

IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF MICHIGAN

UNITED STATES OF AMERICA,)
)
 Plaintiff,)
)
 v.)
)
 SOFAR, INC.,)
 d/b/a Jackson Hewitt Tax Service,)
 FARRUKH SOHAIL,)
 MUQIT HASNIE,)
 NAFEES HASNIE,)
 SOHAIL ALI,)
 ANITA ALIDINO, and)
 TRACEY PAWCZUK,)
)
 Defendants.)

Case: 2:07-cv-11470
Assigned To: Feikens, John
Referral Judge: Scheer, Donald A
Filed: 04-02-2007 At 02:59 PM
CMP USA V. SOFAR, INC, ET AL (TAM)

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

The plaintiff, the United States of America, alleges against defendants as follows:

1. This is a civil action brought by the United States under Sections 7402(a), 7407, and 7408 of the Internal Revenue Code (26 U.S.C.) ("IRC") to stop the defendants from engaging in and facilitating a pervasive and massive series of tax-fraud schemes. The Government seeks to enjoin the defendants and all those in active concert or participation with them, from:

- a. acting as federal tax return preparers or requesting, assisting in, or directing the preparation or filing of federal tax returns for any person or entity other than themselves, or appearing as representatives on behalf of any person or organization whose tax liabilities are under examination or investigation by the Internal Revenue Service;
- b. preparing or assisting in the preparation or filing of tax returns for others that defendants know will result in the understatement of any tax liability;

- c. asserting unrealistic, frivolous, or reckless positions or otherwise understating customers' tax liabilities as subject to penalty under IRC § 6694;
- d. instructing, advising, or assisting customers to understate their federal tax liabilities;
- e. engaging in any other activity subject to penalty under IRC § 6694;
- f. engaging in any activity subject to penalty under IRC § 6695, including failing to exercise due diligence in determining customers' eligibility for the earned income tax credit;
- g. engaging in other conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws; and
- h. organizing or selling tax shelters, plans, or arrangements that advise or assist taxpayers to attempt to evade the assessment or collection of their correct federal tax.

Jurisdiction and Venue

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

3. Venue is proper in this Court under 28 U.S.C. § 1391(b)(1) because defendants reside or conduct business within this judicial district, and a substantial part of the actions giving rise to this suit took place and are taking place in this district.

Defendants

4. SoFar, Inc., d/b/a Jackson Hewitt Tax Service ("So Far/Jackson Hewitt") operates at least 55 Jackson Hewitt franchise stores in the Detroit area. So Far/Jackson Hewitt operates under a franchise agreement with Jackson Hewitt Tax Services Inc., based in Parsippany, New Jersey. Jackson Hewitt Tax Services, Inc. is the second largest tax return preparation firm in the United States.

5. Farrukh Sohail (“Sohail”) is a shareholder and manager of So Far/Jackson Hewitt. Sohail is one of the largest owners of Jackson Hewitt Tax Service, Inc. franchises. He purchased his first franchise store in 1998, and now owns interests in corporations (including So Far/Jackson Hewitt) that operate more than 125 Jackson Hewitt franchise stores in and around Chicago, Illinois; Birmingham, Alabama; Atlanta, Georgia; Detroit, Michigan; and Raleigh, North Carolina. He or his corporations have the exclusive rights to open stores in at least 30 franchise territories within these cities. Sohail-owned Jackson Hewitt stores prepared over 105,000 federal income tax returns in 2006.

6. Maquit Hasnie (“Hasnie”), a close associate of Sohail and part owner of So Far/Jackson Hewitt, resides in this judicial district and is the general manager of So Far/Jackson Hewitt’s franchise stores in the Detroit area.

7. Tracey Pawczuk (“Pawczuk”) is the operations manager for So Far/Jackson Hewitt and oversees the operations of all 55 Jackson Hewitt franchise stores in So Far/Jackson Hewitt’s Detroit franchise territory.

