

IN THE UNITED STATES DISTRICT COURT FOR THE  
SOUTHERN DISTRICT OF FLORIDA  
MIAMI DIVISION

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	
v.	)	
	)	
ILIANA SORENSEN	)	Case No. 1:10-cv-23836
a/k/a ILIANA GAJAFSKY,	)	
individually and	)	
d/b/a SORENSEN TAX PREP,	)	
	)	
	)	
Defendant.	)	

**COMPLAINT FOR PERMANENT INJUNCTION**

Plaintiff, United States of America, for its complaint against Iliana Sorensen (“Sorensen”), individually and doing business as Sorensen Tax Prep, states as follows:

1. Jurisdiction is conferred on this Court by 28 U.S.C. §§ 1340 and 1345 and 26 U.S.C. §§ 7402(a), 7407, and 7408.
2. This suit is brought under §§ 7401, 7402, 7407, and 7408 of the Internal Revenue Code (I.R.C.) (26 U.S.C.) to enjoin Iliana Sorensen and Sorensen Tax Prep, as follows:
  - (a) Directly or indirectly organizing, promoting, marketing, or selling any plan or arrangement that advises or assists taxpayers in violating or attempting to violate internal revenue laws or unlawfully evading the assessment or collection of their federal tax liabilities, including any plan or arrangement advocating the use of the

“zero income” tax return and asserting a claim for false income tax withholding under false claims that:

- i. Taxpayers have an account with the Treasury Department that they can use to pay their debts or draw upon for refunds through a fraudulent process that is often called “redemption” or “commercial redemption;”
  - ii. Taxpayers can name the Secretary of the Treasury as their fiduciary and/or can draw on the Treasury of the United States to pay their tax debt using Forms 1099, bonded promissory notes, sight drafts or other documents;
  - iii. Taxpayers can use the Uniform Commercial Code to “accept for value” a document evidencing a debt and taxpayers can stamp a document evidencing a debt with the phrase “accepted for value” as part of a plan for the Treasury to satisfy the debt; and
  - iv. Taxpayers can issue false Forms 1099-OID to a creditor and then claim income and/or income tax withholding equal to all or part of the taxpayer’s debt to the creditor named on the Form 1099;
- (b) Engaging in conduct subject to penalty under 26 U.S.C. § 6700, including organizing or selling a plan or arrangement and making or furnishing a statement regarding the excludability of income or securing of any other tax benefit that the person knows or has reason to know is false or fraudulent as to any material matter;

- (c) Engaging in conduct subject to penalty under 26 U.S.C. § 6701, including preparing and filing tax returns and other documents that understate the tax liabilities of others;
- (d) Preparing or filing, or assisting in, or directing the preparation or filing of any federal tax return, amended return, or other related documents or forms for any other person or entity;
- (e) Preparing her own federal income tax returns claiming false tax withholding;
- (f) Filing, providing forms for, or otherwise aiding and abetting the filing of frivolous Forms 1040, Forms 1040X, Forms 1099-OID, or Forms 1099-A for herself or others, including the notarization or signing of certificates of service or similar documents in connection with the frivolous tax returns;
- (g) Representing persons before the Internal Revenue Service; and
- (h) Engaging in any other conduct that is subject to penalty under the Internal Revenue Code or that interferes with the proper administration and enforcement of the internal revenue laws.

3. 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 under 26 U.S.C. §§ 7402, 7407, and 7408.

**Defendant**

4. Sorensen resides in and does business in Hialeah, Florida. Venue is thus proper in this Court under 28 U.S.C. § 1391.

5. Sorensen and her business, Sorensen Tax Prep, prepare tax returns for others in exchange for compensation.

#### **Sorensen's Tax-Fraud Scheme**

6. In 2009, Sorensen, individually and doing business as Sorensen Tax Prep, prepared and filed fraudulent tax returns (Forms 1040 and 1040X), and other frivolous documents on behalf of others, in exchange for compensation, and for herself.

7. On the returns she prepares Sorensen fabricates the amount of tax withheld on behalf of her customers. The inflated tax withholding reported to the IRS on her customers' returns is the basis of erroneous refund claims.

8. Often Sorensen describes the withholding as "1099 withholding."

9. Sorensen prepares and/or files false Forms 1099-OID and 1099-A in support of the fraudulent returns she prepares. On these fabricated Forms 1099, Sorensen reports large amounts of interest income purportedly paid to her customers along with large amounts of tax supposedly withheld on behalf of her customers.

10. Sorensen transmits fabricated Forms 1099-A and 1099-OID through the IRS system for "Filing Information Returns Electronically" (the "FIRE system") in support of other fraudulent refund claims on returns that were nominally self-prepared by the taxpayer.

