UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

-vs.-

Case no. 2:11-cv-14068
Hon.

CRYSTAL E. IRELAND, individually and doing business as MASTER MIND PREPARATION,

Defendant.
_______________________________________/

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

Plaintiff, United States of America, for its complaint against Crystal E. Ireland, individually and doing business as Master Mind Preparation, 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 26 U.S.C. ("IRC") §§ 7402, 7407, and 7408 to enjoin Crystal E. Ireland ("Ireland"), individually and doing business as Master Mind Preparation, from the following activities:

(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 federal tax returns that she knows or reasonably should have known would result in an understatement of tax liability or the overstatement of federal tax refund(s) as penalized by IRC § 6694;

(c) engaging in any activity subject to penalty under IRC § 6695, including IRC

§ 6695(g), which penalizes preparers who claim the Earned Income Tax Credit (EITC) for their customers without first complying with the due diligence requirements imposed by Treasury regulations;

(d) engaging in any other activity subject to penalty under IRC §§ 6694, 6695, 6701, or any other penalty provision in the IRC; and

(e) engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

Jurisdiction and Venue

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, pursuant to the provisions of IRC §§ 7402, 7407, and 7408.

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

5. Venue is proper in this Court under 28 U.S.C. § 1391 because Crystal Ireland resides in Detroit, Michigan, and a substantial part of the actions giving rise to this suit took place in this district.

Defendant's Activities

6. Crystal Ireland is a commercial tax return preparer, formerly doing business as a sole proprietorship under the names "C&I Rapid Refunds" and "Master Mind Investments" from 2008 to 2010. Ireland currently does business as Master Mind Preparation, a single member LLC, located at 11024 Whittier Avenue, Detroit, Michigan 48224, with a registered office located at 15711 E. Warren Avenue, Detroit, Michigan 48224. Ireland is Master Mind Preparation's resident agent. Ireland occasionally hires employees to perform clerical duties in connection with her preparation of tax returns.

7. The IRS has identified at least 169 federal tax returns that Ireland prepared from 2008 to 2011 that contain false claims, resulting in a tax loss to the Government of at least $895,230.

8. Ireland, based on tax returns reporting her social security number as the paid preparer and/or filed using the electronic filing numbers issued to her businesses, prepared at least 2,346 federal tax returns for customers from 2008 though 2011, with extraordinarily high refund rates for these tax years ranging from 97 percent to 99 percent annually. This includes at least 896 federal tax returns for customers in 2011 alone, with a 99 percent refund rate.

9. The table below shows the number of federal income tax returns prepared by Ireland between 2008 and 2011 and the number of those returns claiming a refund and/or the EITC:

Processing Year	Number of Returns	Number of Refund Returns	Percentage of Refund Returns	Number of EITC Returns	Percentage of EITC Returns
2008	434	424	97%	327	75%
2009	459	450	98%	326	71%
2010	557	555	99%	432	77%
2011	896	893	99%	652	72%

10. The IRS has examined a total of 210 returns that Ireland prepared for tax years 2007, 2008, and 2009. Of those 210 returns, 169 contained false claims, an error rate of over 80 percent. Ireland claimed the EITC on 137 of the examined returns, and of those 137 returns, the IRS reduced or disallowed the amount of EITC claimed on 130 of the returns, a 93 percent disallowance rate, resulting in adjustments totaling $624,300, or $4,802.30 per return on average.

11. The EITC is a refundable tax credit available to certain low-income individuals. The amount of the credit is based on the taxpayer's income, filing status, and claimed number of dependents. The requirements for claiming the EITC are set forth in IRC § 32.

12. Because the EITC is a refundable credit, claiming an EITC can reduce a taxpayer's federal tax liability below zero, entitling the taxpayer to a refund from the U.S. Treasury.

13. Due to the method used to calculate the EITC, an individual can claim a larger EITC by claiming multiple dependants and, for certain income ranges, individuals with higher annual incomes are entitled to a larger credit than those with lower annual incomes. The amount of the credit increases as income increases between $1 and $12,550, and decreases as income increases beyond $16,400. This range of earned income corresponding to a maximum EITC is sometimes referred to as the "sweet spot."