8. Nafees Hasnie (“Nafees”) and Anita Alidino (“Alidino”) are part owners of So Far/Jackson Hewitt and reside in this judicial district. Nafees and Maquit Hasnie are brothers.

9. Sohail Ali (“Ali”) is the husband of Alidino and an active manager in the So Far/Jackson Hewitt franchise stores in the Detroit area.

10. So Far/Jackson Hewitt, Sohail, Hasnie, Nafees, Alidino, Ali, and Pawczuk have hired, trained, supervised, directed, and managed Jackson Hewitt tax return preparers who have prepared or assisted in preparing large numbers of fraudulent federal income tax returns, and otherwise engaged in conduct substantially interfering with the internal revenue laws.

Defendants have prepared and supervised the preparation of many fraudulent federal income tax returns and engaged in conduct substantially interfering with the internal revenue laws.

Background Facts

11. So Far/Jackson Hewitt, Sohail, Hasnie, Nafees, Alidino, Ali, Pawczuk, and others acting with them have created, directed, fostered, and maintained a business environment at the So Far/Jackson Hewitt stores in which fraudulent tax return preparation is encouraged and flourishes.

12. Hasnie, Pawczuk, and other managers have refused to terminate employees caught preparing fraudulent tax returns and engaging in other blatantly fraudulent conduct, because these employees enlarge So Far/Jackson Hewitt's profit by preparing a large volume of returns. So Far/Jackson Hewitt employees, including managers, take cash kickbacks from customers as compensation for helping customers file fraudulent returns claiming tax refunds. One So Far/Jackson Hewitt return preparer who also served as an office manager displayed a large wad of cash to another So Far/Jackson Hewitt manager and bragged "my customers take really good care of me." When the other manager reported this incident to So Far/Jackson Hewitt upper-management, Hasnie explained that he wanted to retain the employee because she generated a lot of business for So Far/Jackson Hewitt. Management refuses to terminate dishonest employees who are known to engage in tax fraud.

13. Under Sohail's, Hasnie's, Pawczuk's, and other managers' direction and control, So Far/Jackson Hewitt intentionally hires inadequately educated and poorly trained individuals to become Jackson Hewitt tax return preparers. Sohail has said that his return preparers "are only short term. All they need is to be able to do data entry. A monkey can do this." Prospective So

Far/Jackson Hewitt return preparers with little or no previous return-preparation experience attend short classes focused on using “Profiler,” Jackson Hewitt’s nationwide tax preparation software. The So Far/Jackson Hewitt instructors fail to teach all preparers critical elements related to tax return preparation, including Earned Income Tax Credit (EITC) due diligence requirements, procedures for detecting fraudulent W-2 forms, and methods to question customers who provide questionable, suspicious, or fraudulent information. In addition, the So Far/Jackson Hewitt training fails to give return preparers the knowledge or experience to complete more complicated tax returns, including those requiring Schedules A and C. This lack of training directly contributes to the preparation of inaccurate, incomplete, and false tax returns.

14. So Far/Jackson Hewitt’s return preparers are specifically trained and directed to accept without question, and use, customer-provided information that appears to be (or clearly is) suspicious or false. Sohail, Hasnie, and other managers have said the following when they instructed So Far/Jackson Hewitt return preparers to accept and use such suspicious or false customer information:

- “Keep it in the family. Do not tell the IRS.”
- “We are not the IRS.”
- “It will catch up to them.”
- “We want to get paid.”
- “This is when we make the most money!”
- “We are not the police.”

15. So Far/Jackson Hewitt pays low wages to its preparers and directly ties preparers’ overall compensation to the number of tax returns prepared without regard to the honesty or

quality (or lack thereof) of the return preparation. Similarly, So Far/Jackson Hewitt pays bonuses to managers whose stores prepare the most tax returns, without regard to accuracy or quality. Sohail, Hasnie, Pawczuk, and others constantly push quotas and return volume at the expense of preparing honest, accurate tax returns.

