

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS

UNITED STATES OF AMERICA,	)	
	)	
Plaintiff,	)	
	)	
v.	)	Case No. 1:12-cv-06136
	)	
BRUCE E. GRANT, individually and	)	
doing business as QUICK CHECK	)	
LIMITED,	)	
	)	
Defendant.	)	

**COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF**

Plaintiff, the United States of America, alleges against Defendant, Bruce E. Grant, 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 permanently enjoin Defendant Bruce E. Grant and anyone in active concert or participation with him, from:

- (a) acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns, amended returns, or other related documents or forms for any person or entity other than himself;
- (b) preparing or assisting in preparing federal tax returns that he 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 other activity subject to penalty under IRC §§ 6694, 6695, 6701, or any other penalty provision in the IRC; and
- (d) engaging in any conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws.

### **Jurisdiction and Venue**

2. This action has been requested by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of a delegate of the Attorney General, pursuant to the provisions of IRC §§ 7402, 7407, and 7408.

3. Jurisdiction is conferred on this Court by Sections 1340 and 1345 of Title 28, United States Code, and IRC § 7402(a).

4. Venue is proper in this Court under 28 U.S.C. § 1391 because Bruce E. Grant resides in Melrose Park, Illinois, and a substantial part of the actions giving rise to this suit took place in this district.

### **Grant's Activities**

5. Grant is a commercial tax return preparer doing business as Quick Check Limited at 331 North Central Ave., Chicago, IL 60644. Grant has owned and operated Quick Check Limited since 2009. Prior to 2009, Grant prepared returns under the name Quick Check Tax Service at the same location.

6. Grant claims that his business prepared approximately 2,600 tax returns in 2011, 2,500 tax returns in 2010, and 1,800 tax returns in 2009. Grant claims that of these returns, he personally prepared approximately 300 per year. However, prior to 2011, the returns prepared by Grant frequently did not identify him as the paid tax return preparer through either Grant's social security number or a preparer tax identification number. Prior to 2011, Grant frequently failed to sign tax returns that he prepared as the paid preparer, signing them only as "Quick Check Limited."

7. Because prior to 2011 Grant did not sign the tax returns that he prepared or otherwise identify himself as the paid preparer through his social security number or a preparer tax identification number, it is difficult to identify the actual number of returns that he prepared prior to 2011.

8. The IRS has identified 2,555 individual income tax returns prepared in 2011 that list Grant's social security number as the number of the paid preparer. Of these returns, 2,543 request a refund, an extraordinarily high refund rate of 99.5 percent.

9. The IRS also examined 67 federal tax returns that Grant's customers identified as returns Grant prepared for tax years 2009 and 2010. The examination revealed a 97% error rate on these returns with an average tax deficiency of \$5,195.

10. Conservatively, assuming that Grant prepares 300 returns annually, as he claims, with an error rate of 97% and an average tax deficiency of \$5,195 per incorrect return, Grant's tax return preparation could have resulted in revenue losses of over \$4.5 million to the United States from 2009 to 2011.

11. In 2006, Grant pled guilty to one count of conspiracy to defraud the United States. *See United States v. Bruce Grant, et al.*, Case no. 1:06-cr-29-1 (N.D. Ill.). The count was based on allegations that Grant charged customers a fee for listing a false dependent on the customers' tax returns.

### **Earned Income Tax Credit Fraud**

12. The Earned Income Tax Credit (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.

13. 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.

14. 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. Some tax preparers who manipulate reported income to maximize the EITC refer to this range of earned income corresponding to a maximum EITC as the "sweet spot." 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 Grant 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, Grant 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 December 2, 2011, the IRS reviewed 120 federal tax returns (as well as the corresponding customer files) for tax year 2010 that Grant prepared and which claimed the EITC. Grant failed to satisfy the due diligence requirements on all 120 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). The IRS asked Grant to review a total of 518 returns and corresponding files, but Grant provided only 120 of the returns to the IRS and he conceded that all 518 returns failed to satisfy the due diligence requirements.

19. 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. Similarly, claiming losses to offset income and manipulate the total income to fall within the “sweet spot” allows customers to receive a larger refundable credit. Grant is falsifying information to achieve the maximum allowed EITC for his customers. Grant creates Schedules C with bogus income

and claiming no expenses, or with minimal income and sizeable bogus expenses, to claim the maximum EITC for his customers.