14. For example, for tax year 2010, the maximum EITC was $5,666 and was available to eligible individuals with three dependent children who earned income between $12,550 and $16,400.

15. Unscrupulous tax return preparers like Ireland exploit the rules by claiming on their customers' returns bogus dependants and/or by reporting phony Schedule C businesses and income. In order to bring the taxpayer's reported earned income within the "sweet spot" for the EITC, and depending on a taxpayer's actual income, such preparers may inflate or fabricate Schedule C income to fraudulently increase a taxpayer's reported earned income, or claim bogus Schedule C deductions to fraudulently decrease a taxpayer's reported earned income.

16. Because of the potential for abuse in claiming the EITC, Congress has authorized the Secretary of the Treasury to impose "due diligence" requirements on federal tax return preparers claiming the EITC for their customers. These "due diligence" requirements obligate the tax return preparer to make "reasonable inquiries" to ensure the customer is legitimately entitled to the EITC. The tax return preparer may not "ignore the implications of information furnished to, or known by, the tax return preparer, and must make reasonable inquiries if the information furnished to the tax return preparer appears to be incorrect, inconsistent, or incomplete." *See* 26 C.F.R. § 1.6695-2 (2010). Tax return preparers must also document their compliance with these requirements and keep that documentation for three years. *Id.*

17. To document compliance with the due diligence requirements, tax return preparers must complete either the "Paid Preparer's Earned Income Credit Checklist" (Form 8867) or record and maintain other documentation verifying customer eligibility for the EITC.

18. On January 21, 2010, the IRS reviewed 127 federal tax returns Ireland prepared which claimed the EITC, as well as the corresponding client files. Ireland failed to satisfy the due diligence requirements on all 127 of those tax returns by failing to even request from customers, much less record and maintain, documentation to verify the customers' eligibility for the EITC (i.e. proof of dependants, Schedule C income, and head of household status).

19. Examples of Ireland's failure to comply with the due diligence requirements included: files containing no documentation showing that the children claimed on the return were the children of the customers or even lived with the customers; files containing no documentation showing business income or expenses claimed on Schedules C; and a large number of suspicious Schedule C businesses listing no expenses, but conveniently claiming the exact amount of gross

receipts necessary to maximize the customers' EITC. Additionally, a suspiciously high 90 percent of customers reporting Schedule C business income claimed to be either a hairstylist, barber, or child care provider.

20. After its 2010 investigation, the IRS assessed $12,700 in penalties against Ireland for her 127 separate violations of IRC § 6695(g). Ireland did not contest the penalties and paid them in full.

21. On May 11, 2011, the IRS contacted Ireland and requested 10 random customer files to determine whether she was in compliance with the due diligence requirements with respect to preparing income tax returns claiming the EITC. The IRS's review of these customer files revealed that Ireland was still failing to comply with the due diligence requirements and also fabricating customers' income to fraudulently claim the EITC.

22. The 10 customer files reviewed in 2011 revealed various examples of Ireland's failure to adhere to the due diligence requirements and/or demonstrate Ireland's willingness to falsify income in order to maximize the EITC for customers:

i. Of the ten returns, six included claims for the EITC based on purported qualifying children who were neither the son nor daughter of the taxpayer (e.g., nephew, niece, brother, sister, etc.). Although these individuals could potentially qualify as dependants supporting an EITC claim, there was no documentation in the files to prove the listed relationship or to show that Ireland made a sincere inquiry to verify that these alleged dependants were qualifying children for the purposes of the EITC. More importantly, without claiming those dependants, customers would have had a lower EITC or not have qualified for the EITC at all;

ii. Of the ten returns, five included claims for the EITC based on purported qualifying children over the age of 24 and allegedly disabled. There was no documentation in the files showing that these children were disabled during the tax year or to show that Ireland made a sincere inquiry to verify that these alleged dependants were actually disabled and, thus, qualifying dependents for the purposes of the EITC;

iii. Seven of the ten tax returns include a Schedule C reporting gross receipts, but no expenses. These files contained no evidence to show how Ireland ascertained or calculated the gross income figures on the Schedules C. Had any expenses been reported on the Schedules C, the amount of the EITC could have been reduced or eliminated;

iv. Eight of the ten customers' files did not include copies of social security cards of the customer and all of the purported qualifying children claimed on the customers' tax returns;

v. Four of the ten customers' files did not contain the appropriate and completed Earned Income Credit Due Diligence forms;

vi. Two of the ten returns claimed qualifying children who were listed as students. There was no documentation in the files showing that these children were students during the tax year or to show that Ireland made a sincere inquiry to verify that these alleged dependants were actually students and thus qualifying dependents for the purposes of the EITC;

vii. On one of the ten returns, Ireland claimed a female customer's purported son as a dependent, but IRS records show that another woman, and not the customer, was the mother of the claimed child.

