

IN THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF SOUTH CAROLINA
CHARLESTON DIVISION

UNITED STATES OF AMERICA,)	
)	Case No. 2:13-cv-02332-DCN
Plaintiff,)	
)	
v.)	
)	
JESSICA GEDDIS,)	
)	
Defendant.)	
_____)	

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

The United States of America complains and alleges as follows:

1. This is a civil action brought by the United States under 26 U.S.C. §§ 7402(a), 7407, and 7408 to enjoin defendant Jessica Geddis, and anyone in active concert or participation with her, from:

- a. acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns, amended returns, or other related documents or forms for any person or entity other than herself;
- b. preparing or assisting in preparing or filing federal tax returns, amended returns, or other related documents or forms that understate federal tax liability or overstate federal tax refunds based on positions that she knows or reasonably should know are unreasonable, as prohibited by 26 U.S.C. § 6694;
- c. engaging in any other activity subject to penalty under 26 U.S.C. §§ 6694, 6695, 6701, or any other penalty provision in the Internal Revenue Code; and
- d. engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws and from promoting any false tax scheme.

Jurisdiction and Venue

2. 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 the provisions of 26 U.S.C. §§ 7401, 7407, and 7408.

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

4. Venue is proper in this Court under 26 U.S.C. §§ 7407, 7408 and 28 U.S.C. § 1391(b) because Geddis resides and has her principal place of business in this district.

Background

5. Geddis resides in Summerville, South Carolina, within the jurisdiction of this Court.

6. Geddis, who has a degree in sociology from Claflin University, has been preparing tax returns since 2003.

7. From 2003 through 2009, Geddis worked as a tax preparer at Smith's Tax Service.

8. In 2012, Geddis began working as a tax preparer at MBM Tax and Accounting Services, LLC ("MBM"), in Summerville, South Carolina.

9. Although she did not prepare returns for a tax preparation service from 2009 through 2012, Geddis prepared returns from her home during that time. In addition, Geddis continues to prepare some returns from her home. When preparing returns from her home, Geddis does not sign the returns or include her preparer identification number on the returns.

10. Since 2007, Geddis has prepared at least 444 tax returns. She prepared 296 returns as a preparer for MBM in 2012 and at least 148 returns on her own.

11. In addition to working as a tax preparer, Geddis works as a social worker at a homeless shelter in Summerville, South Carolina.

Geddis's Improper Activities

12. Geddis prepares individual income tax returns using the Household Help (“HSH”) scheme, as explained below, to overstate her customers’ income in order to increase the amount of her customers’ refundable tax credits, including the earned income tax credit, child tax credit, and making work pay credit. Geddis then directs the IRS to deposit all, or a portion of, her customers’ refunds into bank accounts she controls.

13. The IRS has reviewed Geddis’s bank records and determined that she received at least 148 tax refunds totaling \$281,678 between January 2008 and May 2012. This does not include any refunds she may have received as a tax preparer at MBM.

HSH Scheme

14. The HSH scheme used by Geddis works as follows: Geddis prepared her customers’ tax returns claiming head of household or single marital status. Geddis then reported between \$9,000 and \$16,500 in wages, but did not include a Form W-2 with the return. To avoid the requirement of submitting a Form W-2 with the return, Geddis reported the wages as HSH income because Forms W-2 are not required for HSH income that is less than \$1,800 dollars per employer. Through the standard deduction and personal and dependent exemptions – regardless of whether the client could properly claim any dependents – Geddis reduced her customers’ taxable income to zero. Geddis then claimed refundable credits, including the earned income tax credit, child tax credit, and making work pay credit. Because Geddis reported no tax liability on her customers’ returns, the credits were refunded to her customers. Geddis then received all or a portion of the refund reported on her customers’ returns.

15. Geddis first used the HSH scheme on her 2006 tax return. On her 2006 tax return, Geddis reported \$8,045 of W-2 income, \$7,000 of fictitious HSH income, and no tax liability.

By overstating her income by \$7,000, Geddis improperly increased her earned income tax credit from \$3,210 to \$4,491. As a result, Geddis overstated her federal tax refund by \$1,281.

16. Similarly, Geddis used the HSH scheme on her 2008, 2009, and 2010 tax returns to overstate her income in order to inflate her tax credits and increase the amount of her tax refunds. On her 2008 tax return, Geddis reported \$5,534 of W-2 income, \$9,500 of fictitious HSH income, and no tax liability. By overstating her income by \$9,500, Geddis improperly increased her earned income tax credit – and refund – by \$2,614. On her 2009 tax return, Geddis reported \$10,000 of wage income, all of which was fictitious HSH income, \$11,546 in unemployment income, and no tax liability. As a result of the fictitious HSH income on her 2009 return, Geddis improperly claimed the earned income tax credit, making work pay credit, and child tax credit and obtained a refund in the amount of \$5,319. Finally, on her 2010 return, Geddis reported income of \$10,000, all of which was fictitious HSH income, and no tax liability. By reporting \$10,000 of fictitious HSH income on her 2010 return, Geddis improperly claimed the earned income tax credit, making work pay credit, and child tax credit and obtained a refund in the amount of \$4,450.