16. Many of So Far/Jackson Hewitt's stores cater to prospective customers who are not entitled to tax refunds but who seek to obtain fast money in the form of Jackson Hewitt "Holiday Express Loan Program" (HELP) loans, "Money Now" loans, or Refund Anticipation loans (RALs) secured by fabricated tax refunds fraudulently claimed on Jackson Hewitt-prepared and filed tax returns. Repeat customers seek out individual So Far/Jackson Hewitt return preparers who have fraudulently obtained refunds for them in the past.

False W-2s

17. So Far/Jackson Hewitt does not adequately train its tax return preparers to identify false W-2s and does not instruct or require its employees to decline to prepare returns for customers who bring in false W-2s.

18. In 2005 and 2006, individual So Far/Jackson Hewitt preparers used hundreds of phony W-2s to prepare income tax returns based on frivolous and unrealistic positions, which they knew would result in understatements of tax.

19. Some So Far/Jackson Hewitt managers, as part of their duties, traveled from store to store inspecting returns after they had been prepared and filed with the IRS. In doing so, those managers discovered hundreds of W-2 forms that appeared to be fraudulent or suspicious, but it was too late to prevent those returns from being filed. Those managers frequently told Hasnie and Pawczuk that they needed more time to inspect returns before they were filed with the IRS,

and that So Far/Jackson Hewitt needed to provide better training for its return preparers. In response, Hasnie and Pawczuk told the managers they were “overreacting” and, reiterated “we are not the police.”

20. One So Far/Jackson Hewitt manager uncovered a massive W-2 fraud scheme involving preparers who had filed hundreds of federal income tax returns based on bogus W-2 forms. The manager reported this to Hasnie and Sohail, who instructed her not to report the matter to the IRS.

21. Sohail, Hasnie, Pawczuk, and others have told So Far/Jackson Hewitt employees who have questioned the propriety and integrity of So Far’s return-preparation work that So Far/Jackson Hewitt and its employees are “not the police,” and that the employees should prepare all returns without regard to whether they are based on false or suspicious W-2s.

Phony Filing Status

22. Another rampant problem at So Far/Jackson Hewitt involves the preparation of tax returns reporting false filing status. For example, married couples living together often attempt improperly to file separately using the head-of-household or single filing status. Usually, this ploy is related to an attempt to increase the claimed EITC. In some cases, couples who would otherwise receive an EITC of only \$1,500 by properly filing jointly, improperly receive \$4,400 each, for a total of \$8,800 by falsely claiming head-of-household or single filing status.

23. So Far/Jackson Hewitt preparers knowingly direct and/or prepare returns using false filing status in order to reduce reported tax liability or claim higher credits.

Illegal sale and use of dependents

24. Many So Far/Jackson Hewitt customers illegally claim purported dependents whose social security numbers they have purchased or “borrowed” from friends or other customers or from So Far/Jackson Hewitt. Some So Far/Jackson Hewitt return preparers have sold or sell social security numbers to customers to use in this fraudulent manner. The fraudulent use (and attempted use) of phony dependents on tax returns at So Far/Jackson Hewitt is pervasive.

Lack of Due Diligence for Earned Income Tax Credits (EITC)

25. The Internal Revenue Code and Treasury Regulations require tax return preparers to exercise “due diligence” in determining whether customers qualify for the Earned Income Tax Credit. Among the due diligence requirements, preparers must:

- based on information provided by the taxpayer or otherwise reasonably obtained, complete Form 8867, Paid Preparer’s Earned Income Credit Checklist (eligibility checklist) or otherwise record in the preparer’s files the information necessary to complete it;
- based on information provided by the taxpayer or otherwise reasonably obtained, complete the Earned Income Credit Worksheet in the Form 1040 instructions (or such other prescribed form), or otherwise record in the preparer’s files the EITC computation, including the method and information used to make it;
- not know or have reason to know that any information used in determining the taxpayer’s eligibility for, or the amount of, the EITC is incorrect;

- not ignore the implications of information furnished to, or known, and must make reasonable inquiries if the information furnished to or known by the preparer appears to be incorrect, inconsistent, or incomplete; and
- retain the eligibility checklist, the computation worksheet, and a record of how and when the information used to complete them was obtained by the preparer, including the identity of the person furnishing the information.

