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15 IN THE UNITED STATES DISTRICT COURT FOR THE  
16 DISTRICT OF ARIZONA  
17 PRESCOTT DIVISION

18 UNITED STATES OF AMERICA, )  
19 ) Civil No.  
20 Plaintiff, )  
21 )  
22 v. ) **Complaint for Permanent**  
23 ) **Injunction**  
24 JEFFREY R. HUNN, )  
25 )  
26 Defendant. )

27 The United States of America complains as follows against defendant Jeffrey R.  
28 Hunn:

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 the Assistant Attorney General, a delegate of the Attorney General, pursuant to Internal Revenue Code (I.R.C.) (26 U.S.C.) §§ 7402(a), 7407, and 7408.



1 used in the original form, Hunn disguises this alteration so that it can be discerned only by  
2 carefully comparing his Form 4852 with an original unaltered form.

3  
4 10. On the Forms 1099-MISC Hunn submits with returns he prepares for  
5 customers, he falsely reports that his customer received no income by inserting "0" into  
6 box 7, which calls for the amount of non-employee compensation. He checks the box on  
7 these forms stating that the form is "corrected."

8  
9 11. On many of these so-called "corrected" Forms 1099, Hunn inserts the  
10 following oath:

11 This corrected Form 1099-MISC is submitted to rebut a document known to  
12 have been submitted by the party identified above as 'PAYER' which  
13 erroneously alleges a payment to the party identified above as the  
14 'RECIPIENT' of "gains, profit or income" made in the course of a "trade or  
15 business". Under penalty of perjury, I declare that I have examined this  
16 statement and to the best of my knowledge and belief, it is true, correct, and  
17 complete.

18 Hunn generally signs this oath himself, though in a few instances his customers have  
19 signed it.

20 12. Hunn reports on his customers' returns as "federal income tax withheld" the  
21 Social Security and Medicare taxes withheld from his customers' wages. Social Security  
22 and Medicare taxes are distinct from income taxes and should be reported separately on  
23 federal income tax returns.

24 13. On at least one return, Hunn fraudulently claimed the Earned Income Credit  
25 on behalf of a couple who were not entitled to it. That couple had received \$99,333 in  
26  
27  
28

1 income, far above the limit for the credit, although Hunn reported that they received only  
2 \$28,112.

3  
4 14. Hunn sends the IRS letters and other documents falsely claiming that his  
5 customers have no federal income tax liabilities and are owed refunds. Hunn styles some  
6 of these documents as legal pleadings against the IRS entitled "Statement of Notice."

7  
8 15. Hunn sometimes includes with these "Statements of Notice" and other  
9 correspondence a money order payable to the United States Treasury in the amount of \$1,  
10 which Hunn asserts the IRS must refund to his customer.

11  
12 16. On some of the "Statements of Notice" he prepares, Hunn claims to be an  
13 attorney.

14  
15 17. Hunn is not a member of the Arizona Bar. Upon information and belief, he is  
16 not an attorney at all.

17  
18 18. Hunn files some returns for customers without obtaining their signatures on  
19 the form.

20  
21 19. Hunn omits his customers' addresses from most of the returns he prepares,  
22 listing his own address instead.

23  
24 20. Hunn charges customers a contingent fee. He attached to a return he filed  
25 with the IRS a copy of a contingent fee agreement in which the customer agreed to pay  
26 him an "advanced payment of" \$150, plus "upon confirmation [sic] of acceptance by the  
27 IRS . . . of a reduced obligation, 20% of the amount of said reduction over [\$]750." In  
28 addition, the customer agreed to pay Hunn 20% of any refund received from the IRS.

1           21. The IRS notified Hunn on December 2, 2005 that it was investigating his  
2 return-preparation business for possible violations of internal revenue laws.