23. In sum, the due diligence worksheets that Ireland completes and places in her customers' files serve no purpose other than to make it appear as though she is complying with the due diligence requirements. Ireland fills out the sheet in a way that verifies eligibility for the EITC without regard to the veracity of the answers and supporting documentation (or lack thereof).

24. As stated previously, because of the way the EITC is calculated, claiming more income, up to a certain point, allows customers to receive a larger refundable credit. Conveniently, on 8 of the 9 returns reviewed on May 11, 2011, on which Ireland reported Schedule C income, that income increased the customers' income to an amount enabling the customers to claim the maximum EITC; on the remaining 1 return, Ireland reported Schedule C expenses which lowered the customer's income to within the "sweet spot," enabling that customer to also claim the maximum EITC. Also, despite customers claiming to own businesses that would have operating expenses (i.e. "Janitorial," "Hairstylist", and "Home Health Care"), only 2 of the 9 returns with Schedule C income claimed related business expenses (expenses would offset income and lower the EITC).

25. Ireland is failing to adhere to the EITC due diligence requirements, and even worse, Ireland is falsifying information to achieve the maximum allowed EITC for her customers and fabricating documents to deceive the IRS. Ireland created Schedules C with bogus income and claiming no expenses so that she could claim the maximum EITC for her customers. Ireland then fabricated the earned income verification worksheets to make it appear as though she was satisfying the due diligence requirements and to thwart future IRS due diligence investigations.

26. For example, Ireland prepared the 2010 federal income tax return of Angela Lucas of Detroit, Michigan. Lucas is employed as a retail clerk at a department store. Ireland attached a Schedule C to Lucas's tax return reporting $12,100 in income from a purported child care business, located at the same address as Lucas's residence. However, Lucas had no such business, and did not inform Ireland that she had any business. Lucas's tax file, which Ireland provided to the IRS as part of its review in 2011, contains a "Child Care Financial Report" which lists $3,090 in income from January 1, 2010 through April 1, 2010. Because Lucas had no such business and did not inform Ireland that she had such a business, Ireland fabricated the alleged Schedule C income and purported supporting documentation.

27. Ireland's inclusion of the fabricated $12,100 of Schedule C income increased Lucas's reported income from $2,666 to $14,766, within the EITC "sweet spot." Moreover, Ireland reported on Lucas's return that Lucas had three qualifying dependents, identified as a "sister," a "son," and a "niece." Lucas's tax file contained copies of social security cards for her son and her 60-year-old sister, claimed as a dependent; however, the file did not have any documentation concerning Lucas's purported niece or showing that Lucas's sister was in any way disabled or otherwise eligible to be claimed as a dependent. As a result of the income and dependents that Ireland reported on the return, Ireland claimed the maximum $5,666 EITC on Lucas's tax return.

28. Similarly, Ireland prepared a 2010 federal tax return for customer Tracy Fields, which reported that Fields did not receive any wages in 2010. On the Schedule C attached to Fields's return, Ireland reported that Fields had $13,775 in income from a purported home health care business; the Schedule C, however, did not report any business expenses. Ireland also

reported that Fields had four qualifying dependents living with her in 2010, listed on Fields's return as two sons, a nephew, and a grandchild. Thus, by reporting $13,775 in Schedule C business income and four dependents on Fields's return, Ireland claimed the maximum EITC amount of $5,666 on Fields's tax return.

29. Fields's customer file contained no documents showing that Fields received any income from her purported home health care business in 2010, or that any such business existed. Moreover, other than copies of the social security cards of Fields and one of her claimed dependents, the file did not contain any documentation regarding the relationship between Fields and the claimed dependents, showing that the dependents were related to Fields or lived with her in 2010, or showing that Ireland even inquired to Fields whether the claimed dependents met the criteria to qualify as dependents for purposes of the EITC.