17. In addition to using the HSH scheme on her own returns, Geddis has used the HSH scheme in preparing returns for others, including clients of the homeless shelter at which Geddis works. For example, Geddis prepared a 2011 return for customer “V.C.”, a client of the homeless shelter. Geddis reported the following information on V.C.’s return:

Fictitious HSH Income	\$9,411
Number of Dependents	1
Tax Liability	\$0
Earned Income Tax Credit	\$3,094
Child Tax Credit	\$1,000
Tax Refund	\$4,094

18. Geddis submitted IRS Form 8888 with V.C.’s return to split the refund into multiple bank accounts. On the Form 8888, Geddis directed the IRS to deposit \$2,200 of the refund into her bank account and \$1,894 into a separate account.

19. Although Geddis prepared V.C.’s return and directed the IRS to deposit a portion of the refund into her bank account, Geddis did not sign the return or include her preparer identification number on the return.

20. Similarly, Geddis prepared a 2011 return for customer “D.A.”, another client of the homeless shelter. Geddis listed the homeless shelter as D.A.’s address and reported the following information on D.A.’s 2011 return:

Fictitious HSH Income	\$13,000
Number of Dependents	2
Tax Liability	\$0
Earned Income Tax Credit	\$5,112
Child Tax Credit	\$2,000
Tax Refund	\$7,112

21. Geddis submitted IRS Form 8888 with D.A.’s return to split the refund into multiple bank accounts. On the Form 8888, Geddis directed the IRS to deposit \$1,000 of the refund into her bank account and \$6,112 into a separate account.

22. Although Geddis prepared D.A.’s return and directed the IRS to deposit a portion of the refund into her bank account, Geddis did not sign or include her preparer identification on the return.

23. Geddis also prepared a 2011 return for customer “T.M.” Geddis listed the homeless shelter as T.M.’s address and reported the following information on T.M.’s return:

Fictitious HSH Income	\$12,800
Number of Dependents	2
Tax Liability	\$0
Earned Income Tax Credit	\$5,112
Tax Refund	\$5,112

24. Geddis submitted IRS Form 8888 with T.M.'s return to split the refund into multiple bank accounts. On the Form 8888, Geddis directed the IRS to deposit \$2,400 of the refund into her bank account and \$2,712 into a separate account.

25. Although Geddis prepared T.M.'s return and directed the IRS to deposit a portion of the refund into her bank account, Geddis did not sign or include her preparer identification on the return.

26. In addition, Geddis prepared a 2011 return for customer "J.A." Geddis reported the following information on J.A.'s return:

Fictitious HSH Income	\$9,700
Number of Dependents	1
Tax Liability	\$0
Earned Income Tax Credit	\$3,094
Tax Refund	\$3,094

27. Geddis directed the IRS to deposit the entire amount of J.A.'s tax refund into her bank account.

28. Although Geddis prepared J.A.'s return and directed the IRS to deposit J.A.'s bogus refund into her bank account, Geddis did not sign or include her preparer identification on the return.

29. Geddis prepared 2011 returns for four customers, "S.C.," "F.G.," "G.D.," and "A.M.," listing the same fictitious address and generating identical refunds. On S.C., F.G., and G.D.'s returns, Geddis reported identical information as shown in the following table:

Fictitious HSH Income	\$9,800
Number of Dependents	1
Tax Liability	\$0
Earned Income Tax Credit	\$3,094
Tax Refund	\$3,094

On A.M.'s return, Geddis reported the following information:

Fictitious HSH Income	\$9,600
Number of Dependents	1
Tax Liability	\$0
Earned Income Tax Credit	\$3,094
Tax Refund	\$3,094

30. Geddis submitted IRS Form 8888 with S.C., F.G., G.D., and A.M.'s returns to split the refunds into multiple bank accounts. On the Forms 8888, Geddis directed the IRS to deposit \$1,000 of each refund into her bank account and \$2,094 into a separate account.

31. Despite preparing S.C., F.G., G.D., and A.M.'s returns, Geddis did not sign or include her preparer identification number on the returns.