11. The Forms 1040 that Sorensen submits with the returns she prepares and/or files report substantial interest income and contain inflated claims for withholding taxes.

12. The returns that Sorensen, while doing business as Sorensen Tax Prep, prepares and/or files fail to properly report her customers' income and tax liabilities.

13. Consequently, her customers fail to file proper federal income tax returns and falsely claimed large tax refunds to which they are not entitled.

14. For example, Sorensen, while doing business as Sorensen Tax Prep, prepared a 2008 Form 1040 on behalf of Juana M. Gonzalez who resides in Miami, Florida. On Gonzalez's 2008 federal income tax return, Sorensen falsely claimed that Gonzalez earned interest income in 2008 in the amount of \$987,500 and falsely claimed that \$888,750 in federal income tax had been withheld on Gonzalez's behalf. The taxpayer attached a Schedule B listing multiple financial institutions as the payers of interest totaling \$987,500. As a result of these false claims, Gonzalez claimed an erroneous refund of \$561,232 to which she was not entitled. Attached to the Form 1040 were three Forms 1099-OID reporting over \$900,000 in fabricated OID and \$888,750 in fabricated withholding.

15. Similarly, in 2009, Sorensen, while doing business as Sorensen Tax Prep, prepared a 2008 Form 1040 on behalf of Ana Stubbert of Miami, Florida. Stubbert falsely reported \$1,069,240 as taxable interest income and falsely reported \$1,069,220 as federal tax withheld on her behalf. As a result of these false claims, Stubbert claimed a fraudulent refund in the amount of \$719,113.

16. In 2009, Sorensen prepared and filed a frivolous 2008 Form 1040 for herself. Sorensen falsely reported \$388,000 as taxable interest income and falsely reported \$393,127 as

federal tax withheld on her behalf. As a result of these false claims, Sorensen claimed a fraudulent refund in the amount of \$263,299. Sorensen attached a Schedule B listing multiple financial institutions as the payers of interest totaling \$388,000. Sorensen fabricated Forms 1099-OID from these financial institutions that reported OID in excess of \$300,000 purportedly paid to her.

17. In June 2009, the IRS notified Sorensen that it rejected her refund claim for the 2008 tax year. In response to this notice, Sorensen stated in a letter to the IRS that the IRS actions were unlawful and that she would not accept the IRS classifying her return or her correspondence as frivolous because she was not concerned or interested in its opinion.

#### **Harm Caused by Sorensen's Misconduct**

18. Sorensen, individually and doing business as Sorensen Tax Prep, prepared tax returns on behalf of her customers that claimed fraudulent tax refunds. Many of the refund requests on these fraudulent returns exceeded \$300,000 and one return requested a refund for \$719,113. The inflated tax withholding reported to the IRS on her customers' returns exceeded \$10 million and the erroneous refund claims based on that withholding exceeded \$7 million. The IRS has mistakenly issued at least \$1.5 million in erroneous refunds as a result of Sorensen's fraudulent return preparation.

19. In addition to this harm, the purportedly "self-prepared" returns that rely on fabricated Forms 1099 that Sorensen transmitted to the IRS erroneously requested refunds exceeding \$11 million. One of these returns requested a refund for \$690,898. The IRS has mistakenly issued \$1,843,748 in erroneous refunds for these returns.

20. The scheme employed by Sorensen is part of a trend among tax defiers to file frivolous tax returns and Forms 1099-OID with the IRS and courts in an attempt to escape their federal tax obligations. Many of these tax defiers rely on frivolous “redemption” theories to support their claims. Promoters of redemption theories claim that the United States government maintains for each taxpayer a secret treasury account worth millions of dollars. By sending government officials and banks unsolicited documents and various IRS forms, promoters claim that this nonexistent secret treasury account can be used to satisfy a person’s debts and liabilities, including tax liabilities.

21. In reality, Sorensen’s scheme fraudulently reports that tax was withheld on behalf of her customers and then claims refunds based on that non-existent withholding.

22. The returns that Sorensen submits on behalf of her customers falsely claim that her customers withheld the total amount listed on fraudulent Forms 1099-OID attached to the tax returns. The amounts listed on the Forms 1099-OID are apparently based on the total amount of debt (commonly a mortgage) the customer owes to his/her creditor.

23. In reliance on Sorensen’s services, her customers have failed to file proper federal income tax returns which has either deprived her customers of proper tax refunds to which they may have been entitled or deprived the United States of additional tax revenue owed by Sorensen’s customers. Her customers may also be subject to penalties for erroneous refund claims.

24. Sorensen’s fraudulent tax return preparation has resulted in the issuance of over \$1.5 million in erroneous refunds to her customers.