3  
4           22. At the same time, the IRS issued an Information Document Request to Hunn  
5 requesting copies of all the federal returns he has prepared on behalf of others, a list of all  
6 persons for whom he had prepared returns, and other information. The IRS also asked  
7 Hunn to meet with an IRS employee to answer questions concerning his return  
8 preparation.  
9

10           23. Hunn has refused to cooperate with the IRS's requests. Instead, he sent the  
11 IRS a letter asserting numerous frivolous arguments and demanding that the IRS pay him  
12 one gold ounce as compensation for his time in drafting the letter.  
13

14           24. IRS records reflect that Hunn has not filed a federal income return for himself  
15 since 1999.  
16

17           25. On the amended returns (Forms 1040X) and Forms 4852 he prepares, Hunn  
18 cites I.R.C. §§ 3121 and 3401, both of which define the term "wages."

19           26. Hunn's citation of I.R.C. §§ 3121 and 3401, his use of Forms 4852 and  
20 so-called "corrected" Forms 1099, the alterations he makes to those forms, and his  
21 characterization of Social Security and Medicare taxes as income taxes, all follow a  
22 scheme promoted by Peter Hendrickson of Michigan. Hendrickson claims that under  
23 I.R.C. §§ 3121 and 3401, only income received from the federal government is subject to  
24 federal tax. Federal courts have uniformly and repeatedly rejected this argument. *See,*  
25 *e.g., United States v. Latham*, 754 F.2d 747, 750 (7<sup>th</sup> Cir. 1985) (characterizing the  
26  
27  
28

1 argument “that under 26 U.S.C. § 3401(c) the category of ‘employee’ does not include  
2 privately employed wage earners [as] a preposterous reading of the statute.”); *Abdo v.*  
3 *United States*, 234 F. Supp. 2d 553, 563 (M.D.N.C. 2002) (noting at the claim that wages  
4 are not income “has been rejected as many times as it has been asserted.”), *aff’d* 63 Fed.  
5 Appx. 163 (4<sup>th</sup> Cir. 2003). The United States has sued Hendrickson and others in  
6 connection with that fraudulent scheme. The complaints in those cases are posted at  
7 <http://www.usdoj.gov/tax/txdv06219.htm>.  
8  
9

10 27. Hunn has customers in several states for whom he has prepared fraudulent  
11 returns as described above, including Arizona, California, Washington, Massachusetts,  
12 South Carolina, Virginia, Illinois, and Nevada.  
13

14 28. Thus far, the IRS has identified a total of ninety-eight returns prepared by  
15 Hunn with the fraudulent characteristics described above.  
16

17 29. These ninety-eight returns falsely claim refunds totaling \$529,325.90.  
18

19 30. From its audits of some of Hunn’s returns, the IRS estimates that Hunn  
20 under-reports his customers’ tax liabilities by an average of \$10,055 per return, resulting  
21 in total estimated tax deficiencies of \$985,390 for the ninety-eight returns the IRS has  
22 thus far identified.

23 31. Based on the IRS’s estimates, the United States calculates that Hunn’s  
24 fraudulent return preparation has resulted in approximately \$1.5 million in harm and  
25 potential harm to the United States. This total does not include the additional amounts the  
26 IRS must expend in identifying and recovering the lost revenue Hunn has caused.  
27  
28

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

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2  
3 32. The United States incorporates by reference the allegations in paragraphs 1-  
4 31.

5 33. I.R.C. § 7407 authorizes a district court to enjoin an income tax return  
6 preparer from  
7

8 (A) engaging in conduct subject to penalty under I.R.C. §§ 6694 or 6695;

9 (B) misrepresenting his experience or education as an income-tax preparer;

10 (C) guaranteeing the payment of a tax refund or the allowance of a tax  
11 credit; or  
12

13 (D) engaging in any fraudulent or deceptive conduct that substantially interferes  
14 with the proper administration of the internal revenue laws,  
15

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

18 34. If a court finds that the preparer's misconduct is continued or repeated, and  
19 that a narrower injunction prohibiting only the specific conduct would not be sufficient to  
20 prevent his interference with the proper administration of the internal revenue laws,  
21 I.R.C. § 7407 authorizes the court to enjoin him from preparing returns altogether.  
22

