

IN THE UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF SOUTH CAROLINA
FLORENCE DIVISION

UNITED STATES OF AMERICA,)	CIVIL ACTION NO.
)	
Plaintiff,)	
)	
v.)	
)	
SUSANN ALLEN and)	
RACHEL D. WATSON,)	
)	
Defendants.)	

COMPLAINT

Plaintiff, the United States of America, alleges as follows:

1. The United States brings this action to restrain and enjoin Defendants Susann Allen and Rachel D. Watson, and all those acting in concert with them and/or under their direction and/or control, from:
 - a. preparing or assisting in the preparation of federal income tax returns, amended returns, and other related documents and forms for others;
 - b. preparing or assisting in the preparation of federal tax returns that they know will result in the understatement of any tax liability or the overstatement of federal tax refunds;
 - c. engaging in any activity subject to penalty under 26 U.S.C. §§ 6694, 6695, and 6701; and
 - d. engaging in any fraudulent or deceptive conduct which substantially interferes with the proper administration and enforcement of the internal revenue laws.

2. This action is authorized by the Chief Counsel of the Internal Revenue Service (IRS), a delegate of the Secretary of the Treasury, and is brought at the direction of a delegate of the Attorney General of the United States, in accordance with 26 U.S.C. §§ 7401, 7407, and 7408.

JURISDICTION AND VENUE

3. Defendant Susann Allen resides in Darlington County, South Carolina.

4. Defendant Rachel D. Watson resides in Florence County, South Carolina.

5. This Court has jurisdiction of this action pursuant to 28 U.S.C. §§ 1340, 1345 and 26 U.S.C. §§ 7402(a), 7407, and 7408.

6. Venue is proper in this Court under 26 U.S.C. §§ 7407 and 7408 and 28 U.S.C. § 1391(b) because the defendants reside within the District of South Carolina, they have engaged in specified conduct subject to penalty within the District of South Carolina, and a substantial part of the events or omissions which give rise to the United States' claims in this action occurred within the District of South Carolina.

DEFENDANTS CAUSED AND WILL CONTINUE TO CAUSE MILLIONS OF DOLLARS IN TAX LOSSES

7. Defendants Susann Allen and Rachel Watson have been preparing federal income tax returns since the early 2000s. For several years, they prepared returns at Langston's Express Tax and Title in Florence, South Carolina. After leaving Langston's, Allen and Watson prepared returns at Fludd's Express Tax Service during 2011 and 2012. Allen also prepared returns at Gold Valley Pawn during 2012. Altogether, Allen prepared at least 1,309 returns during the years 2009 through 2012. Watson prepared 2,053 returns during the same time period.

8. Allen and Watson have repeatedly and regularly prepared returns overstating their clients' deductions or credits and correspondingly understating their clients' federal income tax liabilities or overstating their client's tax refunds. Many of these understated liabilities or overstated refunds are due to positions that Defendants knew or should have known were unreasonable.

9. The table which follows shows the number of returns prepared by Watson¹ during the years 2009 through 2012 and the number and percentages of those returns which claimed a refund and/or the Earned Income Tax Credit (EIC):

Processing Year	Number of Returns	Refund Returns	Refund %	EIC Returns	EIC %
2009	436	435	99.77%	384	88.07%
2010	140	140	100.00%	127	90.71%
2011	1,191	1,186	99.58%	1,096	92.02%
2012	286	283	98.95%	262	91.61%

10. The table which follows shows the number of returns prepared by Allen² during the years 2009 through 2012 and the number and percentages of those returns which claimed a refund and/or the EIC:

¹Based on interviews of their clients, some returns prepared by Allen were filed under Watson's name, signature, and/or identification numbers; therefore, some of the returns attributed to Watson in this table may have been prepared by Allen.

²579 of the returns prepared in 2012 listed below were prepared with the name and/or identification number of Allen's employer, Steven Craig DeBose of Gold Valley Pawn in Florence, South Carolina. Upon information and belief, Allen prepared those returns.

