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13 **IN THE UNITED STATES DISTRICT COURT FOR THE**
14 **EASTERN DISTRICT OF CALIFORNIA**
15 **Sacramento Division**

16 **UNITED STATES OF AMERICA**

17 **Plaintiff,**

18 **v.**

19 **SARAD CHAND, individually and**
20 **doing business as S. Chand Tax &**
21 **Accounting Services**

22 **Defendant.**

**COMPLAINT FOR PERMANENT
INJUNCTION**

Case No.

23 The United States of America, through counsel, states the following claims against the
24 defendant:

25 1. This is a civil action brought by the United States under 26 U.S.C. §§ 7402(a) and
26 7408 to enjoin Sarad Chand (“Chand”), individually and doing business as S. Chand Tax &
27 Accounting Services, and anyone in active concert or participation with Chand, from the
28 following activities:

a. Directly or indirectly organizing, promoting, marketing, or selling, or assisting in
organizing, promoting, marketing, or selling, any plan or arrangement that advises or encourages
taxpayers to violate internal revenue laws or unlawfully evade the assessment or collection of

1 their federal tax liabilities, including plans or arrangements that promote, sell, or advocate the
2 use of tax returns which fraudulently allege the existence of deductions or credits to which the
3 taxpayers are not entitled;

4 b. Engaging in conduct subject to penalty under 26 U.S.C. § 6701, including
5 preparing and filing tax returns and other documents that fraudulently underreport
6 the tax liabilities of others;

7 c. Engaging in conduct subject to penalty under 26 U.S.C. § 6700 including, making or
8 furnishing a statement, or causing another person to make or furnish a statement that Chand
9 knows or has reason to know is false or fraudulent as to any material matter regarding a
10 taxpayer's right or ability to claim a deduction or credit or exclude an item from income;

11 d. Engaging in conduct subject to penalty under 26 U.S.C. §§ 6694, 6695 or any other
12 penalty provision of the Internal Revenue Code, including preparing and filing tax returns and
13 other documents that fraudulently underreport the tax liabilities of others;

14 e. Preparing or filing, or assisting in, or directing the preparation or filing of any federal
15 tax return or amended return or other related documents or forms, for any person other than
16 himself or any entity;

17 f. Giving tax advice or assistance to anyone for compensation;

18 g. Engaging in any conduct that interferes with the administration and enforcement
19 of the internal revenue laws; and

20 h. Engaging in any activity subject to penalty under the Internal Revenue Code.

21 JURISDICTION AND VENUE

22 2. Pursuant to 26 U.S.C. §§ 7402 and 7408, this action has been requested by the Chief
23 Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and is
24 brought at the direction of the Attorney General of the United States.

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

27
28

1 4. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because Defendant Sarad
2 Chand has engaged in activities related to his tax-fraud scheme in this district.

3 PARTIES

4 5. Sarad Chand owned and operated a tax return preparation business which operated
5 under the name S. Chand Tax & Accounting Service in Ripon, California. S. Chand Tax &
6 Accounting Service was never registered with the California Secretary of State.

7 6. The United States of America is the plaintiff in this case.

8 CHAND'S ABUSIVE SCHEME

9 7. Chand began preparing tax returns for others from his home in Ripon, California in
10 2007. In January 2010, Chand started preparing tax returns for others from an office in Ripon,
11 California. Mr. Chand falsely led his customers to believe that he was a former employee of the
12 Internal Revenue Service.

13 8. Although Chand utilized a number of methods to fraudulently increase his clients'
14 income tax refund, the method utilized the most was falsely inflating unreimbursed employee
15 business expenses (EBE) claimed on Form 2106 and Schedule A. The inflated EBE and other
16 deductions and credits improperly and illegally reduced the clients' taxable income and therefore
17 resulted in excessive and improper refunds for his clients.

18 9. Not including amended returns filed for prior years, between 2008 and 2012, Chand
19 prepared and signed approximately 8,155 federal income tax returns.

20 10. Of the 919 individual income tax returns prepared by Chand and examined by the
21 IRS, 886 resulted in a finding of a tax deficiency or denial of a refund claim. The examination of
22 these returns resulted in agreed tax deficiencies of \$2,704,986 for an average tax deficiency of
23 \$3,195 per return.

