

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA,)
)
 Plaintiff,)
)
 v.)
)
 BERTHA L. STEVERSON, individually and)
 d/b/a BERTHA'S TAX SERVICE,)
 Defendants.)
 _____)

Case No.

WAH

07 C 1142

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

The plaintiff, United States of America, alleges against Bertha L. Steverson, individually and doing business as Bertha's Tax Service as follows:

Jurisdiction and Venue

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 §§ 7402, 7407, and 7408 of the Internal Revenue Code (26 U.S.C.) (IRC) to enjoin Steverson from preparing, or assisting in preparing or filing, federal income tax returns for others, engaging in any activity subject to penalty under IRC §§ 6694, 6695, or 6701, and engaging in conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

3. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General pursuant to IRC §§ 7401 and 7407.

4. Bertha L. Steverson resides in and does business in Chicago, Illinois, within this judicial district.

5. Steverson owns and operates Bertha's Tax Service, which conducts business in offices located at 4219 Butterfield Road, Hillside, Illinois, 4699 Auvergne, Suite 10, Lisle, Illinois, and 519 ½ Lockport Street, Plainfield, Illinois.

Steverson's Background

6. Steverson started preparing federal income tax returns for customers in 2001 after completing a ten-week tax preparation training course at Nolen Tax Service in Chicago.

7. From at least 2003, Steverson was employed by Nolen Tax Service as an income tax preparer and managed one of their offices.

8. In 2003, Steverson started Bertha's Tax Service and began preparing federal income tax returns for customers through 2006. Steverson operates Bertha's Tax Service in three locations in the Chicago area.

9. As the owner of Bertha's Tax Service, Steverson has trained and supervised employees who work at her tax preparation offices from 2003 through 2006.

**Steverson Has Repeatedly Prepared
False and Fraudulent Federal Income Tax Returns**

10. From 2004 to 2006, Steverson continually and repeatedly prepared federal income tax returns for others containing false or inflated Form 1040 Schedule A expenses, false Schedule F expenses and false or inflated Schedule C business losses, and other fraudulent items.

11. The IRS estimates that Steverson has prepared 1,224 federal income tax returns from 2004 through 2006.

12. Of the estimated 1,224 federal tax returns Steverson has prepared for customers since 2004, more than 97% have claimed tax refunds.

13. Steverson solicits basic information from her customers, which includes only amounts paid to them for wages and their number of dependents. Steverson reviews the customer's information and tells them that she can increase their refund amount by including additional deductions (other income tax preparers would not claim.)

14. Steverson asks the customers to leave only their Forms W-2 with her, and she explains that she can "massage" their tax returns, to increase the amount of the customer's tax refund. In most cases, Steverson's customers were not provided an opportunity to review the income tax return before it was filed. Most customers reviewed their income tax returns for the first time during an IRS audit. During the audits, the customers acknowledged the deductions claimed on their returns were false, and not based on information they provided to Steverson.

15. Most of Steverson's customers are self-employed individuals or wage-earners living in the Chicago area.

16. As part of her tax preparation practice, Steverson charges customers based on the number of deductions she claims on their federal income tax returns.

17. For example, Steverson provided one customer a bill for preparing his 2004 federal income tax return that included: (1) a \$10 fee for claiming head of household filing status, (2) a \$10 fee for each entry on the customer's Form Schedule A, (3) a \$10 fee for completing a charitable contributions worksheet, and (4) a \$5 fee for each dependency exemption.

18. Following an interview with the IRS, the customer stated that he did not provide Steverson with any information related to his charitable contributions, which was reported on the charitable contributions worksheet and Schedule A. The IRS also determined that this customer was not entitled to claim head of household filing status.

19. In many cases, Steverson guaranteed that her customers would receive large refunds in order to justify her cost of preparing their income tax returns.

20. As a direct result of Steverson's false and fraudulent return preparation, her customers have filed federal income tax returns understating their federal income tax liabilities and claiming large income tax refunds to which they were not entitled.