Processing Year	Number of Returns	Refund Returns	Refund %	EIC Returns	EIC %
2009	343	339	98.83%	311	90.67%
2010	385	375	97.40%	323	83.90%
2011	1	1	100.00%	1	100.00%
2012	580	570	98.28%	485	83.62%

11. Defendants have caused substantial revenue losses to the United States, the extent of which may be estimated from returns prepared by Defendants which have been reviewed by the IRS.

12. The IRS examined 32 returns prepared by Watson for tax years 2008, 2009, and 2010. Of those returns, all 32 contained overstatements of their clients' refunds, resulting in an average excessive refund of \$2,859. The United States' loss from those returns is \$91,502.

13. The IRS examined 6 returns prepared by Allen for tax years 2009 and 2010. Of those returns, all 6 contained overstatements of their clients' refunds, resulting in an average excessive refund of \$2,818. The United States' loss from those returns is \$13,654.

14. Defendants have routinely understated their clients' tax deficiencies and overstated their clients' federal tax refunds by fabricating Schedule C business income and expenses, inflating itemized deductions, and preparing returns in which clients claim EIC to which they are not entitled.

REPORTING OF FICTITIOUS SCHEDULE C BUSINESSES OR BUSINESS INCOME AND FICTITIOUS DEPENDENTS TO OVERSTATE EARNED INCOME TAX CREDIT

15. Defendants have repeatedly prepared returns for taxpayers in which they have failed to be diligent in determining the taxpayers' eligibility for the credit under 26 U.S.C. § 32, i.e., the EIC. Instead, they have repeatedly prepared returns that claim the EIC for customers who do not

qualify for it, even fabricating businesses or reporting false business income or claiming false dependents in order for their clients to claim excessive EIC to which they are not entitled.

16. Of the sample of 32 returns referred to in paragraph 12, above, all 32 returns prepared by Watson for the tax years 2008-2010 claimed excessive EIC. The IRS examined those returns and disallowed the excessive credit. The total amount of disallowed EIC from those returns was \$82,473.

17. Of the sample of 6 returns referred to in paragraph 13, above, all 6 returns prepared by Allen for the tax years 2009 and 2010 claimed excessive EIC. The IRS examined those returns and disallowed the excessive credit. The total amount of disallowed EIC from those returns was \$16,982. The IRS also reversed the EIC claimed on 28 returns prepared by Allen for tax year 2008.

18. One scheme routinely employed by Defendants is to fabricate or inflate their client's business income, which appear on the taxpayers' Schedules C, "Profit or Loss from Business," attached to their forms 1040. By routinely fabricating fictitious business profits, Defendants increase their clients' earned income to qualify them for the EIC or claim a larger EIC, which results in a larger tax refund. The following are a few examples of Defendants' routine fabrication of Schedule C income:

a. Watson prepared the 2009 return of a woman from Effingham, South Carolina and her husband. Watson fabricated a Schedule C on which the woman reported \$10,400 in income from a business as a "Dancer," even though the woman did not operate any such business and had no income from being a dancer. With its inclusion of this fabricated business income, the return prepared by Watson claimed an EIC of \$3,043 and additional child tax credit of \$1,000, when the couple, based on their actual wages, were entitled only to \$655 and \$0, respectively.

b. Watson also prepared the 2010 return of a woman from Conway, South Carolina on which she fabricated a Schedule C business of “Dancer.” On this return, Watson fabricated \$6,000 on the Schedule C as income for a dancing business which the woman did not have. That return also erroneously claimed the woman’s mother as a dependent (but identified as her “sister”). The return claimed \$2,491 in EIC when the woman was actually entitled only to \$159.

c. Allen prepared the 2010 return of a woman from Myrtle Beach, South Carolina. Her only actual income in that year was from wages she received. Allen told her she would not get a very large refund if she only reported her wages. Consequently, on the Schedule C attached to the woman’s return, Allen fabricated \$12,500 for a housekeeping business which the woman did not operate. Because of this bogus business income and erroneously claiming her sister as a dependent, the woman’s return reported EIC of \$5,666 and additional child tax credit of \$1,702, when she was only entitled to \$1,970 and \$291, respectively.