24 11. Mr. Chand systematically reported fabricated expenses, including business and
25 personal expenses, such as education expenses, in order to generate larger, false amounts to be
26 claimed as deductions or credits.

1 12. Mr. Chand prepared returns with false or inflated Schedule A expenses and/or
2 education credits.

3 13. Mr. Chand also created false Schedule Cs with false income to improperly increase
4 the Earned Income Credit. For other clients, he created false losses or inflated Schedule E
5 expenses.

6 Examples of the Abusive Tax Fraud

7 14. Taxpayer 1 (husband and wife) were referred to Mr. Chand by a family member. Mr.
8 Chand prepared their tax returns for 2008, 2009 and 2010. They paid \$360 for return preparation.
9 They provided Mr. Chand with their mortgage information, Forms W-2, and information about
10 education expenses. Mr. Chand prepared returns reporting excessive and improper motor
11 vehicle fees and related expenses, for cars 9 and 14 years old. Taxpayer 1 did not provide Mr.
12 Chand with any documentation for the expenses. Taxpayer 1's 2009 Schedule A reports
13 unreimbursed employee expenses in excess of \$9,000. Of this amount, the Taxpayer 1 able only
14 to substantiate qualifying expenses of \$1,510. Their 2010 Schedule A reports expenses in excess
15 of \$13,069, of which the taxpayers could verify only \$845. Audit adjustments resulted in a tax
16 deficiency of \$1,409 in 2009 and \$3,542 in 2010.

17 15. Taxpayer 2 (husband and wife) were referred to Mr. Chand by a friend. Mr. Chand
18 prepared their 2009 return and amended returns for 2007 and 2008. Mr. Chand reported a
19 deduction of \$3,910 for personal property taxes paid. The wife stated that she did not provide
20 that figure to Mr. Chand. She did not have documentation for the actual amount she paid for
21 personal property taxes, but stated she paid approximately \$200. The wife provided a statement
22 relating a charitable contribution of \$500 made during the year. Mr. Chand reported \$2,395 in
23 non-cash contributions to a different charity. Chand also reported unreimbursed employee
24 expenses of \$19,902. Of this amount, only \$2,952 was allowed as substantiated during an IRS
25 examination.

26 16. Taxpayer 3 was referred to Mr. Chand by a friend. He paid Mr. Chand \$235 to have
27 his 2009 return prepared. Taxpayer 3 provided Chand with a copy of his Forms W2 and 1099 to
28 a young man that Taxpayer 3 believed was Mr. Chand's son. Taxpayer 3 was asked where he

1 worked and what kind of car he owned. Mr. Chand prepared and signed the tax return.
2 Taxpayer 3 could not substantiate any portion of the \$4,392 claimed deduction for personal
3 property taxes paid for 2009 and substantiated only \$150 of the \$969 claimed in 2010. The
4 returns Chand prepared for Taxpayer 3 for 2009 and 2010 claimed numerous unsubstantiated
5 deductions for items such as travel and clothing expenses. Mr. Chand reported a total of \$21,268
6 in Schedule C expenses for 2009 and \$10,761 for 2010, creating Schedule C losses that offset
7 Taxpayer 3's wage income. In fact, Taxpayer 3 did not incur any of these Schedule C expenses
8 in his business. The audit adjustments resulted in a tax deficiency of \$6,067 in 2009 and \$4,682
9 in 2010.

10 17. Taxpayer 4 (husband and wife) were referred by a co-worker to Mr. Chand. Mr.
11 Chand prepared their 2009 return for \$200 and 2010 return for \$240. Taxpayer 4 provided their
12 Forms W-2 and 1098, and other information to Mr. Chand. Their 2009 and 2010 returns
13 contained numerous unsubstantiated claims for deductions. For example, the 2009 Schedule A
14 claimed a deduction for \$2,231 for personal property taxes. Taxpayer 4 stated they do know why
15 this amount was claimed. They did not know how Mr. Chand arrived at the amounts reported on
16 the Schedule A. Chand reported business related vehicle expenses, union dues and related
17 expenses of over \$15,000 on the 2009 and 2010 returns. During an examination, Taxpayer 4
18 stated that they did not use their vehicle for business reasons, only personal, including
19 commuting to work and they did not pay union dues. Taxpayer 4 received rental income in 2009
20 and 2010, but Chand underreported this income. Finally, Chand filed returns claiming education
21 credits to which Taxpayer 4 was not entitled. The examination adjustments resulted in tax
22 deficiencies of \$3,167 and \$3,856 for the 2009 and 2010 returns, respectively.