26. In preparing federal income tax returns, defendants have continually and repeatedly failed to satisfy the EITC due diligence requirements imposed by 26 U.S.C. § 6695(g) and Treasury Regulation § 1.6695-2(b).

27. Defendants have continually and repeatedly ignored the implications of suspicious, fraudulent, and bogus information (like that identified in paragraphs 16 through 24 above) provided by customers seeking the EITC, and have failed to make reasonable inquiries when presented with fraudulent, bogus, suspicious, incomplete, inconsistent, and/or incorrect information.

28. Instead, So Far/Jackson Hewitt and its managers and employees, including Sohail, Hasnie, and Pawczuk, have knowingly prepared federal income tax returns containing false claims for the EITC, based on erroneous (and often fraudulent) information, including false W-2 forms, improper filing status, and bogus dependent information.

29. So Far/Jackson Hewitt preparers and managers have charged customers additional fees or kickbacks in cash (on top of the normal So Far/Jackson Hewitt fee) to prepare such fraudulent returns and enlarge or fabricate customers' refunds.

30. So Far/Jackson Hewitt management, including Sohail, Hasnie, and Pawczuk, know about the EITC and W-2 fraud. Regional managers at So Far/Jackson Hewitt informed Hasnie, Sohail, and Pawczuk of the fraud, and, furthermore informed them that some employees were charging customers separate fees as kickbacks to prepare fraudulent returns containing false information. Despite their knowledge, however, So Far/Jackson Hewitt management took no steps to curb the EITC and W-2 fraud.

31. When Sohail has encountered fraud or suspicion of fraud with So Far/Jackson Hewitt returns, he has instructed other managers to “keep it in the family” and “do not tell the IRS” because “we need to get paid.”

32. Hasnie and Sohail invoke other catch phrases when discussing these problems with managers and other employees, stating “we are not the police” and “we are not the IRS,” and insisting it is not So Far/Jackson Hewitt’s responsibility to prevent customers from filing bogus returns.

33. Despite their knowledge of these schemes and the widespread problems at So Far/Jackson Hewitt, Sohail, Hasnie, Pawczuk, and others have repeatedly instructed employees to ignore the fact that information provided by customers appears to be false or suspicious (including apparently suspicious W-2 forms) and to prepare and file tax returns based on that information. So Far/Jackson Hewitt managers have instructed employees to accept customer information and forms without question and to prepare and file returns based on that information.

34. Sohail and Hasnie also falsely told So Far/Jackson Hewitt employees that they are not legally responsible for preparing returns containing false or incorrect information, and that such responsibility falls solely on the customer/taxpayer.

35. Consistent with their drive for volume and profit at the expense of accuracy and honesty, So Far/Jackson Hewitt managers frequently explain to employees that So Far/Jackson Hewitt will lose business if it turns away customers suspected of providing fraudulent information. The managers therefore directed So Far/Jackson Hewitt employees not to question or turn away such customers, but instead prepare and file their tax returns.

36. Defendants and employees of So Far/Jackson Hewitt followed Sohail's, Hasnie's, and Pawczuk's instructions by preparing and filing tax returns based on information that appeared to be false or suspicious, including W-2 forms that appeared to be fraudulent, and dependent information that appeared false.

37. So Far/Jackson Hewitt office procedures are not designed to ensure compliance with the EITC due diligence requirements under Treasury Regulation § 1.6695-2(b) and 26 U.S.C. § 6695(g). On the contrary, despite occasionally paying lip service to those requirements, So Far/Jackson Hewitt policy *in practice* is to disregard EITC due diligence requirements. In this regard, defendants also fail to exercise due diligence by failing to complete the required EITC computation sheets, or their equivalent, and/or failing to maintain this computation information on file for each customer.