25. In addition to the lost revenue due to the failure of Sorensen's customers to file proper income tax returns and the issuance of erroneous refunds, the government has also incurred the expense of conducting the investigation of Sorensen's fraudulent return preparation and responding to and processing the frivolous documents Sorensen submitted to the IRS.

26. The false Forms 1099-OID submitted with Sorensen's returns may also result in the assessment of erroneous penalties against creditors identified in the false Forms 1099-OID for failing to timely submit those forms to the IRS.

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

27. The United States incorporates by reference the allegations contained in paragraphs 1 through 26.

28. I.R.C. § 7407 authorizes the United States to seek an injunction against any tax return preparer who has engaged in any "fraudulent or deceptive conduct which substantially interferes with the proper administration of the Internal Revenue laws," or who has "engaged in any conduct subject to penalty under section 6694 or 6695."

29. If a return preparer's misconduct is continual or repeated and the court finds that a narrower injunction (*i.e.*, prohibiting specific enumerated conduct) would not be sufficient to prevent the preparer's interference with the proper administration of federal tax laws, the court may enjoin the person from further acting as a return preparer.

30. Sorensen has repeatedly prepared and filed with the IRS false and frivolous federal income tax returns on behalf of her customers.

31. Sorensen has repeatedly engaged in fraudulent or deceptive conduct which substantially interferes with the proper administration of the internal revenue laws.

32. Sorensen prepared returns and claims of refund in which she took a position that was unreasonable or for which there was no reasonable possibility of success on the merits. Sorensen knew or reasonably should have known of the position. Sorensen has repeatedly and continually prepared and filed federal tax returns that understate her customers' tax liabilities as a result of unreasonable and frivolous claims and has thus engaged in conduct subject to penalty under 26 U.S.C. § 6694.

33. Sorensen has repeatedly and continually prepared and filed federal tax returns that understate her customers' tax liabilities as a result of Sorensen's willful attempt to understate her customers' tax liabilities and/or Sorensen's reckless and/or intentional disregard of internal revenue laws and regulations.

34. Injunctive relief is appropriate to prevent this misconduct because, absent an injunction, Sorensen is likely to continue to prepare false federal income tax returns and engage in other misconduct of the type described in this complaint.

35. Sorensen should be permanently enjoined under 26 U.S.C. § 7407 from acting as a federal tax return preparer because a more limited injunction would be insufficient to stop her from interfering with the proper administration of the tax laws and she cannot be trusted to properly prepare tax returns for others in the future.

**Count II: Injunction Under 26 U.S.C. § 7408 for Violation of 26 U.S.C. §§ 6700 and 6701**

36. The United States incorporates by reference the allegations contained in paragraphs 1 through 35.

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

38. I.R.C. § 6701 imposes a penalty on any person who aids or assists in, procures, or advises with respect to, the preparation of any portion of a return, affidavit, claim, or other document, who knows (or has reason to believe) that such portion will be used in connection with any material matter arising under the internal revenue laws, and who knows that such portion (if so used) would result in an understatement of the tax liability of another person.

39. Sorensen prepared and aided or assisted in the preparation and filing of federal income tax returns and other documents that resulted in the understatement of her customers' tax liabilities.

40. Sorensen knew or had reason to believe that the federal tax documents she prepared and filed would be used in connection with a material matter arising under federal tax law. Sorensen knew that the documents she prepared and filed would result in the material understatement of her clients' tax liabilities.

41. As a result, Sorensen engaged in conduct subject to penalty under 26 U.S.C. § 6701.

42. Iliana Sorensen has refused to cooperate with the IRS's investigation and has shown no remorse for her actions. In correspondence to the IRS, Sorensen has revealed that she is aware of both IRS guidance that is contrary to her reporting position, and IRS advice to her that her reporting position is incorrect. Notwithstanding these admissions, Sorensen has continued to file frivolous federal tax documents in connection with the Form 1099 Scheme.

43. Injunctive relief is appropriate to prevent recurrence of Sorensen's penalty conduct.

**Count III: Injunction Under 26 U.S.C. § 7402**

44. The United States incorporates by reference the allegations contained in paragraphs 1 through 43.

45. 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 those laws.

46. Sorensen substantially interfered with the enforcement of the internal revenue laws by promoting her "redemption" tax-fraud scheme and filing frivolous federal tax returns and other documents on behalf of her customers.

47. Sorensen's conduct interferes with the proper administration of the Internal Revenue Code because it results in the filing of frivolous documents with the IRS that harass public officials and hinder the IRS's ability to determine the correct tax liabilities of Sorensen's customers.

48. Sorensen's conduct results in irreparable harm to the United States for which the United States has no adequate remedy at law.