23
24 PRIOR CRIMINAL PROSECUTION

25 18. On December 6, 2012, Sarad Chand was indicted on multiple counts of aiding and
26 assisting in the preparation and presentation of false and fraudulent tax returns with respect to
27 conduct like that which is described above.

1 19. On May 15, 2014, Sarad Chand pled guilty to one of these counts. As part of his
2 plea agreement, Chand agreed to the entry of a permanent civil injunction. A criminal judgment
3 was entered on August 15, 2014 in the matter of *United States v. Chand, et al*, Case No.1:12-CR-
4 00425-LJO-SKO (E.D. Cal.).

5
6 **Count I: Injunction Under I.R.C. § 7408 for Engaging in Conduct Subject to**
7 **Penalty Under I.R.C. § 6701**

8 20. The United States incorporates by reference the allegations in paragraphs 1
9 through 19.

10 21. Section 7408 of the Internal Revenue Code (26 U.S.C.) authorizes a district court to
11 enjoin conduct subject to penalty under Section 6701. In turn, Section 6701 imposes a penalty:
12 (1) on any person who aids, assists, procures, or advises with respect to the preparation or
13 presentation of any portion of a tax return, claim or other document (“portion”); (2) when that
14 person knows or has reason to know that such portion will be used in connection with a material
15 matter arising under federal tax law; and (3) that person knows that such portion (if used) would
16 result in an understatement of the liability for the tax of another person. Procuring the
17 preparation of tax returns includes ordering (or otherwise causing) a subordinate to do an act, as
18 well as knowing of, and not attempting to prevent, participation by a subordinate in an act.

19 23. Defendant, through his actions detailed above, caused the presentation and
20 preparation of false tax returns. By preparing tax returns that claim false or inflated Schedule C
21 income and expenses, earned income, improper education credits, and false itemized deductions,
22 defendant knowingly and willfully prepared false federal income tax returns for customers and
23 knew the false returns would understate his customers’ correct tax liabilities. This conduct,
24 therefore, is subject to penalty under I.R.C. § 6701.

25 24. If the Court does not enjoin defendant, he is likely to continue to engage in conduct
26 subject to penalty under I.R.C. § 6701. Injunctive relief is therefore appropriate under I.R.C. §
27 7408.

1 **Count II: Injunction Under I.R.C. § 7407**

2 25. The United States incorporates by reference the allegations in paragraphs 1 through
3 24.

4 26. I.R.C. § 7407 authorizes a district court to enjoin a tax return preparer from engaging
5 in certain prohibited conduct or from further acting as a tax return preparer. The prohibited
6 conduct justifying an injunction includes, among other things, the following:

7 a. Engaging in conduct subject to penalty under I.R.C. § 6694(a), which penalizes a tax
8 return preparer who prepares a tax return or claim for refund that contains an unreasonable
9 position and the tax return preparer knew (or reasonably should have known) of the unreasonable
10 position;

11 b. Engaging in conduct subject to penalty under I.R.C. § 6694(b), which among other
12 conduct, penalizes a tax return preparer who recklessly or intentionally disregards IRS rules or
13 regulations;

14 c. Engaging in conduct subject to penalty under I.R.C. § 6695(g), which penalizes a tax
15 return preparer who fails to comply with the statutory due diligence requirements for
16 determining eligibility for the Earned Income Tax Credit; or

17 d. Engaging in any other fraudulent or deceptive conduct that substantially interferes
18 with the proper administration of the internal revenue laws.

19 27. In order for a court to issue an injunction under I.R.C. § 7407, the court must find
20 that: (1) the tax return preparer engaged in the prohibited conduct; and (2) injunctive relief is
21 appropriate to prevent the recurrence of such conduct.

22 28. If a court finds that a preparer has continually or repeatedly engaged in such conduct,
23 a court may issue an injunction prohibiting that specific enumerated conduct or, if it determines
24 that a conduct-specific injunction would not be sufficient to prevent that person's interference
25 with the proper administration of the internal revenue laws, a court may enjoin the person from
26 further acting as a federal tax return preparer.