38. The percentage of So Far/Jackson Hewitt-prepared returns claiming EITC (67%) is more than twice the national (33%) and three times State of Michigan (22%) averages for returns claiming the EITC. Similarly, So Far/Jackson Hewitt-prepared returns claiming EITC greatly exceed the percentage of similar returns prepared by So Far/Jackson Hewitt competitors located in the same vicinity/ZIP code.

Schedule C Problems

39. So Far/Jackson Hewitt Tax return preparers are ill-equipped to prepare basic tax returns, let alone more complicated income tax returns, including those requiring Schedule C to report business income and loss.

40. So Far/Jackson Hewitt employees prepare and file federal income tax returns with Schedule C forms that they know or have reason to know contain false, suspicious, and unrealistic information.

41. Generally, So Far/Jackson Hewitt customers claiming to be self-employed are required to prepare a customer data form or worksheet on which they simply enter numerical amounts in the categories which appear on a Schedule C. Using that worksheet, the So Far/Jackson Hewitt preparer enters that information into Profiler (the Jackson Hewitt return-preparation software system). So Far/Jackson Hewitt preparers do not question customers who provide suspicious or unrealistic information, and So Far/Jackson Hewitt preparers ignore the implications of such information. So Far/Jackson Hewitt preparers fail to make reasonable inquiries when customer-provided information appears to be incorrect or incomplete, or fail to make appropriate inquiries to determine the existence of facts and circumstances as required by the Internal Revenue Code and regulations. Instead, as instructed by So Far/Jackson Hewitt management, including Sohail, Hasnie, and Pawczuk, So Far/Jackson Hewitt preparers accept customers' information without question and knowingly prepare returns with erroneous and fraudulent Schedule C forms.

42. So Far/Jackson Hewitt preparers sometimes file tax returns claiming self-employment income and Schedule C expenses, W-2 wages, and substantial EITC claims. On

information and belief So Far/Jackson Hewitt preparers combine this information in fabricated amounts designed deceitfully to reach a specific income level in order to maximize claimed EITC.

43. To prepare returns with false self-employment information, So Far/Jackson Hewitt managers and preparers charge customers additional “fees,” which are actually kickbacks that the managers and preparers keep for themselves for their role in carrying out the fraud on the government.

44. So Far/Jackson Hewitt management knows about the Schedule C fraud and problems described above.

45. Despite their knowledge of the fraud and the kickbacks, Sohail, Hasnie, Pawczuk, and others instructed So Far/Jackson Hewitt employees to ignore information provided by customers that appeared to be false or suspicious, including Schedule C information, to accept customers’ information without question, and to prepare and file returns based on that information.

46. When discussing such fraudulent actions, Hasnie and Sohail repeatedly told So Far/Jackson Hewitt employees “we are not the police” and “we are not the IRS,” and that it was not the responsibility of So Far/Jackson Hewitt tax preparers or managers to prevent customers from filing bogus returns.

47. Sohail and Hasnie told So Far/Jackson Hewitt employees that So Far/Jackson Hewitt would lose business if it turned away customers who provided suspicious Schedule C information, and that So Far/Jackson Hewitt employees therefore should not turn away customers, but should prepare all returns.

48. Defendants and other So Far/Jackson Hewitt employees followed Sohail's and Hasnie's instructions by preparing and filing tax returns with false or suspicious self-employment data, including inflated gross receipts, and phony Schedule C expenses.

IRS Investigations, Inspections and Examinations

49. In 2006, So Far/Jackson Hewitt prepared 21,968 federal income tax returns. The IRS recently reviewed a random sample of 600 of those returns. A preliminary IRS investigation indicated that nearly one-third (approximately 31%) of the 600 So Far/Jackson Hewitt-prepared returns contained: false head-of-household filing status; phony Schedule A and C deductions; fraudulent Earned Income Tax Credit claims; questionable W-2s; and other questionable itemized deductions. Former managers and employees have confirmed these high error rates, explaining that information that appeared fraudulent was ignored, and many returns based on bad information were prepared and filed.