30. Ireland also falsely claimed the American Opportunity tax credit in the amount of $950 on Fields's 2010 federal tax return. This tax credit may be claimed for tuition and certain other educational expenses, such as books and supplies. In actuality, Fields did not have any such qualifying educational expenses in 2010 and was unaware that Ireland claimed this credit until Fields was questioned by the IRS. Ireland did not discuss this credit with Fields when Ireland prepared the tax return, but simply claimed it on Fields's return without Fields's knowledge. Fields's customer file did not have any documentation supporting Ireland's bogus education credit claim, and Ireland did not prepare or attach to the return an IRS Form 8863 used to calculate and determine eligibility for education credits.

31. Congress imposed due diligence requirements on tax preparers to ensure they take measures to verify a customer's eligibility for the EITC. This requires, at a minimum, verifying

head of household status, obtaining documentation regarding dependency status, and verifying the existence of Schedule C businesses, none of which Ireland has done.

32. Not only does Ireland fail to adhere to the due diligence requirements, but she is falsifying information in order to maximize the EITC for her customers.

33. Ireland's conduct shows an intentional disregard for the due diligence requirements under IRC § 6695(g) and demonstrates her unwillingness to ever comply with the requirements.

Harm Caused by Ireland

34. Ireland's customers have been harmed because they paid her fees and relied on her to prepare proper tax returns. Instead, Ireland prepared returns that substantially understated their correct tax liabilities. As a result, many of them now face large income tax deficiencies and may be liable for sizeable penalties and interest.

35. Ireland's conduct harms the United States because her customers are under-reporting their correct tax liabilities and in many cases receiving unwarranted refunds, thereby diminishing tax revenues.

36. In addition to the direct harm caused by preparing tax returns that understate customers' tax liabilities, Ireland's activities undermine public confidence in the administration of the federal tax system and encourage noncompliance with tax laws.

37. Ireland further harms the United States because the IRS must devote its limited resources to investigating Ireland, identifying her customers, ascertaining her customers' correct tax liabilities, recovering any refunds erroneously issued, and collecting any additional taxes and penalties.

Count I
Injunction under IRC § 7407

38. The United States incorporates by reference the allegations in paragraphs 1 through 37.

39. Section 7407 of the IRC authorizes a district court to enjoin a tax return preparer from engaging in conduct subject to penalty under IRC §§ 6694 or 6695 or engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws, if the court finds that the preparer has engaged in such conduct and that injunctive relief is appropriate to prevent the recurrence of the conduct. Additionally, if the court finds that a preparer has continually or repeatedly engaged in such conduct and 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, the court may enjoin the person from further acting as a federal tax preparer.

40. Ireland has continually and repeatedly engaged in conduct subject to penalty under IRC § 6694 by preparing federal income tax returns that understate her customers' liabilities based on unrealistic, frivolous, and reckless positions.

41. The Treasury regulations promulgated under IRC § 6695(g) prohibit a return preparer from claiming the EITC without first conducting proper due diligence and documenting his or her compliance with the due diligence requirements. *See* 26 C.F.R. § 1.6995-2 (2010).

42. Ireland's failure to comply with the due diligence requirements for the EITC violates Treasury Regulations and her willingness to falsify information to obtain the EITC for her customers shows a reckless and/or intentional disregard of the IRS rules and regulations.

43. Ireland has continually and repeatedly prepared federal income tax returns that claim the EITC for which Ireland has not conducted, let alone, documented the required due diligence procedures.

44. Even after the IRS assessed $12,700 in penalties against Ireland in 2010 for conduct subject to penalty under IRC § 6695(g), Ireland continued to claim the EITC for customers on 2009 and 2010 returns (prepared during 2010 and 2011, respectively) for which she failed to conduct or document the required due diligence procedures.

45. If she is not enjoined, Ireland is likely to continue to prepare and file false and fraudulent tax returns.

46. Ireland's continual and repeated violations of IRC §§ 6694 and 6695 fall within IRC § 7407(b)(1)(A) and (D), and thus are subject to an injunction under IRC § 7407. Ireland's continual and repeated failure to comply with the due diligence requirements for the EITC and to falsify expenses and deductions to obtain the EITC for her customers demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent Ireland's interference with the proper administration of the internal revenue laws. Thus, she should be permanently barred from acting as a federal tax return preparer.