27 29. Defendant is a tax return preparer who has repeatedly and continually prepared or
28 submitted tax returns or portions of tax returns that contain unreasonable positions and

1 substantially understate the liability for tax on the return by, *inter alia*, fabricating and/or grossly
2 inflating deductible expenses resulting in improper tax refunds. Defendant knew (or reasonably
3 should have known) of the unreasonable, unrealistic, frivolous and fraudulent positions. This
4 conduct is subject to penalty under I.R.C. § 6694(a) and therefore may be enjoined pursuant to
5 26 U.S.C. § 7407(b).

6 30. Defendant has continually and repeatedly engaged in conduct subject to penalty
7 under I.R.C. § 6694(b) by intentionally or recklessly disregarding pertinent rules and regulations.
8 This conduct is subject to penalty under I.R.C. § 6694(b) and therefore may be enjoined pursuant
9 to 26 U.S.C. § 7407(b).

10 31. Defendant has also engaged in conduct subject to penalty under I.R.C. § 6695(g).
11 Defendant has failed to satisfy the mandatory due diligence requirements of I.R.C. § 6695(g) and
12 Treas. Reg. § 1.6695-2(b).

13 32. In addition, defendant has repeatedly engaged in other fraudulent or deceptive
14 conduct that substantially interferes with the proper administration of the internal revenue laws.
15 Examples of such misconduct include: (1) knowingly preparing, assisting in preparing, and
16 encouraging the preparation of tax returns containing false and fraudulent information; and (2)
17 encouraging and soliciting customers to provide false and fraudulent information for the purpose
18 of filing false tax refund claims. All of this constitutes conduct that may and should be enjoined
19 under I.R.C. § 7407(b).

20 33. If defendant is not enjoined, he is likely to continue to cause the filing of false and
21 fraudulent tax returns and engaging in fraudulent conduct, conduct which violates I.R.C. §
22 6694(a), (b) and (g).

23 34. Defendant's continual and repeated conduct subject to an injunction under I.R.C.
24 § 7407 shows that a narrow injunction prohibiting only specific conduct would be insufficient to
25 prevent his interference with the proper administration of the internal revenue laws. Thus,
26 defendant should be permanently barred from acting as a federal tax return preparer.

27 **Count III: Injunction Under I.R.C. § 7402(a) as Necessary to Enforce the Internal**
28 **Revenue Laws**

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

3 36. Section 7402(a) of the Internal Revenue Code authorizes a court to issue orders of
4 injunction as may be necessary or appropriate for the enforcement of the internal revenue laws,
5 even if the United States has other remedies available for enforcing those laws.

6 37. Defendant's activities, described above, substantially interfere with the enforcement
7 of the internal revenue laws by promoting abusive tax schemes that result in customers not
8 paying their true federal income tax liabilities and/or receiving improper tax refunds.

9 38. Unless enjoined, the defendant is likely to continue to engage in this improper
10 conduct. If defendant is not enjoined, the United States will suffer irreparable injury by failing
11 to receive accurate tax payments from defendant's customers and erroneously providing federal
12 income tax refunds to customers not entitled to receive them.

13 39. The tax returns defendant prepared improperly and illegally reduced his
14 customers' federal income tax liabilities. In addition, defendant's actions directing the
15 preparation of tax returns containing false and fraudulent information and evading statutory due
16 diligence requirements, directly results in, as defendant knows, the filing of false, fraudulent and
17 incorrect tax returns.

18 40. Permanently enjoining the defendant is in the public interest because an injunction,
19 backed by the Court's contempt powers, if needed, will stop his illegal conduct and the harm
20 he has already caused the United States.

21 41. Unless enjoined by this Court, defendant is likely to continue to engage in
22 illegal conduct, as described above. Defendant, if not enjoined, is likely not only to continue
23 to engage in conduct subject to penalty under I.R.C. §§ 6694, 6695 and 6701, but also to engage
24 in other conduct that substantially interferes with the enforcement of the internal revenue laws.
25 Such conduct includes: (1) knowingly preparing, assisting in preparing, and encouraging the
26 preparation of tax returns containing false and fraudulent information; and (2) encouraging and
27 soliciting customers to provide false and fraudulent information for the purpose of filing false tax
28 refund claims. Moreover, the United States will suffer irreparable harm from the underpayment

1 of tax liability, the exhaustion of limited resources to enforce the internal revenue laws, and the
2 tax losses caused by defendants' actions will continue.

