecting a speech therapy sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 2 was self-employed. The Schedule C reported no gross receipts and \$51,555 in total business expenses, resulting in a net business loss of \$51,555.

50. CUSTOMER 2 was not self-employed and never informed Rivers that CUSTOMER 2 had a sole proprietorship. CUSTOMER 2 never provided records to support the expenses reported on the Schedule C created by Rivers.

51. Rivers reported false sole proprietorship business expenses on CUSTOMER 2's federal income tax return in order to fraudulently reduce CUSTOMER 2's tax liabilities and to falsely increase CUSTOMER 2's tax refund for tax year 2018.

### **CUSTOMER 3**

52. CUSTOMER 3, of Alsip, Illinois, was employed at Tootsie Roll Manufacturing in 2018. Rivers prepared CUSTOMER 3's federal income tax return for 2018 as a paid income tax preparer.

53. CUSTOMER 3's 2018 return claimed a refund of \$2,133, based in large part on Rivers's use of the Sole Proprietorship Scheme.

54. Rivers created and filed a false Schedule C with CUSTOMER 3's 2018 tax return reflecting a childcare sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 3 was self-employed as a childcare provider. The Schedule C reported \$15,777 in gross receipts and \$45,677 in total business expenses, resulting in a net business loss of \$29,900.

55. CUSTOMER 3 was not self-employed and never informed Rivers that CUSTOMER 3 had a childcare sole proprietorship. CUSTOMER 3 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

56. Rivers reported false sole proprietorship business expenses on CUSTOMER 3's federal income tax return in order to fraudulently reduce CUSTOMER 3's tax liabilities and to falsely increase CUSTOMER 3's tax refund for tax year 2018.

#### **CUSTOMERS 4 and 5**

57. CUSTOMER 4 and CUSTOMER 5, of Blue Island, Illinois, were employed at Ford Motor Company and Jones Lang Lasalle Americas Inc., respectively, in 2018. CUSTOMER 4 and CUSTOMER 5's joint federal income tax return for 2018 reflects that it was prepared by Gary as a paid income tax preparer; however, CUSTOMER 4 and CUSTOMER 5 state that their income tax return was prepared by Rivers. CUSTOMER 4 and CUSTOMER 5 paid Defendants \$750 to prepare their federal income tax return.

58. CUSTOMER 4's and CUSTOMER 5's 2018 return claimed a refund of \$16,281, based in large part on Defendants' use of the Sole Proprietorship Scheme.

59. Defendants created and filed a false Schedule C with CUSTOMER 4's and CUSTOMER 5's 2018 tax return reflecting a sole proprietorship in which CUSTOMER 5 created specialty gifts for baby showers. The Schedule C reported \$20,500 in gross receipts and \$77,864 in total business expenses, resulting in a net business loss of \$57,364.

60. Although CUSTOMER 5 operated a sole proprietorship in 2018, she did not incur \$77,864 in business expenses. CUSTOMER 5 did not incur the overnight travel, business meal expenses, car and truck expenses, or depreciation that were reported on the Schedule C created

by Defendants. CUSTOMER 4 and CUSTOMER 5 did not provide records to support the expenses reported on the Schedule C created by Defendants.

61. Defendants reported false sole proprietorship business expenses on CUSTOMER 4's and CUSTOMER 5's federal income tax return in order to fraudulently reduce CUSTOMER 4's and CUSTOMER 5's tax liabilities and to falsely increase their tax refund for tax year 2018.

#### **CUSTOMER 6**

62. CUSTOMER 6, of Calumet City, Illinois, was employed as a pipefitter in 2018. Rivers prepared CUSTOMER 6's federal income tax return for 2018 as a paid income tax preparer.

63. CUSTOMER 6's 2018 return claimed a refund of \$8,197, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Rental Property Loss Scheme.

64. Rivers created and filed a false Schedule C with CUSTOMER 6's 2018 tax return reflecting a home renovation sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 6 was self-employed as a "house refurbisher." The Schedule C reported no gross receipts and \$26,902 in total business expenses, resulting in a net business loss of \$26,902.

65. CUSTOMER 6 was not self-employed and never informed Rivers that CUSTOMER 6 had a home renovation sole proprietorship. CUSTOMER 6 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

66. Rivers also submitted a false Schedule E with CUSTOMER 6's 2018 income tax return. The Schedule E reported that CUSTOMER 6 had no rental real estate income but incurred rental real estate expenses of \$24,901, resulting in a deductible rental real estate loss of \$24,901.