Count II
Injunction under IRC § 7408

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

48. Section 7408 of the IRC authorizes a district court to enjoin any person from engaging in conduct subject to penalty under either IRC § 6701 if injunctive relief is appropriate to prevent recurrence of such conduct.

49. Section 6701(a) of the IRC penalizes any person who aids or assists in, procures, or advises with respect to the preparation or presentation of a federal tax return, refund claim, or other document knowing (or having reason to believe) that it will be used in connection with any material matter arising under the internal revenue laws and knowing that if it is so used it will result in an understatement of another person's tax liability.

50. Ireland prepares federal tax returns for customers that she knows will understate the customers' correct tax liabilities, because Ireland knowingly prepares bogus Schedules C and returns claiming unsupported and improper deductions as a means of maximizing the EITC for her customers. Ireland's conduct is thus subject to a penalty under IRC § 6701.

51. If the Court does not enjoin Ireland, she is likely to continue to engage in conduct subject to penalty under IRC § 6701. Ireland's preparation of returns claiming improper expenses and deductions is widespread over many customers and tax years. Injunctive relief is therefore appropriate under IRC § 7408.

Count III
Injunction under IRC § 7402(a)

52. The United States hereby incorporates by reference the allegations in paragraphs 1 through 51.

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

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

55. Unless enjoined, Ireland is likely to continue to engage in such improper conduct and interfere with the enforcement of the internal revenue laws. If Ireland 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.

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

57. The Court should impose injunctive relief under IRC § 7402(a).

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

A. That the Court find that Crystal Ireland has continually and repeatedly engaged in conduct subject to penalty under IRC §§ 6694 and 6695, and has continually and repeatedly engaged in other fraudulent or deceptive conduct that substantially interferes with the administration of the tax laws, and that a narrower injunction prohibiting only this specific misconduct would be insufficient;

B. That the Court, pursuant to IRC § 7407, enter a permanent injunction prohibiting Crystal Ireland from acting as a federal tax return preparer;

C. That the Court find that Crystal Ireland has engaged in conduct subject to penalty under IRC § 6701, and that injunctive relief under IRC § 7408 is appropriate to prevent a recurrence of that conduct;

D. That the Court find that Crystal Ireland has engaged in conduct that 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 IRC § 7402(a);

E. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter a permanent injunction prohibiting Crystal Ireland, 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 federal tax returns that she knows or reasonably should have known would result in an understatement of tax liability or the overstatement of federal tax refund(s) as penalized by IRC § 6694;

(3) engaging in any activity subject to penalty under IRC § 6695, including IRC 6695(g), which penalizes preparers who claim the Earned Income Tax Credit for their customers without first complying with the due diligence requirements imposed by Treasury regulations;

(4) engaging in any other activity subject to penalty under IRC §§ 6694, 6695, 6701, or any other penalty provision in the IRC; and

(5) engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

F. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an order requiring Crystal Ireland to contact, within fifteen days of the Court's order, by United States mail and, if an e-mail address is known, by e-mail, all persons for whom she has prepared federal tax returns or claims for a refund for tax years 2007 through 2010 to inform them of the permanent injunction entered against her;

G. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an order requiring Crystal Ireland to produce to counsel for the United States, within fifteen days of the Court's order, a list that identifies by name, social security number, address, e-mail address, and telephone number and tax period(s) all persons for whom she prepared federal tax returns or claims for a refund for tax years 2007 through 2010;

H. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an injunction requiring Crystal Ireland to provide a copy of the Court's order to all of Ireland'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 of receipt of the Court's order for each person whom Ireland provided a copy of the Court's order;

I. That the Court retain jurisdiction over Crystal Ireland and over this action to enforce any permanent injunction entered against her;

J. That the United States be entitled to conduct discovery to monitor Crystal Ireland's compliance with the terms of any permanent injunction entered against her; and

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

DATED: September 19, 2011

Respectfully submitted,

BARBARA L. MCQUADE
United States Attorney

s/ Daniel A. Applegate

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