32. Geddis also prepared a 2011 return for customer "L.J." L.J. was a client of MBM, but Geddis prepared her return at home and did not sign or include her preparer identification number on the return. Geddis reported the following information on L.J.'s return:

Fictitious HSH Income	\$2,500
W-2 Income	\$10,325
Unemployment Compensation	\$2,975
Number of Dependents	2
Tax Liability	\$0
Tax Withholdings	\$504
Earned Income Tax Credit	\$5,112
Child tax Credit	\$1,000
American Opportunity Credit	\$1,000
Tax Refund	\$7,616

33. Geddis submitted IRS Form 8888 with L.J.'s return to split the refund into multiple bank accounts. On the Form 8888, Geddis directed the IRS to deposit \$800 into her bank account, \$800 into the bank account of a third party, and \$6,016 into L.J.'s bank account.

34. When L.J. discovered that she did not receive the full amount of the refund shown on her return, L.J. filed a complaint with the Dorchester County Sheriff's Office for breach of trust.

Harm Caused by Geddis

35. Geddis's customers have been harmed by her actions because they paid Geddis fees to prepare proper tax returns, but Geddis improperly inflated their income through fictitious HSH income to generate, or increase the amount of, tax refunds due to refundable tax credits, including the earned income tax credit. Many of Geddis's customers may be liable to pay the refunds they received to the IRS, plus penalties and interest, even though Geddis directed the IRS to deposit a portion or all of the refunds into her bank accounts.

36. Geddis's conduct harms the United States because her customers are claiming refunds to which they are not entitled. The IRS has reviewed Geddis's bank records and determined that she has received 148 fraudulent tax refunds between January 2008 and May 2012 in the amount of \$281,687. This amount does not include the portions of the fraudulent refunds that were deposited into the accounts of Geddis's customers or third parties.

37. In addition to the direct harm caused by preparing tax returns that understate her customers' tax liabilities and/or overstate their refunds, Geddis's activities undermine public confidence in the administration of the federal tax system and encourage noncompliance with the internal revenue laws.

38. Geddis further harms the United States because the IRS must devote its limited resources to identifying her customers, ascertaining their correct tax liabilities, recovering any funds erroneously issued, and collecting additional taxes and penalties.

Count I: Injunction under 26 U.S.C. § 7407

39. The United States incorporates by reference the allegations in the above paragraphs.

40. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin a tax return preparer from, *inter alia*, (1) engaging in conduct subject to penalty under 26 U.S.C. § 6694, which penalizes a return preparer who prepares a return that contains an understatement of tax liability or overstatement of a refund that is due to an unreasonable position which the return preparer knew or should have known was unreasonable; (2) engaging in conduct subject to penalty under 26 U.S.C. § 6695, which penalizes a return preparer who does not sign the return or provide his or her tax preparer identification number; or (3) engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

41. In order for a court to issue such an injunction, the court must find (1) that the preparer has engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 or 6695 and (2) that injunctive relief is appropriate to prevent the recurrence of the conduct.

42. The court may permanently enjoin the person from further acting as a federal tax preparer if it finds that a preparer has continually or repeatedly engaged in such conduct, and the court further finds that a narrower injunction (i.e., 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.

43. Geddis has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6694 by preparing federal income tax returns that understate her customers' liabilities or overstate their refunds due to positions that Geddis knew, or should have known, were unreasonable and reckless. Specifically, it was unreasonable and reckless for Geddis to overstate her customers' income by reporting fictitious HSH income so that her customers could claim, or increase, refundable tax credits and tax refunds to which they were not entitled.

44. Geddis has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. § 6695 by not signing the returns she prepared and by not providing her preparer identification number on the returns she prepared.

45. By depositing the fraudulent refunds into her own account, Geddis has engaged in conduct that substantially interferes with the proper administration of federal tax laws.

46. Geddis's continual and repeated violations of §§ 6694 and 6695 fall within 26 U.S.C. § 7407(b)(1)(A) and (D), and thus are subject to an injunction under § 7407.

47. If she is not enjoined, Geddis is likely to continue to prepare and file false and fraudulent tax returns, causing economic loss to the United States, causing the United States to commit finite, scarce, and unrecoverable resources to the examination of Geddis and her customers, and exposing her customers to large liabilities that include penalties and interest.

48. Geddis's continual and repeated conduct subject to an injunction under 26 U.S.C. § 7407, including her audacious and repeated inclusion of fictitious HSH income to increase her customers' tax credits – which she then misappropriates to herself – demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent her interference with the proper administration of the internal revenue laws. Thus, Geddis should be permanently barred from acting as a tax return preparer.

Count II: Injunction under 26 U.S.C. § 7408

49. The United States incorporates by reference the allegations in the above paragraphs.

50. Section 7408 of the Internal Revenue Code authorizes a district court to enjoin any person from engaging in conduct subject to penalty under 26 U.S.C. § 6701 if injunctive relief is appropriate to prevent recurrence of such conduct.

