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IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

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UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
v.)
)
RONALD M. GREEN, d/b/a)
PEOPLES RIGHTS TRUSTED TAX)
SERVICES and ECONOMIC)
EMPOWERMENT FOR ALL PEOPLE,)
)
Defendant.)

NORFOLK, VA.

Civil No. 2:04cv329

COMPLAINT FOR PERMANENT INJUNCTION

Plaintiff, the United States of America, complains as follows against defendant Ronald M. Green, doing business as Peoples Rights Trusted Tax Service and Economic Empowerment for All People:

1. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General, pursuant to Internal Revenue Code (I.R.C.) (26 U.S.C.) §§ 7402(a), 7407, and 7408.

2. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and I.R.C. §§ 7402(a), 7407, and 7408.

3. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because Green resides in this jurisdictional district.

Defendant

4. Green resides at 5544 Barnhollow Road, Norfolk, Virginia. He does business under the names Peoples Rights Trusted Tax Service and Economic Empowerment for All People.

Green's Activities

5. Since at least 1999, Green has prepared fraudulent tax returns purporting to eliminate his customers' taxable income and requesting refunds of their previously paid taxes.

6. For some customers, Green reports the customer's income on an IRS Form 1041, U.S. Income Tax Return for Estates and Trusts, instead of a Form 1040, U.S. Individual Income Tax Return, as if the customer's income belongs to a trust, and improperly deducts non-deductible expenses to reduce or eliminate the income and claim a refund.

7. For other customers, Green reports the customer's income on a Form 1040, but improperly deducts trust-related expenses and other non-deductible expenses to reduce or eliminate the customer's income and to claim a refund.

8. Green also prepares IRS Forms 2555, Foreign Earned Income, falsely reporting that the customer spent the entire tax year living outside the United States and that his or her income is therefore excludible on Form 1040.

9. A Form 1041 is not the proper vehicle for reporting individual income; rather, individuals are required to report their income on Form 1040.

10. The trusts that are the subject of Green's returns either do not exist or lack economic substance and are shams. Green's customers retain complete control over the assets purportedly belonging to the trusts. The only function of these trusts is to improperly reduce or eliminate the customer's federal income tax liability.

11. The deductions Green claims on the returns he prepares include such non-deductible personal expenses as cable television bills, cellular telephone bills, clothing, food, car payments, gas, and entertainment.

12. Green attended a seminar conducted by Trust Educational Services (TES), also known as National Trust Services (NTS), in Lancaster, Pennsylvania.

13. Through seminars, called "Trust Academies," conducted nationwide, TES promoted an abusive trust scheme that advocated using sham trusts, Forms 1041, and non-deductible personal expenses to reduce or eliminate income. TES and one of its founders, Roderick A. Prescott, have been permanently enjoined from organizing, promoting, marketing, or selling their abusive trust scheme. (*United States v. Roderick A. Prescott and Trust Educational Services (TES)*, Civil No. 02-CV-0692 (S.D. Cal.)).

14. Several of Green's customers also attended TES's Trust Academies and purchased purported trust instruments from TES. They then hired Green to prepare returns for their TES-created trusts, which are sham trusts lacking in economic substance.

15. Upon information and belief, Green met some of his customers through TES.

16. The IRS has identified 87 Forms 1041 and 224 Forms 1040 prepared by Green from 1999 to 2003.

17. The IRS has examined the returns Green prepared for twelve of his customers for multiple years. All of these returns contain significant understatement of tax, through such devices as claiming inflated deductions; claiming deductions for personal, non-deductible expenses; using a Form 1041 to report individual income; and using a Form 2555 to falsely claim that the customer resides outside the United States.

18. The IRS has identified a tax loss of \$744,679, excluding penalties and interest, attributable to the returns Green prepared for the twelve customers the IRS has examined.

19. In addition, the IRS erroneously issued refunds totaling \$979,135.86 based on the fraudulent returns Green prepared. This amount includes \$12,914 in refunds issued to Green's wife Pamela Green and \$3,770 issued to Green. It also includes two refund checks, totaling \$962,451.86, issued in September 2003 and January 2004; the IRS recovered one of those checks, for \$240,964, before it was cashed.

20. The majority of Green's customers reside in Tidewater—in Norfolk, Virginia Beach, Portsmouth, and Chesapeake. He also has customers in New York, Arizona, Maryland, Alabama, Pennsylvania, California, South Carolina, and Texas.

21. Green charges customers up to \$1,795 for each return he prepares, plus 10% of any refund, credit, or taxes saved.

22. Green requires some customers to execute a contract agreeing not to disclose any aspect of his return preparation service. The contract states that if the customer discloses the contract or the nature of Green's tax services to anyone, he or she will be liable to Green for "\$1,000,000 dollars plus withholding taxes in gold currency"

23. Green advises his customers whose returns are selected for examination not to cooperate with the IRS, and threatens to sue them for \$1 million if they disclose his services to the IRS.