3 42. The substantial harm caused to the United States and the public by defendants'
4 misconduct outweighs the harm to the defendants of being enjoined.

5 43. Enjoining the defendant is in the public interest because an injunction, backed by the
6 Court's contempt powers if needed, will stop defendant's predatory practices and illegal
7 conduct and the harm that such actions cause the United States and its citizens.

8 **Relief Sought**

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

10 A. That this Court find that defendant engaged in conduct subject to penalty under
11 I.R.C. § 6701 and that injunctive relief under I.R.C. § 7408 is appropriate to prevent recurrence
12 of that conduct;

13 B. That the Court find that defendant continually and repeatedly engaged in conduct
14 subject to penalty under I.R.C. § 6694 and § 6695, and that injunctive relief under I.R.C. § 7407
15 is therefore necessary and appropriate to prevent the recurrence of that conduct;

16 C. That the Court, pursuant to I.R.C. § 7407, enter a permanent injunction
17 prohibiting defendant from acting as a federal tax return preparer, and expressly prohibiting
18 defendant from owning, managing, supervising, working in, or otherwise being involved in any
19 tax return preparation business in any way;

20 D. That the Court find defendant engaged in conduct substantially interfering with
21 the administration and enforcement of the internal revenue laws and that injunctive relief is
22 appropriate to prevent recurrence of that conduct under I.R.C. § 7402(a);

23 E. That this Court, pursuant to I.R.C. §§ 7402, 7407 and 7408, enter a permanent
24 injunction prohibiting defendant (individually and through any other name or entity), and his
25 representatives, agents, servants, employees, attorneys, and those persons in active concert or
26 participation with them, from directly or indirectly:

27 i. Acting as a federal tax return preparer or assisting in, directing or advising others with
28 the preparation or filing of any federal tax returns, amended returns, or other related

1 documents or forms for any person or entity other than himself, or appearing as a
2 representative on behalf of any person or organization before the Internal Revenue
3 Service, either individually or through an entity, inclusive of S. Chand Tax & Accounting
4 Services, Inc.;

5 ii. Assisting or advising anyone in connection with any tax matter;

6 iii. Having an ownership interest in or working for (either as an employee or independent
7 contractor) or profiting from any entity that prepares tax returns or represents clients
8 before the Internal Revenue Service;

9 iv. Misrepresenting any of the terms of this Order;

10 v. Organizing or selling plans, or arrangements that advise or encourage taxpayers to
11 attempt to evade the assessment or collection of their correct federal tax;

12 vi. Engaging in any other activity subject to penalty under I.R.C. § 6694, 6695,
13 6700, or 6701, including preparing or assisting in the preparation of a document related
14 to a matter material to the internal revenue laws that includes a position Defendant know
15 will (if so used) result in an understatement of another person's tax liability; and

16 vii. Engaging in conduct that substantially interferes with the proper administration and
17 enforcement of the internal revenue laws and from promoting any false tax scheme.

18
19 F. That this Court order that defendant produce to counsel for the United States within 2
20 days of the date of this order a list that identifies by name, social security number, address, e
21 mail address, telephone number, and tax period(s) all persons from for whom they prepared
22 federal tax returns, forms, or claims for refund since January 1, 2012.

23 G. That this Court order that defendant Sarad Chand, within 30 days of this Order, shall
24 send a letter (approved by counsel for the United States) to customers for whom he prepared
25 federal tax returns since January 1, 2007, informing them that he has agreed to this permanent
26 injunction and is no longer permitted to prepare tax returns for others. Chand shall certify,
27 within 35 days of this Order, that he has complied with this provision.

28

1 H. That this Court enter an order retaining jurisdiction to enforce the injunction and
2 ordering that the United States may conduct discovery using the procedures prescribed by Fed.
3 R. Civ. P. 30, 31, 33, 34, 36, and 45 or as otherwise provided in the Federal Rules of Civil
4 Procedure to ensure compliance with this permanent injunction.

5
6 CAROLINE D. CIRAOLO
7 Acting Assistant Attorney General

8 Dated: March 9, 2015.

9 /s/ Aaron M. Bailey
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