50. The IRS preliminary investigation of the 600 returns prepared by So Far/Jackson Hewitt indicated that 184 of the returns (31%) contain:

- a. 170 false EITC claims.
- b. 40 bogus Schedule C deductions.
- c. 11 fraudulent W-2 forms.
- d. 14 bogus itemized deductions.

51. Separate injunction suits against other Sohail-owned Jackson Hewitt franchises are being filed in other cities across the country.

52. 95% of the 21,968 federal income tax returns that So Far/Jackson Hewitt prepared in 2006 claimed tax overpayments and corresponding tax refunds. So Far/Jackson Hewitt and other

Sohail-owned franchises have the highest refund rates (in relation to competitors) in each location where they operate.

Harm to the Public

53. The United States is substantially harmed because So Far/Jackson Hewitt and the other defendants are not accurately reporting their customers' correct tax liabilities. The IRS estimates the total tax loss to the Treasury from So Far/Jackson Hewitt's misconduct thus far at nearly \$18 million. That estimate is based on the 21,968 tax returns prepared by So Far/Jackson Hewitt for tax year 2006, using So Far's projected error rate of 31%, at an average loss of \$2,632. The estimated harm figure is likely to increase as the IRS investigation continues, and as more tax returns are prepared and filed this year.

54. The defendants' misconduct further harms the United States by requiring the IRS to devote scarce resources to detecting the fraud and assessing and collecting lost tax revenues from defendants' customers. Identifying and recovering all lost revenues may be impossible.

55. The harm to the Government will increase unless defendants are enjoined because they are likely to continue preparing false and fraudulent federal income tax returns for customers.

56. In addition, defendants' customers have been harmed because they have paid defendants' fees to prepare tax returns that understated their correct federal income tax liabilities, thereby subjecting them to interest charges and possible civil and criminal sanctions.

57. In addition, defendants' misconduct also undermines public confidence in the federal tax system, and encourages widespread violations of the internal revenue laws.

Count I

Injunction Under IRC § 7407

58. The United States incorporates by reference the allegations in paragraphs 1 through 57.

59. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin an income tax preparer from:

- a. engaging in conduct subject to penalty under IRC § 6694;
- b. engaging in conduct subject to penalty under IRC § 6695;
- c. misrepresenting his or her experience or education as a tax return preparer;
- d. guaranteeing a tax refund or allowance of a tax credit; or
- e. 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 injunctive relief is appropriate to prevent recurrence of the conduct. Additionally, if the court finds that a preparer has continually or repeatedly engaged in such conduct, and the court 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, the court may enjoin the person from acting as a federal income tax return preparer.

60. Defendants have continually and repeatedly engaged in conduct subject to penalty under IRC § 6695(g) by failing to satisfy the due diligence requirements of IRC § 6695(g) and Treas. Reg. § 1.6695-2(b).

61. Defendants have continually and repeatedly engaged in conduct subject to penalty under IRC § 6694(b) by (1) willfully attempting to understate their customers' tax liabilities, and also by (2) intentionally or recklessly disregarding pertinent rules and regulations.

62. Defendants have continually and repeatedly engaged in conduct subject to penalty under IRC § 6694(a) by preparing federal income tax returns asserting unrealistic and frivolous positions of which defendants knew or reasonably should have known.

63. Defendants actions described above, including their fraudulent W-2 schemes, unlawful enlargement of refunds, and receipt of cash kickbacks, is conduct which may be enjoined under IRC § 7407(b).