IRS Investigation of Steverson

21. IRS agents examined at least 93 returns that Steverson prepared for the 2003 through 2005 tax years.

22. The IRS agents determined that 81 returns they examined contained one or more false or inflated Schedule A deductions for charitable contributions, medical expenses, or other miscellaneous deductions. All 93 federal income tax returns audited by the IRS contained false or inflated deductions attributable to Steverson's fraudulent tax preparation.

23. The IRS agents also determined that many of the 93 returns contained false or inflated Schedule C business losses, false or inflated Schedule E expenses, or false head of household filing status.

24. The IRS examiners determined that all 93 returns understated the correct tax, and 76 Steverson customers have agreed to the tax deficiencies the IRS has asserted.

25. As part of the investigation, IRS agents interviewed 25 of Steverson's customers and secured affidavits from them. Steverson's customers confirmed that they provided her with only their Forms W-2 or 1099, Steverson filed their income tax returns before the customer could review it, and that the customers were unaware of the false and inflated Schedule A expenses appearing on their returns until they were audited.

26. In October 2006, IRS agents interviewed Steverson and advised her that she was being investigated in connection with possible improper conduct in preparing income tax returns for customers. During the interview, Steverson stated that she intended to continue her tax preparation business in the Chicago area.

**Steverson's Fraudulent Return Preparation
Has Caused an Estimated \$3 Million in Tax Losses So Far**

27. Based on the IRS's complete examinations of the 93 returns for the 2003, 2004, and 2005 tax years, Steverson understated her customers' tax liabilities in the total amount of \$231,661, or approximately \$2,491 per return (excluding interest and penalties).

28. To date, the IRS has fully examined 93 of Steverson's returns from an estimated total of 1,224 returns that Steverson prepared since 2004. The IRS estimates a total loss to the Treasury of over \$3 million as a result of Steverson's fraudulent return preparation based on the \$2,491 average deficiency ($\$2,491 \times 1,224 = \$3,048,984$).

29. The IRS recently listed return-preparer fraud as part of its 2007 "Dirty Dozen" tax scams. The "Dirty Dozen" list can be found on the web at <http://apps.irs.gov/newsroom/article/0,,id=167983,00.html>.

30. The harm to the Government will increase if Steverson is not enjoined because she is likely to continue to prepare false and fraudulent federal income tax returns for customers during the 2006 return-filing season.

False or Fictitious Business Expenses

31. Steverson continually and repeatedly prepared federal income tax returns claiming fictitious or false Schedule C, E and F expenses for customers in order to offset their W-2 income.

32. Of the 97 audited income tax returns, Steverson prepared at least 17 tax

returns for the 2003 through 2005 tax years that contained false Schedule C, E, or F expenses.

33. Of these 17 returns, 15 of Steverson's customers have agreed that they are not entitled to these deductions. The same customers acknowledged that they were not aware of the basis for the claimed expenses reported on their income tax returns.

34. For example, Steverson prepared the 2003 federal income tax returns for a Maywood, Illinois, individual that included a form Schedule C. The Form Schedule C included false and fictitious business expenses that the customer did not report to Steverson. Following an audit, the customer agreed to pay an additional \$1,485 due to the false and fictitious Schedule C expenses reported on his income tax return.

35. In other cases, Steverson falsely advised other customers to deduct the cost of their cellular phones, commuting expenses, snow removal, and home repair as valid business expenses to be included on Schedules A and C of their income tax returns.

36. Apparently aware that these deductions were improper, one of her customers specifically requested that Steverson prepare an accurate income tax return and not employ her tactics to inflate the amount of his refund. The customer only received a portion of his federal income tax return filed by Steverson for 2003 and 2004. Steverson filed this customer's federal income tax returns before he could review them. Following an audit, the customer agreed that he owed an additional \$3,676 and \$10,778 for 2003 and 2004, respectively, based on Steverson's fraudulent return preparation. This same customer acknowledged that the false or inflated deductions reported on his federal

income tax returns were attributable to Steverson, and was not based on information he provided to her.

False and Fraudulent Schedule A Expenses

37. For the 2003 through 2005 tax years, Steverson prepared federal income tax returns for many customers falsely claiming inflated Schedule A expenses in order to offset their Form W-2 wage income.