19. Another scheme routinely employed by Defendants to fraudulently increase the EIC claimed by their clients is to falsely claim children or other dependents who did not actually live with the taxpayer, or even to create fictitious dependents. In a number of instances, this scheme also generates erroneous additional child tax credit. In addition to the examples cited in paragraphs 18.b and 18.c, above, three more examples are listed below:

a. Watson prepared the 2010 return of a man from Timmonsville, South Carolina which erroneously claimed as a dependent the daughter of his neighbor. On the return, the girl is identified as the man’s niece, despite the man having told Watson that the girl was his neighbor’s daughter and did not live with him. Watson told him that he could claim her as a dependent anyway

in order to increase the amount of his refund. The return claims \$2,593 in excessive EIC, and a \$1,000 additional child tax credit to which the man was not entitled.

b. Watson prepared the 2008, 2009, and 2010 returns of a woman from Florence which falsely claimed her boyfriend as a dependent. Watson told the woman that claiming him as a dependent brother would result in a larger refund. The woman's 2010 return claims an excessive EIC of \$2,791, the 2009 return claims an excessive EIC of \$2,523, and the 2008 return claims \$2,461 in excessive EIC.

c. Watson prepared the 2010 return of a woman from Myrtle Beach which falsely claimed the woman's mother, who was not her dependent, as her son. The return also claimed the woman's sister, who did not live with her, as a dependent. Altogether, that return claimed an additional child tax credit of \$1,000 to which the woman was not entitled and overstated the woman's EIC by \$200.

FABRICATION OR INFLATION OF DEDUCTIONS

20. Another scheme routinely employed by Defendants is to fabricate and inflate itemized deductions reported on their customers' Schedules A (Form 1040). By fabricating and inflating itemized deductions on a client's Schedule A (Form 1040), Defendants are able to reduce a client's taxable income, which results in a reduced tax liability or increased refund. Specific examples are listed below:

a. Watson prepared the 2010 return of a man from Effingham, South Carolina which claimed as a deduction unreimbursed employee expenses of \$492,805 based on mileage of 985,610. The itemized deductions reduced the taxable income reported on the return to \$0.00, and a refund of \$1,851 more than he should have received.

b. Watson also prepared the 2010 return of a woman from Timmons ville which claimed an unreimbursed employee expense deduction of \$482,605 for vehicle mileage of 965,210. That return overstated the refund claimed by \$728.

HARM TO THE UNITED STATES

21. The variety of schemes used by Defendants harm the United States by unlawfully understating their clients' reported tax liabilities.

22. The magnitude of lost tax revenues caused by Defendant's schemes is enormous. After examining 32 returns prepared by Watson for tax years 2008, 2009, and 2010, the IRS determined that all 32 contained overstatements of her clients' refunds, resulting in an average excessive refund of \$2,859. If the other returns prepared by Watson for tax years 2008 through 2011 claiming refunds reflect similar deficiencies, the IRS projects that the total tax loss caused by Watson for those years could be more than five million dollars. Similarly, after examining 6 returns prepared by Allen for tax years 2009 and 2010, the IRS determined that all 6 contained overstatements of the clients' refunds, resulting in an average excessive refund of \$2,818. If the other returns prepared by Allen for tax years 2008 through 2011 claiming refunds reflect similar deficiencies, the IRS projects that the total tax loss could be more than three-and-a-half million dollars.³

23. Aside from the immense financial loss to the Government from Defendants' schemes, the IRS is also specifically harmed by their improper conduct because the IRS must continue to devote scarce resources to detect and examine inaccurate returns prepared and filed by Defendants

³According to interviews with their clients, Allen often used Watson's name and/or tax preparer identification number for the returns she prepared in the years prior to the 2012 filing season (tax year 2011); therefore, some of the harm attributed here to Watson for those years may be due to Allen.

on behalf of their clients. The IRS must also expend valuable resources in an attempt to assess and collect the unpaid taxes from Defendants' clients.