67. CUSTOMER 6 did not own rental real estate property and never informed Rivers that CUSTOMER 6 rented any property out to others during 2018. CUSTOMER 6 never provided records to support the expenses for a rental property reported on the Schedule E created by Rivers.

68. Rivers reported false sole proprietorship business expenses and rental property expenses on CUSTOMER 6's federal income tax return in order to fraudulently reduce CUSTOMER 6's tax liabilities and to falsely increase CUSTOMER 6's tax refund for tax year 2018.

#### **CUSTOMER 7**

69. CUSTOMER 7, of Calumet City, Illinois, was employed at Ford Motor Company in 2018. Rivers prepared CUSTOMER 7's federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 7 paid Defendants between \$650 and \$800 to prepare CUSTOMER 7's federal income tax return.

70. CUSTOMER 7's 2018 return claimed a refund of \$13,077, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Rental Property Loss Scheme.

71. Rivers created and filed a false Schedule C with CUSTOMER 7's 2018 tax return reflecting a home renovation sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 7 was self-employed as a "house flipper." The Schedule C reported \$11,000 in gross receipts and \$36,116 in total business expenses, resulting in a net business loss of \$25,116.

72. CUSTOMER 7 was not self-employed as a "house flipper" and never informed Rivers that CUSTOMER 7 had a home renovation sole proprietorship. CUSTOMER 7 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

73. Rivers also submitted a false Schedule E with CUSTOMER 7's 2018 income tax return. The Schedule E falsely listed CUSTOMER 7's primary residence as rental real estate. The Schedule E reported that CUSTOMER 7 had no rental real estate income and rental real estate expenses of \$29,856, resulting in a deductible rental real estate loss of \$25,000.

74. Although CUSTOMER 7 owned rental real estate property in 2018, that real estate was not his primary residence, and he earned \$9,000 in rental real estate income and incurred around \$13,400 in rental real estate expenses in 2018. CUSTOMER 7 did not incur the expenses that were reported on the Schedule E created by Rivers.

75. Rivers reported false sole proprietorship business expenses and rental property expenses on CUSTOMER 7's federal income tax return in order to fraudulently reduce CUSTOMER 7's tax liabilities and to falsely increase CUSTOMER 7's tax refund for tax year 2018.

#### **CUSTOMER 8**

76. CUSTOMER 8, of Crete, Illinois, was employed at Ford Motor Company in 2018. Rivers prepared CUSTOMER 8's federal income tax return for 2018 as a paid income tax preparer.

77. CUSTOMER 8's 2018 return claimed a refund of \$14,722, based in large part on Rivers's use of the Sole Proprietorship Scheme.

78. Rivers created and filed a false Schedule C with CUSTOMER 8's 2018 tax return reflecting a car repair sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 8 was self-employed as a car repairman. The Schedule C reported \$20,555 in gross receipts and \$72,963 in total business expenses, resulting in a net business loss of \$52,408.

79. Although CUSTOMER 8 repairs cars for friends and family as a hobby, CUSTOMER 8 was not self-employed and never informed Rivers that CUSTOMER 8 had a car repair sole proprietorship. CUSTOMER 8 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

80. Rivers reported false sole proprietorship business expenses on CUSTOMER 8's federal income tax return in order to fraudulently reduce CUSTOMER 8's tax liabilities and to falsely increase CUSTOMER 8's tax refund for tax year 2018.

### **CUSTOMER 9**

81. CUSTOMER 9, of Crete, Illinois, was employed at Ford Motor Company in 2018. Rivers prepared CUSTOMER 9's federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 9 paid Defendants between \$400 and \$800 to prepare CUSTOMER 9's federal income tax return.

82. CUSTOMER 9's 2018 return claimed a refund of \$14,435, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Rental Property Loss Scheme.

83. Rivers created and filed a false Schedule C with CUSTOMER 9's 2018 tax return reflecting a hairstyling sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 9 was self-employed as a hairdresser. The Schedule C reported \$4,003 in gross receipts and \$25,969 in total business expenses, resulting in a net business loss of \$21,966.