38. For example, Steverson prepared the 2003 federal individual income tax return for a Lombard, Illinois customer and falsely reported inflated Schedule A expenses in order to fraudulently increase the customer's income tax refund. That customer reported adjusted gross income totaling \$43,074, while claiming \$46,935 of Schedule A expenses for the same year. The false Schedule A expenses included \$15,200 in charitable contributions, \$5,500 in medical expenses, and \$12,109 of unreimbursed employee expenses.

39. This customer signed an affidavit stating that the itemized deductions reported on Schedule A of his 2003 income tax return were false, that he did not provide Steverson with any information to complete the Form Schedule A, and that he was not given the opportunity to review the return before it was filed by Steverson.

40. Steverson also failed to report interest income and a state income tax refund for the previous year on this Lombard, Illinois customer's 2003 federal income tax return.

41. As a result of Steverson's false and fraudulent return preparation, the customer requested a refund of \$3,968 to which he was not entitled, and he has agreed to pay an

additional tax of \$1,777 as determined by the IRS for 2003.

42. Steverson prepared a similar Form 1040 for the customer's 2004 tax year, which also falsely reported inflated Schedule A expenses in order to fraudulently increase the customer's income tax refund. The customer reported adjusted gross income totaling \$47,553, while claiming \$31,044 of Schedule A expenses for the same year. The false Schedule A expenses include \$11,250 of deductions related to charitable contributions.

43. Steverson also prepared a Form 8283, Noncash Charitable Contribution, to itemize charitable donations for this customer for both 2003 and 2004. The Forms 8283 that Steverson prepared for this customer for 2003 and 2004 are nearly identical, and both contain false information. Both Forms 8283 Steverson prepared for this customer claim \$4,500 of charitable donations for clothing donated to Goodwill for 2003 and 2004. The Forms 8283 that Steverson prepared also falsely claim \$4,000 and \$2,300 charitable contributions for donating furniture for 2003 and 2004, respectively.

44. When interviewed by the IRS, the customer stated that the charitable deductions were inflated, and that he did not provide Steverson any information related to any charitable contributions during 2003 or 2004. The customer further stated that Steverson filed his 2004 federal income tax return before he could review the amounts reported.

45. As a result of an IRS examination that disallowed the customer's deductions and Schedule A expenses, he now owes the IRS additional tax of \$2,047 for 2004.

Count I: Injunction under IRC § 7408

46. The United States incorporates by reference the allegations in paragraphs 1 through 45.

47. IRC § 7408 authorizes a court to enjoin persons who have engaged in conduct subject to penalty under IRC § 6701 from engaging in further such conduct. Section 6701 imposes a penalty on any person who aids in the preparation of any portion of a return or other document, who knows the portion or document will be used in connection with any material matter under the internal revenue laws, and who knows the portion or document (if so used) would result in understating another person's tax liability.

48. Steverson prepared tax returns and assisted in preparing tax returns and other documents for customers that were intended to be used (and were used) in connection with material matters arising under the internal revenue laws.

49. Steverson knew that these returns and other documents (if so used) would result in understatements of customers' tax liabilities. Steverson thus engaged in conduct subject to penalty under IRC § 6701.

Count II: Return-preparer injunction under IRC § 7407

50. The United States incorporates by reference the allegations in paragraphs 1 through 49.

51. IRC § 7407 authorizes a court to enjoin a person from, among other things,

(1) engaging in conduct subject to penalty under IRC § 6694 (which penalizes a

return preparer who prepares or submits a return or claim that contains a frivolous or unrealistic position, or who willfully attempts to understate a customer's tax liability on a return or claim, or who makes an understatement on a return due to reckless or intentional disregard of rules or regulations);

(2) engaging in conduct subject to penalty under IRC § 6695 (which penalizes a return preparer who fails to sign returns she prepares or who fails to be diligent in determining eligibility for the earned income tax credit);

(3) guaranteeing the payment of a tax refund or the allowance of a tax credit; or

(4) engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

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

52. Steverson has continually and repeatedly prepared and submitted federal tax returns that contain unrealistic and frivolous positions, and she has willfully attempted to understate customers' correct tax liabilities, and has thus engaged in conduct subject to penalty under IRC § 6694.

53. Steverson has continually and repeatedly failed to provide copies of the income tax returns she prepares to customers, subjecting her to penalty under IRC § 6695(a).