24. At Green's direction, his customers have refused to cooperate with IRS examinations, have failed to appear at scheduled appointments with the IRS, and have refused IRS requests for documents.

25. Green personally obstructs IRS examinations of the returns he prepares by refusing to provide information to the IRS and by sending frivolous letters to the IRS challenging its authority.

26. On at least one occasion, Green has tried to intimidate IRS personnel.

27. At a September 24, 2002 meeting, IRS Revenue Agent Rick Cook informed Green that trust returns were not the proper vehicle for reporting individual income and that the law requires individuals to file Forms 1040.

28. The United States filed suit, *United States v. Ronald M. Green*, Case No. 2:03-cv-463, in this Court on July 1, 2003, to recover the erroneous refunds issued to Green. On January 7, 2004, the Honorable Jerome B. Friedman entered default judgment in favor of the United States for the erroneous refunds.

29. The United States filed suit, *United States v. Pamela Green*, Case No. 2:03-cv-295, in this Court on April 17, 2003 to recover the erroneous refunds issued to Pamela Green. On March 15, 2004, the parties entered into a consent judgment in favor of the United States.

30. Green has continued to prepare fraudulent returns after the United States brought suit to recover erroneous refunds from him and his wife, and after Revenue Agent Cook informed him that trust returns were not the proper vehicle for reporting individual income.

Count I
Injunction under I.R.C. § 7407

31. The United States incorporates by reference the allegations in paragraphs 1-30.

32. I.R.C. § 7407 authorizes a district court to enjoin an income tax preparer from:

- (a) engaging in conduct subject to penalty under I.R.C. § 6694 (which penalizes a tax return preparer who prepares or submits a return that contains an unrealistic position),
- (b) engaging in conduct subject to penalty under I.R.C. § 6695 (which penalizes a return preparer who fails to furnish a proper identifying number, keep copies of returns prepared or list of customers for whom returns were prepared, or turn over those copies of returns or list of customers to the IRS upon request),
- (c) misrepresenting his experience or education as a tax return preparer, or
- (d) engaging in any fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws,

if the court finds that injunctive relief is appropriate to prevent recurrence of such conduct.

33. If the court finds that a preparer has continually or repeatedly engaged in the conduct prohibited by I.R.C. § 7407 and that a narrower injunction prohibiting only that specific enumerated conduct would not be sufficient to prevent that person's interference with the proper administration of the internal revenue laws, the court may permanently enjoin the person under I.R.C. § 7407 from acting as a federal income tax return preparer.

34. Green prepares federal tax returns that claim inflated deductions and deductions for nondeductible personal and fictitious expenses, falsely attribute the customer's income to a sham trust, and falsely claim that the customer spent the taxable year abroad. In so doing, Green has asserted positions that he knew or should have known were unrealistic within the meaning of I.R.C. § 6694.

35. Green has attempted to delay or obstruct IRS examinations of the federal income tax returns that he prepared by refusing to respond to IRS inquiries, by directing his customers not to respond to IRS inquiries, and by threatening his customers, through his contract, that if they disclose his services they will be liable to him for more than \$1 million.

36. Green's tax return preparation service and his attempts to delay or obstruct IRS examinations fall within I.R.C. § 7407(b)(1)(A) and (D), and thus are subject to injunction under I.R.C. § 7407.

37. Green's repetition of conduct subject to injunction under I.R.C. § 7407, even after the IRS informed him that his returns contained significant errors and after the United States filed suit against him and his wife to recover erroneous refunds, warrants an injunction permanently barring him from acting as a federal income tax return preparer.

38. Green is likely to continue to prepare fraudulent federal tax returns unless he is enjoined.

Count II
Injunction under I.R.C. § 7408

39. Plaintiff incorporates by reference the allegations in paragraphs 1-38.

40. I.R.C. § 7408 authorizes a district court to enjoin any person from engaging in conduct subject to penalty under either I.R.C. § 6700 or § 6701 if injunctive relief is appropriate to prevent recurrence of that conduct.

41. I.R.C. § 6701 imposes a penalty on any person who aids or assists in, procures, or advises with respect to the preparation or presentation of a federal tax return, claim for refund, or other document while knowing (or having a reason to believe) that the return, claim, or other

document will be used in connection with any material matter arising under the internal revenue laws and if used would result in an understatement of another person's tax liability.

42. Green prepares federal tax returns that he knows or has reason to believe would be used in connection with a material matter arising under the internal revenue laws—the determination of his customers' tax liabilities—and that result in an understatement of his customers' tax liabilities.

43. Green prepares letters to the IRS on behalf of his customers that he knows or has reason to believe will be used in connection with the determination of his customers' tax liabilities and that if so used would result in an understatement of those liabilities.