24. In light of the large number of returns prepared by Defendants, the high percentage of returns understating tax liability or overstating credits refunds, the great financial harm to the United States, and the variety of schemes employed by Defendants to effectuate this end, it is necessary to permanently enjoin Defendants from continuing to prepare tax returns.

Count I - Injunction Under 26 U.S.C. § 7407

25. The United States incorporates by reference the allegations in paragraphs 1 through 24.

26. 26 U.S.C. § 7407 authorizes a District Court to enjoin a person who is a tax return preparer from engaging in certain prohibited conduct or from further acting as a tax return preparer. The prohibited conduct justifying an injunction includes, among other things, the following:

a. engaging in conduct subject to penalty under 26 U.S.C. § 6694(a), which penalizes a return preparer who prepares a return that contains an understatement of tax liability or overstatement of a credit or refund that is due to an unreasonable position which the return preparer knew or should have known was unreasonable;

b. engaging in conduct subject to penalty under 26 U.S.C. § 6694(b), which penalizes a return preparer who prepares a return that contains an understatement of tax liability or overstatement of a credit or refund which is due to a willful attempt to understate the liability for tax or a reckless or intentional disregard of rules or regulations;

c. engaging in conduct subject to penalty under 26 U.S.C. § 6695(b) and (c) which penalizes a return preparer who fails to sign tax returns they prepare or fails to include on the

returns an identifying number for securing proper identification of the preparer, his employer, or both;

d. engaging in conduct subject to penalty under 26 U.S.C. § 6695(g), which penalizes a tax return preparer for failing to exercise due diligence in determining eligibility for the EIC; and

e. engaging in any other fraudulent or deceptive conduct which substantially interferes with the proper administration of the internal revenue laws.

27. In order for a court to issue such an injunction, it must find (1) that the tax return preparer engaged in the prohibited conduct, and (2) that injunctive relief is appropriate to prevent the recurrence of such conduct.

28. If the court finds that the return preparer has continually and repeatedly engaged in conduct prohibited by the statute, and that a narrower injunction (i.e., against only the conduct) would not be sufficient to prevent the person's interference with the proper administration of the federal tax laws, the court may permanently enjoin the person from acting as a tax return preparer.

29. Defendants have repeatedly and continually prepared or submitted returns that contained understatements of tax liability and overstatements of credits and refunds and that were due to positions that they knew or reasonably should have known were unreasonable and subject to penalty under 26 U.S.C. § 6694(a).

30. Defendants have repeatedly and continually prepared returns that contained an understatement of tax liability or overstatements of credits and refunds which were due to a willful attempt to understate the liability for tax or a reckless or intentional disregard of rules or regulations and subject to penalty under 26 U.S.C. § 6694(b).

31. Defendants have repeatedly and continually failed to sign the returns prepared by them or failed to include their identifying number, which is conduct subject to penalty under 26 U.S.C. § 6695(b) and (c). This is especially true of Defendant Allen, who has prepared returns using Watson's name and identification number, and that of Steven Craig DeBose, who owns and operates Gold Valley Pawn, where Allen prepared returns during 2012.

32. Defendants have repeatedly and continually failed to exercise due diligence in determining their customers' eligibility for the EIC and prepared returns incorrectly claiming the EIC.

33. A narrow injunction only against Defendants' conduct—as opposed to enjoining their acting as tax return preparers—would be insufficient to prevent their continued interference with the proper administration of the federal tax laws. Defendants have employed a number of schemes over an extended period of time that resulted in understatement of income and income tax and overstatement of refunds. It is unlikely that a narrow injunction could encompass all of those schemes. Indeed, it is likely that the IRS has not yet identified all of the schemes used by Defendants to understate income. Moreover, failure to permanently enjoin Defendants will require the IRS spend additional resources to ferret out additional schemes Defendants devise in the future. Therefore, only a permanent injunction is sufficient to prevent future harm.