84. CUSTOMER 9 was not self-employed and never informed Rivers that CUSTOMER 9 had a hairstyling sole proprietorship. CUSTOMER 9 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

85. Rivers also submitted a false Schedule E with CUSTOMER 9's 2018 income tax return. The Schedule E reported that CUSTOMER 9 had \$12,840 in rental real estate income and rental real estate expenses of \$28,178, resulting in a deductible rental real estate loss of \$20,260.

86. Although CUSTOMER 9's mother lived in a property owned by CUSTOMER 9 and paid the mortgage on the property, CUSTOMER 9 never incurred the expenses set forth on the Schedule E created by Rivers. CUSTOMER 9 also never provided records to support the expenses for a rental property reported on the Schedule E created by Rivers.

87. Rivers reported false sole proprietorship business expenses and rental property expenses on CUSTOMER 9's federal income tax return in order to fraudulently reduce CUSTOMER 9's tax liabilities and to falsely increase CUSTOMER 9's tax refund for tax year 2018.

#### **CUSTOMER 10**

88. CUSTOMER 10, of Dolton, Illinois, was retired in 2018. Rivers prepared CUSTOMER 10's federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 10 paid Defendants between \$500 and \$600 to prepare CUSTOMER 10's federal income tax return.

89. CUSTOMER 10's 2018 return claimed a refund of \$7,145, based in large part on Rivers's use of the Sole Proprietorship Scheme.

90. Rivers created and filed a false Schedule C with CUSTOMER 10's 2018 tax return reflecting a childcare sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 10 was self-employed as a "childcare developer." The Schedule C reported no gross receipts and \$34,915 in total business expenses, resulting in a net business loss of \$34,915.

91. CUSTOMER 10 was not self-employed and never informed Rivers that CUSTOMER 10 had a childcare sole proprietorship. CUSTOMER 10 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

92. Rivers reported false sole proprietorship business expenses on CUSTOMER 10's federal income tax return in order to fraudulently reduce CUSTOMER 10's tax liabilities and to falsely increase CUSTOMER 10's tax refund for tax year 2018.

#### **CUSTOMER 11**

93. CUSTOMER 11, of Evergreen Park, Illinois, was a nail technician in 2018. CUSTOMER 11's federal income tax return for 2018 reflects that it was prepared by Gary as a paid income tax preparer; however, upon information and belief, CUSTOMER 11's income tax return actually was prepared by Rivers. CUSTOMER 11 paid Defendants around \$300 to prepare CUSTOMER 11's federal income tax return.

94. CUSTOMER 11's 2018 return claimed a refund of \$5,309, based in large part on Defendants' use of the Sole Proprietorship Scheme.

95. Defendants created and filed a false Schedule C with CUSTOMER 11's 2018 tax return reflecting a nail salon sole proprietorship. Defendants reported receipts and expenditures as if CUSTOMER 11 was self-employed as a "nail tech." The Schedule C reported \$23,745 in gross receipts and \$6,742 in total business expenses, resulting in a net profit of \$17,003.

96. Although CUSTOMER 11 worked as a nail technician in 2018, CUSTOMER 11 did not have a sole proprietorship. CUSTOMER 11 did not incur any of the expenses reported by Defendants related to advertising, travel, meals, and utilities. CUSTOMER 11 never provided records to support the receipts and expenses reported on the Schedule C created by Defendants.

97. Rivers reported false sole proprietorship business expenses on CUSTOMER 11's federal income tax return in order to fraudulently reduce CUSTOMER 11's tax liabilities and to falsely increase CUSTOMER 11's tax refund for tax year 2018.

## **CUSTOMER 12**

98. CUSTOMER 12, of Flossmoor, Illinois, was retired in 2018. Rivers prepared CUSTOMER 12's federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 12 paid Defendants around \$500 to prepare CUSTOMER 12's federal income tax return.

99. CUSTOMER 12's 2018 return claimed a refund of \$4,683, based in large part on Rivers's use of the Sole Proprietorship Scheme.

100. Rivers created and filed a false Schedule C with CUSTOMER 12's 2018 tax return reflecting an eldercare sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 12 was self-employed as providing "daycare for elders." The Schedule C reported no gross receipts and \$30,694 in total business expenses, resulting in a net business loss of \$30,694.

101. CUSTOMER 12 was not self-employed and never informed Rivers that CUSTOMER 12 had an eldercare sole proprietorship. CUSTOMER 12 never provided records to support the receipts and expenses reported on the Schedule C created by Rivers.