20. For example, Grant prepared the 2009 and 2010 federal income tax returns of Rochelle Ferguson of Chicago, Illinois. Ferguson's 2010 return reported \$30,296 in wages. Grant attached a Schedule C to Ferguson's 2010 tax return reporting \$1,001 in income from a "Mary Kay" business, even though Ferguson owned no such business and did not inform Grant that she owned any such business. Grant also fabricated expenses totaling \$17,059 for this purported business, including \$1,423 for advertising, \$1,250 for office expenses, \$8,745 for renting or leasing vehicles, machinery and equipment, and \$5,641 for supplies. The result was that Grant falsely claimed a business loss of \$16,058 on Ferguson's Schedule C.

21. Grant reported the purported loss of \$16,058 on Line 12 of Ferguson's 2010 Form 1040, which thereby falsely reduced her total income to \$14,238, within the EITC "sweet spot." Grant then claimed an Earned Income Credit of \$5,036 on Ferguson's return, and requested an improper refund of \$9,330. Ferguson's 2009 return claimed similar bogus Schedule C business expenses and an improper claim for EITC. Grant did not discuss with Ferguson the claims he made on her 2009 and 2010 returns and did not review the returns with Ferguson.

22. Grant also prepared the 2010 return of Lolita Smith of Chicago, Illinois. Grant attached a Schedule C to Smith's tax return reporting \$8,547 in income from a hair business, but reporting no expenses. In addition to her regular employment, Smith occasionally provided hair treatments for money. When she met with Grant to discuss the preparation of her tax return, Smith offered Grant records of the expenses that she incurred as part of her hair treatment business. Grant, however, told Smith "not to worry about them." Grant then prepared a

Schedule C that did not report Smith's business expenses.

23. Grant's failure to report any of Smith's business expenses on the Schedule C resulted in Smith reporting business income of \$8,547, in addition to her reported wages of \$7,513, for a total income of \$16,060, within the EITC "sweet spot." Grant falsely claimed an Earned Income Credit in the maximum amount of \$5,666 on Smith's 2010 tax return.

24. Grant's conduct shows an intentional disregard for the due diligence requirements under IRC § 6695(g) and demonstrates his unwillingness to ever comply with the requirements. Not only does Grant fail to adhere to the due diligence requirements, but he is falsifying information in order to maximize the EITC for his customers.

#### **Schedule C Business Expense Fraud**

25. Grant also prepares returns on which he reports a non-existent business on his customer's Schedule C, and purported expenses incurred by the non-existent business, in order to create a phony business loss to offset the customer's wages and fraudulently reduce the customer's income tax liability.

26. For example, on the 2010 tax return of customer Troy Dobbins of Chicago, Illinois, Grant falsely reported on the Schedule C that Dobbins owned an "auto sale" business. In reality, Dobbins did not own a business in 2010, and did not inform Grant that he owned any business; Dobbins gave Grant a copy of his W-2 for 2010 and no other documents. Dobbins received \$51,515 in wages in 2010 as an employee of the United States Postal Service. On the Schedule C, Grant falsely claimed that Dobbins earned \$520 through the fabricated business, and claimed bogus business expenses totaling \$34,853, purportedly for advertising, offices expenses, rent or lease of vehicles, machinery and equipment, repairs and maintenance, supplies, and

travel. Thus, the Schedule C that Grant prepared claimed a bogus loss of \$34,333.

27. Grant reported the bogus \$34,333 business loss on Line 12 of Dobbins' 2010 Form 1040, thereby fraudulently reducing Dobbins' total income to \$17,182. Dobbins' 2010 tax return falsely claimed a refund of \$2,860.

28. Similarly, on the 2010 tax return of customer Marilyn Padillia, of Chicago, Illinois, Grant falsely reported that Padillia operated a "party promoter" business, through which she had \$750 in income and \$31,709 in expenses. In actuality, Padillia worked three jobs in 2010 for which she received W-2s and earned wages totaling \$53,488. Padillia gave Grant copies of her W-2s and never told him that she operated any business.

29. The bogus expenses that Grant claimed on Padillia's Schedule C included \$2,895 for advertising, \$950 for car and truck expenses, \$6,580 for office expenses, \$10,255 for rent or lease of vehicles, machinery, and equipment, \$6,987 for supplies, and \$4,042 for a "cell phone" and "gifts." Thus, Grant falsely reported that Padillia's non-existent business had a loss in 2010 in the amount of \$30,959. Grant reported this loss on Line 12 of Padillia's Form 1040, fraudulently reducing her total income to \$36,748. As a result, Grant requested a bogus refund of \$7,361 on Padillia's 2010 tax return.