44. Unless enjoined by this court, Green is likely to continue to engage in such conduct.

45. Injunctive relief is therefore appropriate under I.R.C. § 7408.

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

46. The United States incorporates by reference the allegations in paragraphs 1 through 45.

47. I.R.C. § 7402(a) authorizes a court to issue injunctions as may be necessary or appropriate for the enforcement of the internal revenue laws, even if the United States has other remedies available for enforcing the internal revenue laws.

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

49. The federal income tax returns that Green prepares improperly and illegally reduce or eliminate his customers' federal income tax liabilities.

50. The contract Green requires some of his customers to sign improperly purports to restrict them from cooperating with the IRS by threatening that they will be liable to Green for more than \$1 million if they do so.

51. Green has unlawfully refused IRS requests for information regarding the returns he has prepared, and has unlawfully directed his customers not to provide information to the IRS.

52. Green has attempted to harass or intimidate IRS personnel attempting to examine his customers' tax liabilities.

53. If Green is not enjoined, he is likely to continue to interfere with the enforcement of the internal revenue laws.

54. The United States is harmed by Green's tax return preparation service and by his interference with IRS examinations because Green's customers are not reporting or paying the correct amount of taxes.

55. The United States is also harmed because the IRS is forced to devote its limited resources to identifying and recovering this lost revenue from Green's customers.

56. The United States will suffer irreparable harm if Green is not enjoined because the tax losses he causes with his fraudulent return will continue to accumulate and may prove to be unrecoverable, and because the IRS will have to continue to devote resources to assessing and collecting his customers' taxes.

57. While the United States will suffer irreparable harm if Green is not enjoined, Green will not be harmed by being compelled to obey the law.

58. The public interest will be advanced by enjoining Green because an injunction will stop his illegal conduct and the harm that conduct is causing.

59. Green's customers are being harmed because they pay him significant sums for tax return preparation that leads to additional penalties and interest when the IRS discovers Green's errors and assesses taxes against the customer.

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

A. That the Court find that Green has engaged in conduct subject to penalty under I.R.C. §§ 6694 and 6701 and that injunctive relief under I.R.C. §§ 7407 and 7408 is necessary and appropriate to prevent recurrence of that conduct;

B. That the Court find that Green has 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) and the Court's inherent equity powers;

C. That the Court, pursuant to I.R.C. § 7407, enter a permanent injunction prohibiting Green from acting as a federal income tax return preparer;

D. That the Court, pursuant to I.R.C. §§ 7402(a) and 7408, enter a permanent injunction prohibiting Green, individually and doing business under any other name or using any other entity, and his representatives, agents, servants, employees, attorneys, and those persons in active concert or participation with him, from directly or indirectly:

1. Preparing or assisting in the preparation of a document related to a matter material to the internal revenue laws, including federal tax returns and related documents, that includes a position that he knows or has reason to know will, if used, result in an understatement of tax liability;

2. Advocating or promoting the use of Form 2555 when the individual has no foreign earned income, the use of Form 1041 to report individual income, or the use of sham trusts to reduce federal income tax;
3. Engaging in any other activity subject to penalty under I.R.C. § 6701;
4. Entering into a contract which purports to restrict any person from openly discussing his return preparation service and related activities;
5. Attempting to enforce, through a law suit or other means, any contract that purports to restrict any person from openly discussing his return preparation service and related activities;
6. Engaging in other conduct interfering with the enforcement of the internal revenue laws;
7. Corresponding with the IRS on behalf of any other person; and
8. Representing any other person or appearing with any other person, except in regard to his own tax liability, before the IRS;

E. That the Court, pursuant to I.R.C. § 7402(a), enter an injunction requiring Green to contact by mail all individuals who have purchased his tax return preparation service, or any other tax-related shelter, plan, or arrangement in which he has been involved, and inform those individuals of the Court's findings and attach a copy of the permanent injunction against him;

F. That the Court, pursuant to I.R.C. § 7402(a), enter an injunction requiring Green to contact by mail all individuals who have entered into a contract with him in which the individual promised not to disclose information regarding Green's services, and notify those individuals that the contract is null and void;

G. That the Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter an injunction requiring Green to produce to counsel for the United States any records in his possession or to which he has access, identifying by name, taxpayer-identification number, address, and telephone number all individuals and entities for whom he has prepared federal tax returns and all individuals who have purchased his tax return preparation service or any other tax-related shelter, plan, or arrangement in which he has been involved;

H. That the Court, pursuant to I.R.C. § 6695, order Green to produce to counsel for the United States copies of all federal tax returns he has prepared for any person from January 1, 1999, to the present;

I. That the Court order Green to complete the requirements listed *supra* in paragraphs E through H within eleven days of the Court's order and order Green to file with the Court a certificate of compliance with those requirements, along with evidence of compliance, within twelve days of the Court's order;

J. That the Court retain jurisdiction over Green and this action for the purpose of enforcing any permanent injunction entered against Green;

K. That the United States be entitled to conduct discovery for the purpose of monitoring Green's compliance with the terms of any permanent injunction entered against him; and

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

Respectfully submitted,

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