102. Rivers reported false sole proprietorship business expenses on CUSTOMER 12's federal income tax return in order to fraudulently reduce CUSTOMER 12's tax liabilities and to falsely increase CUSTOMER 12's tax refund for tax year 2018.

### **CUSTOMER 13**

103. CUSTOMER 13, of Harvey, Illinois, was employed as a truck driver in 2018. Rivers prepared CUSTOMER 13's federal income tax return for 2018 as a paid income tax preparer. CUSTOMER 13 paid Defendants almost \$600 to prepare CUSTOMER 13's federal income tax return.

104. CUSTOMER 13's 2018 return claimed a refund of \$6,833, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Deductions Scheme.

105. Rivers created and filed a false Schedule C with CUSTOMER 13's 2018 tax return reflecting a trucking sole proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 13 was self-employed as a truck driver. The Schedule C reported no gross receipts and \$59,039 in total business expenses, resulting in a net business loss of \$59,039.

106. Although CUSTOMER 13 worked as a truck driver, CUSTOMER 13 was not self-employed and never informed Rivers that CUSTOMER 13 had a trucking sole proprietorship. CUSTOMER 13 never provided records to support the expenses reported on the Schedule C created by Rivers.

107. Rivers also submitted a false Schedule A with CUSTOMER 13's 2018 income tax return. The Schedule A reported that CUSTOMER 13 donated \$7,000 by cash or check, and \$500 in non-monetary donations in 2018.

108. CUSTOMER 13 did not make charitable donations of \$7,500 in 2018. CUSTOMER 13 never provided records to support the charitable donations reported on the Schedule A created by Rivers.

109. Rivers reported false sole proprietorship business expenses and charitable donations on CUSTOMER 13's federal income tax return in order to fraudulently reduce

CUSTOMER 13's tax liabilities and to falsely increase CUSTOMER 13's tax refund for tax year 2018.

#### **CUSTOMER 14**

110. CUSTOMER 14, of Hazel Crest, Illinois, was retired in 2018. CUSTOMER 14's federal income tax return for 2018 reflects that it was prepared by Gary as a paid income tax preparer; however, upon information and belief, CUSTOMER 14's income tax return actually was prepared by Rivers. CUSTOMER 14 paid Defendants around \$300 to \$400 to prepare CUSTOMER 14's federal income tax return.

111. CUSTOMER 14's 2018 return claimed a refund of \$4,840, based in large part on Defendants' use of the Sole Proprietorship Scheme.

112. Defendants created and filed a false Schedule C with CUSTOMER 14's 2018 tax return reflecting a childcare sole proprietorship. Defendants reported receipts and expenditures as if CUSTOMER 14 was self-employed as providing "home daycare, childcare." The Schedule C reported no gross receipts and \$42,535 in total business expenses, resulting in a net business loss of \$42,535.

113. CUSTOMER 14 did not operate a business providing childcare or daycare for adults or children in 2018 and never informed Defendants that CUSTOMER 14 had a daycare sole proprietorship. CUSTOMER 14 never provided records to support the receipts and expenses reported on the Schedule C created by Defendants.

114. Defendants reported false sole proprietorship business expenses on CUSTOMER 14's federal income tax return in order to fraudulently reduce CUSTOMER 14's tax liabilities and to falsely increase CUSTOMER 14's tax refund for tax year 2018.

## **CUSTOMER 15**

115. CUSTOMER 15, of Homewood, Illinois, was employed as a nurse in 2017 and 2018. Rivers prepared CUSTOMER 15's federal income tax returns for 2017 and 2018 as a paid income tax preparer. CUSTOMER 15 paid Defendants between \$600 and \$900 to prepare each of CUSTOMER 15's federal income tax returns.

116. CUSTOMER 15's 2018 return claimed a refund of \$6,118, based in large part on Rivers's use of the Sole Proprietorship Scheme. CUSTOMER 15's 2017 return claimed a refund of \$2,874, based in large part on Rivers's use of the Sole Proprietorship Scheme and the Deductions Scheme.

117. Rivers created and filed a false Schedule C with CUSTOMER 15's 2018 tax return reflecting a nursing proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 15 was self-employed as an "off duty nurse." The Schedule C reported no gross receipts and \$25,124 in total business expenses, resulting in a net business loss of \$25,124.