23 35. I.R.C. § 6694(a) penalizes a return preparer who understates a customer's  
24 liability based on a position for which there was no realistic possibility of being sustained  
25 on the merits, if the return preparer knew or reasonably should have known of the  
26 unrealistic position and the unrealistic position was frivolous.  
27  
28

1           36. I.R.C. § 6694(b) penalizes a return preparer who understates a taxpayer's  
2 liability due to willfulness, recklessness, or an intentional disregard of rules and  
3 regulations.  
4

5           37. I.R.C. § 6695(d) penalizes a return preparer who fails to retain a copy of the  
6 returns he prepares or a list of the names and taxpayer identification numbers of those for  
7 whom he prepares returns, and to make the copies or list available to the IRS on request  
8 as required by I.R.C. § 6107(b).  
9

10           38. I.R.C. § 6695(g) penalizes a return preparer who fails to exercise due  
11 diligence in determining a customer's eligibility for the Earned Income Credit.  
12

13           39. Hunn has engaged in conduct subject to penalty under I.R.C. § 6694 by  
14 preparing returns that understate his customers' liabilities based on positions for which  
15 there is no realistic possibility of being sustained on the merits. Specifically, his returns  
16 contain the following frivolous positions:  
17

- 18           • that his customers either had no income or had substantially less income  
19 than they actually did;
- 20           • that his customers' wages are not taxable income;
- 21           • that the Social Security and Medicare taxes withheld from his customers'  
22 wages were federal income taxes; and
- 23           • that a couple who received \$99,333 in income qualified for the Earned  
24 Income Credit.  
25  
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28





- 1 • including Social Security and Medicare taxes as federal income taxes
- 2 withheld;
- 3
- 4 • claiming refunds for his customers to which they are not entitled;
- 5 • purporting to “rebut” properly filed Forms W-2 and 1099 with his
- 6 fraudulent Forms 4852 and 1099-MISC;
- 7
- 8 • altering the preprinted language on Form 4852;
- 9 • inserting a fraudulent oath on Forms 1099-MISC;
- 10 • falsely reporting his own address as his customers’ address;
- 11 • filing returns without his customers’ signatures;
- 12
- 13 • submitting correspondence and other documents to the IRS, including his
- 14 “Statements of Notice,” falsely claiming that his customers have no federal
- 15 tax liabilities and are owed tax refunds; and
- 16
- 17 • claiming the Earned Income Credit on behalf of a couple that did not
- 18 qualify for it.

19 47. Hunn’s continual and repeated violations of I.R.C. §§ 6694 and 6695, his  
20 misrepresentation that he is an attorney, and his fraudulent and deceptive conduct fall  
21 within I.R.C. § 7407(b)(1)(A), (B), and (D), and thus are subject to injunction under  
22 I.R.C. § 7407.  
23

24 48. Hunn is likely to continue to prepare fraudulent federal tax returns unless he is  
25 enjoined.  
26  
27  
28



1 liabilities—and that, if used, would result in understatements of his customers’ tax  
2 liabilities.

3  
4 54. Unless enjoined by this Court, Hunn is likely to continue to engage in such  
5 conduct.

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

7  
8 **Count III**  
9 **Injunction under I.R.C. § 7402(a)**  
10 **for Unlawful Interference with Enforcement of the**  
11 **Internal Revenue Laws and the Appropriateness of Injunctive Relief**

12 56. The United States incorporates by reference the allegations in paragraphs 1  
13 through 55.

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

17 58. Hunn, through the actions described in paragraph 46, has interfered with the  
18 enforcement of the internal revenue laws.

19 59. In addition, Hunn’s refusal to produce a customer list or copies of his returns  
20 and to answer the IRS’s questions regarding his return-preparation business impedes the  
21 IRS from identifying his customers and recovering lost revenue from them.