64. Defendants also continually and repeatedly engaged in other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws. Examples of such misconduct include (1) failing to adequately train their preparers, knowing that such inadequate training would lead to inaccurate returns, (2) tying employees' and managers' compensation directly to the number of tax returns prepared without regard to honesty, accuracy or quality of preparation, (3) knowingly preparing and assisting in preparing tax returns containing false and fraudulent information, (4) encouraging and soliciting customers to provide false and fraudulent information to file false tax refund claims, and (5) accepting (or allowing employees or subordinates to accept) kickbacks from customers seeking defendants' assistance in preparing false tax returns to fraudulently obtain tax refunds.

65. Because of their repeated and continual egregious conduct subject to injunction under IRC § 7407, defendants should be enjoined not merely from engaging in specified misconduct, but should be barred altogether from acting as federal income tax preparers.

Count II

Injunction Under IRC § 7402(a) Necessary to Enforce the Internal Revenue Laws

66. The United States incorporates by reference the allegations in paragraphs 1 through 65.

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

68. Defendants, through their actions described above, have engaged in conduct that substantially interferes with the enforcement of the internal revenue laws. Unless enjoined, they are likely to continue to engage in such conduct.

69. The tax returns defendants prepared for their customers improperly and illegally reduced their federal income tax liabilities.

70. In addition, defendants' policies of inadequate tax preparation training and low wages (combined with compensation tied to volume of returns without regard to quality or accuracy) directly results in, as defendants know and intend, the filing of many incorrect and fraudulent tax returns.

71. The enormous and irreparable injuries caused to the United States by defendants' egregious misconduct outweighs the harm to the defendants of being enjoined.

72. The public interest will be advanced if the Court enjoins defendants because an injunction will stop their illegal conduct and the harm the conduct is causing to the United States.

73. If defendants are not enjoined, they are likely to continue to engage in conduct subject to penalty under IRS §§ 6694, 6695, and 6701, and other conduct that substantially interferes with the enforcement of the internal revenue laws.

Count III

Injunction Under § 7408 To Enjoin Specified Conduct

74. The United States incorporates by reference the allegations in paragraphs 1 through 73.

75. Section 7408 of the Internal Revenue Code authorizes courts to enjoin specific conduct subject to penalty under §§ 6700 and 6701. Section 6701(a), in part, penalizes individuals who prepare, procure, or assist in the preparation of tax returns they know will result in an understatement of another person's tax liability if filed with the IRS. Procuring the preparation of tax returns includes ordering (or otherwise causing) a subordinate to do an act, as well as knowing of, and not attempting to prevent, participation by a subordinate in an act.

76. Defendants, through their actions detailed above, have prepared, procured, and assisted in the preparation of tax returns that they knew would result in the understatement of tax liability. So Far/Jackson Hewitt managers and employees independently, at the direction of others, and with the knowledge or willful blindness of supervisors, knowingly prepared federal income tax returns based on false information to understate the customers' tax liability, and/or generate fraudulent tax refunds.

77. So Far/Jackson Hewitt and its managers, including Sohail, Hasnie, and Pawczuk, procured and assisted in this return preparation by employing and supervising preparers engaging in such schemes, refusing to fire or discipline such preparers even after learning about the schemes, and failing to stop the filing of tax returns they knew were false.

78. Defendants engaged in conduct subject to penalty under IRC § 6701.

WHEREFORE, the plaintiff, the United States of America, prays as follows:

A. That the Court find that defendants continually and repeatedly engaged in conduct subject to penalty under IRC § 6694 and § 6695, and that injunctive relief under IRC § 7407 is therefore necessary and appropriate to prevent the recurrence of that conduct;

B. That the Court, pursuant to IRC § 7407, enter a permanent injunction prohibiting defendants from acting as federal income tax return preparers, and specifically prohibiting Sohail, Hasnie, Nafees, Alidino, Ali, Pawczuk, and the other defendants from owning, managing, supervising or otherwise being involved in the tax return preparation business in any way;