118. Although CUSTOMER 15 worked as a home health aide for approximately three clients in 2018, CUSTOMER 15 earned income for that work, and did not incur the expenses that were reported by Rivers on CUSTOMER 15's Schedule C. CUSTOMER 15 never provided records to support the expenses reported on the Schedule C created by Rivers.

119. Rivers also created and filed a false Schedule C with CUSTOMER 15's 2017 tax return reflecting a nursing proprietorship. Rivers reported receipts and expenditures as if CUSTOMER 15 was self-employed as an "off duty nurse." The Schedule C reported no gross receipts and \$17,349 in total business expenses, resulting in a net business loss of \$17,349.

120. Although CUSTOMER 15 worked as a home health aide for three or four clients in 2017, CUSTOMER 15 earned income for that work, and did not incur the expenses that were

reported by Rivers on CUSTOMER 15's Schedule C. CUSTOMER 15 never provided records to support the expenses reported on the Schedule C created by Rivers.

121. Rivers also submitted a false Schedule A with CUSTOMER 15's 2017 income tax return. The Schedule A reported that CUSTOMER 15 incurred \$31,432 in unreimbursed employee expenses in 2017, including \$5,353 in uniform expenses and \$22,695 in vehicle and meals and entertainment expenses.

122. CUSTOMER 15 did not incur \$31,432 in unreimbursed employee business expenses in 2017. CUSTOMER 15 only used CUSTOMER 15's vehicle for commuting in 2017, and incurred no more than \$300 in uniform expenses. CUSTOMER 15 never provided records to support the business expenses reported on the Schedule A created by Rivers.

123. Rivers reported false sole proprietorship business expenses and unreimbursed employee business expenses on CUSTOMER 15's federal income tax returns in order to fraudulently reduce CUSTOMER 15's tax liabilities and to falsely increase CUSTOMER 15's tax refund for tax years 2017 and 2018.

124. The fraudulent returns that Defendants prepared and filed have caused – and continue to cause – substantial harm to the Government by falsely reducing their customers' reported tax liabilities, helping taxpayers avoid paying their fair share of tax, or generating refunds to which they were not entitled.

125. The 38 customer interviews revealed actual tax harm to the United States of \$278,461.

126. Because these 39 returns are only a small portion of the income tax returns prepared by Defendants in 2019 alone, it is likely that the tax loss to the United States far exceeds that amount.

127. The United States is also harmed because the IRS must devote some of its limited resources to investigating Defendants' conduct as tax return preparers, detecting and examining inaccurate and fraudulent returns covertly prepared by Defendants, and attempting to assess against and collect from their customers' unpaid taxes and penalties, some of which may not be collectible.

**COUNT I: Injunction under I.R.C. § 7407 for Violation of I.R.C. §§ 6694 and 6695 for Deceptive or Fraudulent Conduct that Interferes with Internal Revenue Code Administration**

128. The United States incorporates by reference the allegations in all preceding paragraphs as though fully set forth herein.

129. Pursuant to I.R.C. § 7407, a court is authorized to enjoin a tax return preparer who, among other things, engages in conduct subject to penalty under I.R.C. §§ 6694 or 6695, or who engages in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

130. I.R.C. § 7701(a)(36) defines a "tax return preparer" as a person who prepares for compensation, or who employs one or more persons to prepare for compensation, any return or a substantial portion thereof.

131. Defendants are tax return preparers within the meaning of I.R.C. § 7701(a)(36).

132. I.R.C. § 6694(a) penalizes a tax return preparer if: (1) the preparer prepared a return or claim for refund that included an understatement of liability due to a position for which there was not a realistic possibility of being sustained on the merits; (2) the preparer knew (or reasonably should have known) of such position; and (3) the position was not properly disclosed or was frivolous.

133. I.R.C. § 6694(e) defines understatement of liability to include any understatement of tax due or “overstatement of the net amount creditable or refundable.”

134. In violation of I.R.C. § 6694(a), Defendants prepared returns for customers that understated their customers’ tax liabilities and that they knew or should have known contained positions for which there was no substantial authority or for which there was no reasonable basis.

135. I.R.C. § 6694(b) penalizes a tax return preparer who prepares a return or claim with an understatement of liability: (1) in a willful attempt to understate the liability; or (2) with a reckless and intentional disregard of rules or regulations.