22 60. Hunn also interferes with the administration of the internal revenue laws by  
23 charging his customers a contingent fee.

24 61. If Hunn is not enjoined, he is likely to continue to interfere with the  
25 enforcement of the internal revenue laws.

1           62. The United States is harmed by Hunn’s tax return preparation service because  
2 Hunn’s customers are not reporting or paying the correct amount of taxes and because  
3 they are claiming refunds to which they are not entitled.  
4

5           63. The United States is also harmed because the IRS is forced to devote its  
6 limited resources to identifying and recovering lost revenue from Hunn’s customers.  
7

8           64. The United States will suffer irreparable harm if Hunn is not enjoined because  
9 the tax losses he causes with his fraudulent returns will continue to accumulate and may  
10 prove to be unrecoverable, and because the IRS will have to continue to devote resources  
11 to assessing and collecting his customers’ taxes.  
12

13           65. While the United States will suffer irreparable harm if Hunn is not enjoined,  
14 Hunn will not be harmed by being compelled to obey the law.

15           66. The public interest will be advanced by enjoining Hunn because an injunction  
16 will stop his illegal conduct and the harm that conduct is causing.  
17

18           67. Hunn harms his customers by preparing fraudulent and frivolous returns that  
19 lead to additional penalties and interest when the IRS discovers Hunn’s errors and  
20 assesses taxes against the customers.  
21

22           68. In addition, Hunn harms his customers by improperly charging them a  
23 contingent fee.  
24  
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1           WHEREFORE, plaintiff United States of America respectfully prays for the  
2 following:

3  
4           A. That the Court find that Hunn has continually and repeatedly engaged in  
5 conduct subject to penalty under I.R.C. §§ 6694, 6695, and 6701 and in fraudulent or  
6 deceptive conduct substantially interfering with the proper administration of the internal  
7 revenue laws; that he has misrepresented his education as a return preparer; and that  
8 injunctive relief under I.R.C. §§ 7407 and 7408 is necessary and appropriate to prevent  
9 recurrence of his conduct;  
10

11           B. That the Court find that Hunn has interfered with the enforcement of the  
12 internal revenue laws, and that injunctive relief is appropriate to prevent the recurrence of  
13 that conduct pursuant to I.R.C. § 7402(a) and the Court's inherent equity powers;  
14

15           C. That the Court, pursuant to I.R.C. §§ 7402(a) and 7407, enter a permanent  
16 injunction prohibiting Hunn from preparing or assisting in the preparation or filing of  
17 federal income tax returns and related documents for any person other than himself;  
18

19           D. That the Court, pursuant to I.R.C. §§ 7408 and 7402(a), enter a permanent  
20 injunction prohibiting Hunn, individually and doing business under any other name or  
21 using any other entity, and his representatives, agents, servants, employees, attorneys, and  
22 those persons in active concert or participation with him, from directly or indirectly:  
23

- 24           1.     Preparing or assisting in the preparation or filing of documents relating to a  
25 matter material to the internal revenue laws, including federal tax returns  
26 and related documents, for any person other than himself;  
27  
28



1 H. That the Court order Hunn to complete the requirements listed in paragraphs E  
2 through G within eleven days of the Court's order and order him to file with the Court a  
3 certificate of compliance with those requirements, signed under penalty of perjury, along  
4 with evidence of compliance, within twelve days of the Court's order;  
5

6 I. That the Court retain jurisdiction over Hunn and this action for the purpose of  
7 enforcing any permanent injunction entered against him;  
8

9 J. That the United States be permitted to conduct discovery for the purpose of  
10 monitoring Hunn's compliance with the terms of any permanent injunction entered  
11 against him; and  
12

13 K. That the Court grant the United States such other relief, including costs, as is  
14 just and equitable.  
15

16 Respectfully submitted,

17 PAUL CHARLTON  
18 United States Attorney

19 */s/Anne Norris Graham*

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