54. Steverson has continually and repeatedly guaranteed the payment of significant income tax refunds to customers, which conducted may be enjoined under IRC § 7407(b).

55. Steverson has continually and repeatedly engaged in other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

Count III: Injunction under IRC § 7402 for Unlawful Interference with the Enforcement of the Internal Revenue Laws

56. The United States incorporates by reference paragraphs 1 through 55.

57. Through the conduct described above, Steverson has engaged in conduct that substantially interferes with the enforcement of the internal revenue laws. Unless enjoined, she is likely to continue to engage in such conduct. Steverson's conduct is causing irreparable injury to the United States, and the United States has no adequate remedy at law:

- a. Steverson's conduct, unless enjoined, is likely to cause a substantial loss of revenue to the United States Treasury. Unless Steverson is enjoined the IRS will have to expend substantial time and resources to detect future customers' returns with substantial understatements, and may be unable to detect all of them;
- b. The detection and audit of fraudulent returns that Steverson prepares for customers will place a serious burden on the IRS's resources; and
- c. If Steverson is not enjoined, she likely will continue to engage in conduct

subject to penalty under IRC §§ 6694, 6695, and 6701 that substantially interferes with the enforcement of the internal revenue laws.

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

A. That the Court find that Steverson has engaged in repeated and continual conduct subject to penalty under IRC §§ 6694 and 6695, and that injunctive relief is appropriate under IRC § 7407 to bar Steverson from acting as an income-tax-return preparer;

B. That the Court find that Steverson has engaged in conduct subject to penalty under IRC § 6701, and that injunctive relief is appropriate under IRC § 7408 to prevent her from engaging in further such conduct;

C. That the Court find that Steverson has engaged in conduct that interferes with the enforcement of the internal revenue laws and substantially interferes with the proper administration of the internal revenue laws, and that injunctive relief against them is appropriate to prevent the recurrence of that conduct pursuant to IRC §§ 7407 and 7402(a);

D. That the Court, under IRC §§ 7402 and 7407, enter a permanent injunction permanently barring Steverson from acting as a federal income tax return preparer, assisting in preparing or filing federal income tax returns for others, and from representing customers before the IRS;

E. That the Court, under IRC §§ 7402, 7407 and 7408, enter a permanent

injunction prohibiting Steverson and her representatives, agents, servants, employees, attorneys, independent contractors, and anyone in active concert or participation with her, from directly or indirectly:

- (1) engaging in any conduct subject to penalty under IRC § 6694, including preparing any part of a return or claim for refund that includes an unrealistic position or a willful understatement of tax;
- (2) engaging in any conduct subject to penalty under IRC § 6695(g), including failing to be diligent in determining eligibility for the earned income tax credit;
- (3) acting as federal-income-tax return preparer;
- (4) assisting in preparing of filing federal income tax returns for others;
- (5) engaging in any conduct that interferes with the administration and enforcement of the internal revenue laws; and
- (6) engaging in conduct subject to penalty under IRC § 6701, i.e., assisting others in the preparation of any tax returns, forms, or other documents to be used in connection with any material matter arising under the internal revenue laws and which they know will (if so used) result in the understatement of income tax liability.

F. That the Court, under IRC § 7402, enter an injunction requiring Steverson to contact all persons and entities for whom she prepared any federal income tax returns or other tax-related documents after January 1, 2003, and inform those persons of the entry of the Court's findings concerning the falsity of representations Steverson made on her

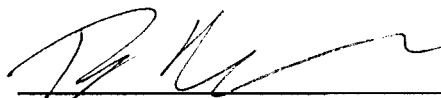
customers' tax returns, and that a permanent injunction has been entered against her.

G. That the Court, under IRC § 7402, enter an injunction requiring Steverson to turn over to counsel for the United States a list of the names, addresses, e-mail addresses, phone numbers, and Social Security numbers of all individuals or entities for whom Steverson prepared or helped to prepare any tax-related documents, including claims for refund or tax returns since January 1, 2003.

H. That the Court order that the United States is permitted to engage in post-judgment discovery to ensure compliance with the permanent injunction; and

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

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