136. In violation of I.R.C. § 6694(b), Defendants prepared tax returns that they knew or reasonably should have known contained incorrect figures by engaging in the Deductions Scheme, Sole Proprietorship Scheme, and Rental Property Loss Scheme.

137. In violation of I.R.C. § 6694(b), Defendants recklessly or intentionally disregarded rules and/or regulations by manipulating their customers’ itemized deductions in order to understate their customers’ tax liabilities.

138. I.R.C. § 6695(b) penalizes a tax return preparer who fails to sign a return which she is required to sign.

139. In violation of I.R.C. § 6695(b), Rivers signed, as paid preparer, certain returns prepared by Gary.

140. I.R.C. § 6695(c) penalizes a tax return preparer who fails to furnish her identifying number on any return prepared by the tax return preparer.

141. In violation of I.R.C. § 6695(c), Rivers affixed her identifying number on certain federal income tax returns prepared by Gary.

142. An injunction against Defendants is necessary and appropriate to prevent the

recurrence of their conduct subject to penalty under I.R.C. §§ 6694 and 6695.

143. Anything less than a permanent injunction and complete bar on the preparation of tax returns is unlikely to stop Defendants from preparing fraudulent tax returns.

**COUNT II: Injunction under I.R.C. § 7402(a) for Unlawful Interference with Enforcement of the Internal Revenue Laws and Appropriateness of Injunctive Relief**

144. The United States incorporates by reference the allegations in all preceding paragraphs above, as though fully set forth herein.

145. Pursuant to I.R.C. § 7402(a), a court is authorized to issue orders of injunctions as may be necessary or appropriate to enforce the internal revenue laws.

146. I.R.C. § 7402(a) expressly provides that its injunction remedy is “in addition to and not exclusive of” other remedies for enforcing the internal revenue laws.

147. Defendants’ activities described above substantially interfere with the enforcement of the internal revenue laws because they prepare and file numerous fraudulent tax returns that result in customers not paying their true federal tax liabilities and receiving tax refunds to which they are not entitled.

148. Defendants have shown that they should not be allowed to continue to prepare tax returns because they have deliberately played the audit lottery on behalf of their customers. By manipulating the unreimbursed employee expenses and charitable contributions on Schedule A, sole proprietorship expenses on Schedule C, and rental real estate costs on Schedule E – items for which there is no independent third-party reporting – they have selected schemes that the IRS can detect only by auditing returns or interviewing their customers. Because they know that the IRS lacks the resources to audit every return that includes these schedules, they are actively subverting the American tax system, which relies on taxpayers to self-report their income and expenses fully and accurately.

149. An injunction prohibiting Defendants from preparing or assisting in the preparation of tax returns is needed to stop them from preparing and filing fraudulent tax returns and to prohibit them from otherwise interfering with the proper administration and enforcement of the internal revenue laws now and in the future.

150. If Defendants are not enjoined, the United States will continue to suffer irreparable harm from the underpayment of taxes and the exhaustion of resources to enforce the internal revenue laws.

151. The public interest would be advanced by enjoining Defendants because an injunction will stop their illegal conduct and the harm that conduct is causing the United States Treasury and the public.

152. An injunction under I.R.C. § 7402 is necessary and appropriate, because the United States has no adequate remedy at law.

### **COUNT III: Disgorgement of Ill-Gotten Gains**

153. The United States incorporates by reference the allegations in all preceding paragraphs above, as though fully set forth herein.

154. I.R.C. § 7402(a) authorizes the Court to issue orders, judgment, and decrees as may be necessary or appropriate for the enforcement of the internal revenue laws.

155. Defendants' conduct substantially interferes with the enforcement of the internal revenue laws. They have caused the United States to issue tax refunds to individuals not entitled to receive them and has caused the United States to lose tax revenue. But-for Defendants' conduct, the United States would not have issued these incorrect refunds or lost these tax revenues.

156. Defendants have unjustly profited from their misconduct at the expense of the United States.

157. Defendants are not entitled to the ill-gotten gains from their misconduct.

158. Using its broad authority under § 7402(a), the Court should enter an order requiring Defendants to provide an accounting of, and disgorge to the United States, the receipts (in the form of the tax preparation fees they earned by engaging in fraudulent conduct) they have received for preparing federal tax returns that make grossly incompetent, negligent, reckless, and/or fraudulent claims.