49. Unless enjoined by this Court, Sorensen will continue to promote and administer her tax-fraud scheme.

50. The United States is entitled to injunctive relief under I.R.C. § 7402(a) to prevent the recurrence of this misconduct.

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

A. That the Court find that Sorensen has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6701 and that injunctive relief is appropriate under 26 U.S.C. §§ 7402, 7407, and 7408 to bar Sorensen from acting as a tax return preparer and from engaging in conduct subject to penalty under 26 U.S.C. §§ 6700 and 6701;

B. That the Court find that Sorensen has engaged in fraudulent and/or deceptive conduct that substantially interferes with the enforcement and administration of the internal revenue laws, and that injunctive relief against her is appropriate to prevent the recurrence of that misconduct pursuant to 26 U.S.C. §§ 7402(a) and 7407;

C. That the Court, under 26 U.S.C. §§ 7402 and 7407, enter a permanent injunction barring Sorensen from acting as a federal tax return preparer and from preparing or filing federal tax returns for others, and from representing others before the IRS;

D. That the Court, under 26 U.S.C. §§ 7402 and 7407, enter a permanent injunction prohibiting Sorensen and her representatives, agents, servants, employees, attorneys, independent contractors, and anyone in active concert or participation with her, from directly or indirectly;

- i. Preparing or filing, or assisting in, or directing the preparation or filing of any federal tax return or amended return or other related documents or forms for any other person or entity;
- ii. Engaging in activity subject to penalty under 26 U.S.C. § 6694;
- iii. Engaging in any other activity subject to penalty under the Internal Revenue Code;

- iv. Engaging in other conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws;

E. That this Court, under 26 U.S.C. §§ 7402 and 7408, enter a permanent injunction prohibiting Sorensen and her representatives, agents, servants, employees, attorneys, independent contractors, and anyone in active concert or participation with her, from directly or indirectly by means of false, deceptive, or misleading commercial speech:

- i. Engaging in any activity subject to penalty under 26 U.S.C. § 6700, including organizing or selling a plan or arrangement and making a statement regarding the excludability of income or any other tax benefit by participating in the plan that she knows or has reason to know is false or fraudulent as to any material matter;
- ii. Engaging in any activity subject to penalty under 26 U.S.C. § 6701;
- iii. Directly or indirectly organizing, promoting, marketing, or selling any plan or arrangement that advises or encourages taxpayers to attempt to violate internal revenue laws or unlawfully evade the assessment or collection of their federal tax liabilities, including promoting, selling, or advocating the use of the “zero income” tax return and false Forms 1099-OID based on the false claims that:
  - 1. Taxpayers can name the Secretary of the Treasury as their fiduciary and/or can draw on the Treasury of the United States to pay their tax debt or other debt using Forms 1099-OID, bonded promissory notes, sights drafts or other documents;
  - 2. Taxpayers can issue false Forms 1099-OID to a creditor and report the amount on false Forms 1099 as income taxes withheld on their behalf;

3. Taxpayers can use the Uniform Commercial Code to “accept for value” a document dealing with a debt and stamp a document with “accept for value” or similar wording to satisfy that debt including tax debt; and
  4. Taxpayers have a secret account with the Treasury Department which they can use to pay their debts or which they can draw on for refunds through a fraudulent process that is often called “commercial redemption.”
- iv. Preparing federal income tax returns claiming inflated income tax withholding and refunds based on fabricated Forms 1099-OID; and
  - v. Filing, providing forms for, or otherwise aiding and abetting the filing of frivolous Forms 1040 or Forms 1099 for herself or others, including the notarization or signing of certificates of service or similar documents in connection with the frivolous tax returns;

F. That this Court, under 26 U.S.C. § 7402 enter an injunction requiring Sorensen to contact by mail (and also by e-mail, if an address is known) all persons who have purchased any products, services or advice associated with the false or fraudulent tax scheme described in this complaint and inform those persons of the Court’s findings concerning the falsity of Sorensen’s prior representations and attach a copy of the permanent injunction against Sorensen;

G. That this Court, under 26 U.S.C. § 7402 order Sorensen to provide to the United States a list of all persons who have purchased any products, services or advice from Sorensen in the past three years;

H. That this Court allow the government full post-judgment discovery to monitor Sorensen’s compliance with the injunction; and

I. That this Court grant the United States such other and further relief as the Court deems just and appropriate.

Date: 10/25/2010

Respectfully submitted,

WIFREDO A. FERRER  
United States Attorney

/s/ John Monroe  
JOHN R. MONROE  
IA Bar No. 0008881  
Trial Attorney, Tax Division  
U.S. Department of Justice  
P.O. Box 7238  
Washington, D.C. 20044  
Telephone: (202) 307-0638  
Fax: (202) 514-6770  
E-mail: john.r.monroe@usdoj.gov