C. That the Court find that defendants engaged in conduct that interferes with the enforcement of the internal revenue laws, and that injunctive relief is therefore necessary and appropriate to prevent the recurrence of that conduct pursuant to the Court's inherent equity powers under IRC § 7402(a);

D. That the Court find that defendants engaged in conduct subject to penalty under § 6701, and that injunctive relief under IRC § 7408 is therefore necessary and appropriate to prevent the recurrence of such conduct;

E. That the Court, pursuant to IRC § 7402(a) and § 7407, enter a permanent injunction prohibiting defendants from:

- (1) acting as federal tax return preparers or requesting, assisting in, or directing the preparation or filing of federal tax returns for any person or entity other than themselves, or appearing as representatives on behalf of any person or organization whose tax liabilities are under examination or investigation by the Internal Revenue Service;
- (2) preparing or assisting in the preparation or filing of tax returns for others that defendants know will result in the understatement of any tax liability;
- (3) understating customers' tax liabilities as subject to penalty under IRC § 6694;
- (4) instructing or advising taxpayers to understate their federal tax liabilities;
- (5) engaging in any other activity subject to penalty under IRC § 6694;
- (6) engaging in any activity subject to penalty under IRC § 6695, including failing to act with due diligence when claiming the Earned Income Tax Credit on returns; and
- (7) engaging in any other conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws;

F. That the Court, pursuant to IRC §§ 7402(a) and 7407, enter an injunction requiring defendants to contact by mail all persons for whom they prepared a federal tax return since January 1, 2002, and inform them of the Court's findings concerning the falsity or fraudulent attributes of those tax returns and enclose a copy of the permanent injunction against defendants;

G. That the Court, pursuant to IRC §§ 7402(a) and 7407, enter an injunction requiring defendants to produce to counsel for the United States, within eleven days of the entry of an

injunction against them, a list that identifies by name, social security number, address, email, telephone number, and tax period(s) all persons for whom defendants prepared federal tax returns or claimed a tax refund since January 1, 2004;

H. Alternatively, if the Court does not enter the permanent injunction requested in paragraph A, barring the defendants from all return preparation, that the Court, pursuant to IRC §§ 7402(a) and 7407, enter an injunction requiring So Far/Jackson Hewitt to develop and enforce improved due diligence procedures and training for all return preparers, including but not limited to:

- (1) the design of improved procedures to detect and stop EITC fraud before returns are prepared, including but not limited to procedures to catch bogus W-2 forms, false dependent information, and incorrect filing status;
- (2) mandatory classroom training sessions prior to each tax season providing instruction to all return preparers on the EITC due diligence procedures in Treas. Reg. 1.6695-2(b), IRC § 6695(g), and the improved So Far/Jackson Hewitt EITC procedures referenced above in paragraph (1);
- (3) administration and passage of mandatory examinations by all return preparers prior to each tax season testing their knowledge of the EITC due diligence procedures in Treas. Reg. 1.6695-2(b) and IRC § 6695(g); and
- (4) the design and application of a supervisory quality control enforcement mechanism to ensure all preparers are adhering to the EITC due diligence procedures in Treas. Reg. 1.6695-2(b) and IRC § 6695(g).

I. That the Court, pursuant to IRC §§ 7402(a) and 7407, enter an injunction requiring So Far/Jackson Hewitt to produce to counsel for the United States, within thirty days of the entry of an injunction against them, documentation describing the new procedures outline above in paragraphs (1) through (4).

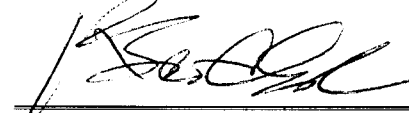
J. That the Court retain jurisdiction over the defendants, and this action for the purpose of enforcing any permanent injunction entered against defendant;

K. That the United States be entitled to conduct all discovery permitted under the Federal Rules of Civil Procedure for the purpose of monitoring defendants' compliance with the terms of any permanent injunction entered against them; and

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

Dated this 2nd day of April, 2007.

STEPHEN J. MURPHY, III
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