**WHEREFORE**, the United States of America prays for the following:

A. That the Court find that Defendants have repeatedly engaged in conduct subject to penalty under I.R.C. §§ 6694 and 6695, and in other fraudulent or deceptive conduct that substantially interferes with the proper administration of the tax laws; that, pursuant to I.R.C. § 7407, an injunction merely prohibiting conduct subject to penalty under I.R.C. §§ 6694 and 6695, or other fraudulent or deceptive conduct, would be insufficient to prevent their interference with the proper administration of the tax laws; and that Defendants should be permanently enjoined from acting as tax return preparers;

B. That the Court find that Defendants have interfered with the enforcement of the internal revenue laws and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to I.R.C. § 7402(a);

C. That this Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter a permanent injunction enjoining Defendants, their officers, agents, servants, employees, and attorneys, and anyone in active concert or participation with them, from directly or indirectly:

1. Preparing or assisting in the preparation or filing of federal tax returns, amended

- returns, and other related documents and forms for anyone other than themselves;
2. Advising, counseling, or instructing anyone about the preparation of a federal tax return;
  3. Owning, managing, controlling, working for, or volunteering for a tax-return preparation business;
  4. Advertising tax return preparation services through any medium, including the internet and social media;
  5. Maintaining, assigning, holding, using, or obtaining a Preparer Tax Identification Number (PTIN) or an Electronic Filing Identification Number (EFIN);
  6. Representing customers in connection with any matter before the IRS;
  7. Employing any person to work as a federal income tax return preparer;
  8. Providing office space, equipment, or services for, or in any other way facilitating, the work of any person or entity that is in the business of preparing or filing federal tax documents or forms for others or representing persons before the IRS;
  9. Referring any customer to a tax preparation firm or a tax return preparer, or otherwise suggesting that a customer use any particular tax preparation firm or tax return preparer;
  10. Selling, providing access, or otherwise transferring to any person some or all of the proprietary assets of Rivers, Gary, or Alpha II Omega Tax; and/or
  11. Engaging in any conduct that substantially interferes with the administration and enforcement of the internal revenue laws.
- D. That this Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter a permanent

injunction enjoining Defendants, their officers, agents, servants, employees, and attorneys, and anyone in active concert or participation with them, from directly or indirectly operating a business that prepares federal tax returns;

E. That the Court enter an order requiring Defendants to prominently post a copy of its permanent injunction (with dimensions of at least 12 by 24 inches) at all the locations where they conduct business;

F. That the Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter an order requiring Defendants to produce to counsel for the United States, within 30 days of the Court's order, a list that identifies by name, social security number, address, email address, and telephone number and tax period(s) all persons for whom they prepared federal tax returns or claims for a refund, for processing years beginning in 2017 and continuing through this litigation;

G. That the Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter an order requiring Defendants, within 30 days of receiving the Court's order, to contact by U.S. mail and, if an email address is known, by email, all persons for whom they have prepared federal tax returns, amended tax returns, or claims for refund since January 2017, as well as all employees or independent contractors Defendants have had since January 2018, and to inform them of the permanent injunction entered against them by sending each of them a copy of the order of permanent injunction, with no other enclosures unless approved by the Department of Justice;

H. That the Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter an order requiring Defendants, within 45 days of receiving the Court's order, to file a declaration, signed under penalty of perjury, confirming that they have received a copy of the Court's order and complied with the terms described in paragraphs F and G of this Complaint;

I. Enter an Order, pursuant to 26 U.S.C. § 7402(a), requiring Defendants to disgorge

to the United States the gross receipts of the fees earned for the preparation of federal tax returns;  
and,

J. That this Court grant the United States such other relief as the Court deems appropriate.

UNITED STATES OF AMERICA

RICHARD E. ZUCKERMAN  
Principal Deputy Assistant Attorney General

/s/ Jordan A. Konig

JORDAN A. KONIG

SAMUEL P. JONES

Trial Attorneys, Tax Division,

U.S. Department of Justice

Post Office Box 55, Ben Franklin Station

Washington, D.C. 20044

Tel.: (202) 305-7917 (Konig)

(202) 616-9085 (Jones)

Fax: (202) 514-5238

Email: Jordan.A.Konig@usdoj.gov

Samuel.P.Jones@usdoj.gov