51. Section 6701 of the Internal Revenue Code penalizes any person who aids or assists the preparation or presentation of any portion of a federal tax return when the person knows or has reason to believe that such portion will be used in connection with a material matter arising under the internal revenue laws and knows that if it is so used it will result in an understatement of another person's tax liability.

52. Geddis prepares federal tax returns for customers that she knows will understate their correct tax liabilities, because she knowingly prepares returns reporting fictitious HSH income so that her customers can qualify for, or increase, their refundable tax credits to generate bogus tax refunds. Geddis then diverts all or a portion of the refund to her own bank accounts. Geddis's conduct is thus subject to a penalty under § 6701.

53. If the Court does not enjoin Geddis, she is likely to continue to engage in conduct subject to penalty under § 6701. Geddis's preparation of returns reporting fictitious HSH income is widespread over many customers and tax years. Injunctive relief is therefore appropriate under 26 U.S.C. § 7408.

***Count III: Injunction under 26 U.S.C. § 7402(a)
Necessary to Enforce the Internal Revenue Laws***

54. The United States hereby incorporates by reference the allegations in the above paragraphs.

55. Section 7402 of the Internal Revenue Code authorizes a district court to issue orders of injunction as may be necessary or appropriate for the enforcement of the internal revenue laws.

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

57. Unless enjoined, Geddis is likely to continue to engage in such improper conduct and interfere with the enforcement of the internal revenue laws. If Geddis is not enjoined from engaging in fraudulent and deceptive conduct, the United States will suffer irreparable injury by wrongfully providing federal income tax refunds to individuals not entitled to receive them, much of which will never be discovered and recovered. The United States will also suffer irreparable injury because it will have to devote substantial unrecoverable time and resources auditing Geddis's customers to detect future returns understating her customers' liability or overstating their refund.

58. While the United States will suffer irreparable injury if Geddis is not enjoined, she will not be harmed by being compelled to obey the law.

59. Enjoining Geddis is in the public interest because an injunction, backed by the Court's contempt powers if needed, will stop her illegal conduct and the harm it causes the United States.

60. The Court should therefore impose injunctive relief under 26 U.S.C. § 7402(a).

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

A. That the Court find that Geddis has continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695 and has continually and repeatedly engaged in other fraudulent and deceptive conduct that substantially interferes with the administration of the tax laws, and that injunctive relief is appropriate under 26 U.S.C. § 7407 to bar her from acting as a federal tax return preparer to prevent recurrence of that conduct;

B. That the Court find that Geddis has engaged in conduct subject to penalty under 26 U.S.C. § 6701, and that injunctive relief is appropriate under 26 U.S.C. § 7408 to prevent recurrence of that conduct;

C. That the Court find that Geddis has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws, and that injunctive relief is appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers and 26 U.S.C. § 7402(a);

D. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Geddis and all those in active concert or participation with her from:

- (1) acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns, amended returns, or other related documents or forms for any person or entity other than herself;
- (2) preparing or assisting in preparing or filing federal tax returns, amended returns, or other related documents or forms that understate federal tax liability or overstate federal tax refunds based on positions that she knows or reasonably should know are unreasonable;
- (3) engaging in any other activity subject to penalty under 26 U.S.C. §§ 6694, 6695, 6701, or any other penalty provision in the Internal Revenue Code; and
- (4) engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

E. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring that Geddis, within 30 days of entry of the injunction, contact by United States mail and, if an e-mail address is known, by e-mail, all persons for whom she prepared a federal tax return since January 1, 2008, to inform them of the permanent injunction entered against Geddis, including sending a copy of the order of permanent injunction but not enclosing any other documents or enclosures unless agreed to by counsel for the United States or approved by the Court, and file with the Court a sworn certificate stating that she has complied with this requirement;

F. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Geddis to produce to counsel for the United States within 30 days a list that identifies by name, social security number, address, e-mail address, telephone number, and tax period(s) all persons for whom she prepared federal tax returns or claims for refund since January 1, 2008;

G. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Geddis to produce to counsel for the United States within 30 days copies of all federal income tax returns that she has prepared since January 1, 2008;

H. That the Court, pursuant to 26 U.S.C. §§ 7402(a), 7407, and 7408, enter an injunction requiring Geddis to provide a copy of the Court's order to all of her or MBM's principals, officers, managers, employees, and independent contractors within fifteen days of the Court's order, and provide to counsel for the United States within 30 days a signed and dated acknowledgment or receipt of the Court's order for each person to whom she provided a copy of the Court's order;

I. That the United States be entitled to conduct discovery to monitor Geddis's compliance with the terms of any permanent injunction entered against them;

J. That the Court retain jurisdiction over Geddis and over this action to enforce any permanent injunction entered against them; and

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

Respectfully submitted,

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