#### **Harm Caused by Grant**

30. Grant's customers have been harmed because they paid Grant fees to prepare proper tax returns, but Grant prepared returns that substantially understated their correct tax liabilities.



Many customers now face large income tax deficiencies and may be liable for sizeable penalties and interest.

31. Grant's conduct harms the United States because his customers are under-reporting and under-paying their correct tax liabilities. So far, the IRS has identified 65 fraudulent federal income tax returns (of a sample of 67 that were examined) that Grant prepared for tax years 2009 and 2010, with a total of \$337,718 in lost revenue (an average of over \$5,195 per fraudulent return) based on false claims and deductions.

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

33. Grant further harms the United States because the Internal Revenue Service must devote its limited resources to investigating Grant, identifying Grant's customers, ascertaining their correct tax liabilities, recovering any refunds erroneously issued, and collecting any additional taxes and penalties.

**Count I**  
**Injunction under IRC § 7407**

34. The United States incorporates by reference the allegations in paragraphs 1 through 33.

35. 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 the court further finds that a narrower injunction (i.e., prohibiting only that specific enumerated conduct) would not be sufficient to prevent that person's interference with the proper administration of the internal revenue laws, the court may enjoin the person from further acting as a tax return preparer.

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

37. Grant has continually and repeatedly engaged in conduct subject to penalty under IRC § 6695. 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).

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

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

40. Grant'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.

41. If he is not enjoined, Grant is likely to continue to prepare and file false and fraudulent tax returns.

42. Grant's continual and repeated conduct subject to an injunction under IRC § 7407, including his continual and repeated fabrication of expenses and deductions, demonstrates that a narrow injunction prohibiting only specific conduct would be insufficient to prevent Grant's interference with the proper administration of the internal revenue laws. Thus, he should be permanently barred from acting as a return preparer.

**Count II**  
**Injunction under IRC § 7408**

43. The United States incorporates by reference the allegations in paragraphs 1 through 42.

44. Section 7408 of the IRC authorizes a district court to enjoin any person from engaging in conduct subject to penalty under either IRC § 6700 or § 6701 if injunctive relief is appropriate to prevent recurrence of such conduct.

45. 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.

46. Grant prepares federal tax returns for customers that he knows will understate their correct tax liabilities, because Grant knowingly prepares returns claiming bogus expenses and deductions. Grant's conduct is thus subject to a penalty under IRC § 6701.

47. If the Court does not enjoin Grant, he is likely to continue to engage in conduct subject to penalty under IRC § 6701. Grant'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)**  
**Necessary to Enforce the Internal Revenue Laws**

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

49. 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.

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

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

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

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

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

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

A. That the Court find that Bruce E. Grant 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 Bruce E. Grant from acting as a federal tax return preparer;

C. That the Court find that Bruce E. Grant 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 Bruce E. Grant 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 Bruce E. Grant, and all those in active concert or participation with him, from:

- (1) acting as a federal tax return preparer, or 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 himself, or appearing as a representative on behalf of any person or organization whose tax liabilities are under examination by the Internal Revenue Service;
- (2) understating customers' liabilities as prohibited by IRC § 6694;
- (3) engaging in any other activity subject to penalty under IRC §§ 6694, 6695, 6701, or any other penalty provision in the IRC; and
- (4) engaging in conduct that substantially interferes with the proper administration and enforcement of the internal revenue laws and from promoting any false tax scheme.

F. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an order requiring

Bruce E. Grant 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 he prepared federal tax returns or claims for a refund for tax years 2008 through 2011 to inform them of the permanent injunction entered against him, including sending a copy of the order of permanent injunction but not enclosing any other documents or enclosures unless agreed to by counsel for the United States or approved by the Court;

G. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an order requiring Bruce E. Grant 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 he prepared federal tax returns or claims for a refund for tax years 2008 through 2011;

H. That the Court, pursuant to IRC §§ 7402(a), 7407, and 7408, enter an injunction requiring Bruce E. Grant to provide a copy of the Court's order to all of Grant'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 Grant provided a copy of the Court's order;

I. That the Court retain jurisdiction over Bruce E. Grant and over this action to enforce any permanent injunction entered against him;

J. That the United States be entitled to conduct discovery to monitor Bruce E. Grant's compliance with the terms of any permanent injunction entered against him; and

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

DATED: August 3, 2012

GARY S. SHAPIRO  
Acting United States Attorney

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