34. Because Defendants have engaged in conduct prohibited by 26 U.S.C. § 7407(b)(1), they are subject to an injunction for those activities.

35. Moreover, because Defendants have repeatedly and continually engaged in activities subject to injunction under 26 U.S.C. § 7407(b)(1) and because a narrower injunction would not be

sufficient to prevent their interference with the proper administration of the federal tax laws, Defendants should be permanently enjoined from acting as income tax return preparers.

Count II - Injunction Under 26 U.S.C. § 7408

36. The United States incorporates by reference the allegations in paragraphs 1 through 35.

37. 26 U.S.C. § 7408 authorizes a District Court to enjoin a person who is a tax return preparer from engaging in conduct subject to a penalty under 26 U.S.C. § 6701 if it finds that the person has engaged in such conduct and that injunctive relief is appropriate to prevent reoccurrence of this conduct.

38. Conduct is subject to a penalty under section 6701 if a person aids or assists in the preparation of any portion of a return when the person knows or has reason to believe that such portion will be used in connection with a material matter arising under federal tax law, and the person know that such portion will result in a material understatement of the tax liability of another person.

39. Defendants have aided or assisted their clients in preparation of portions of returns, such as taxpayers' Schedule C, which Defendants knew would be used in connection with the reporting of their clients' tax liability, a material matter arising under federal tax law, and the Defendants knew this reporting would result in a material understatement of their clients' tax liability.

40. Because Defendants have engaged in conduct prohibited by 26 U.S.C. § 7408(c), they are subject to an injunction for those activities.

Count III - Injunction under 26 U.S.C. § 7402

41. The United States incorporates by reference the allegations in paragraph 1 through 40.

42. 26 U.S.C. § 7402(a) authorizes a court to issue orders of injunction as may be necessary or appropriate for the enforcement of internal revenue laws.

43. Defendants, as described above, have repeatedly and continually engaged in conduct that interferes substantially with the administration and enforcement of internal revenue laws.

44. If Defendants continue to act as tax return preparers, their conduct will result in irreparable harm to the United States, and the United States has no adequate remedy at law.

a. Defendants' conduct has caused irreparable harm to the United States by creating a large and potentially undiscoverable and unrecoverable tax loss to the United States Treasury. Moreover, unless Defendants are enjoined from preparing returns, the IRS will have to devote substantial unrecoverable time and resources auditing their clients individually to detect future returns understating the clients' income.

b. The United States has no other adequate remedy at law besides a permanent injunction to prevent the harm Defendants will continue to cause through preparation of a large volume of erroneous returns which generate substantial tax losses. Much of these tax losses will never be discovered. Of those that are discovered, the United States will be unable to recover all those losses through the typical notice and collection procedures available to it. In any event, none of the significant resources necessary to discover and recover these losses are themselves recoverable by the United States.

c. The irreparable harm to the United States without the injunction far outweighs any harm the injunction might cause Defendants. They will be able to pursue other financial

endeavors to support themselves, but the United States cannot recover the additional moneys lost if Defendants are allowed to continue preparing tax returns.

d. It will be in the public interest to enjoin Defendants from continuing to prepare tax returns so as to put a stop to their abusive schemes which have thus far generated potentially millions of dollars in tax loss.

45. If Defendants are not enjoined, they will continue to engage in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695 and that otherwise substantially interferes with the enforcement and administration of the internal revenue laws.

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

A. That the Court find that Defendants have repeatedly and continually engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695 and that injunctive relief is appropriate under 26 U.S.C. § 7407 to prevent recurrence of that conduct.

B. That the Court find that Defendants have repeatedly and continually engaged in conduct subject to penalty under 26 U.S.C. § 6701 and that injunctive relief is appropriate under 26 U.S.C. § 7408 to prevent recurrence of that conduct.

C. That the Court find that defendants have repeatedly and continually engaged in conduct that substantially interferes with the proper enforcement and administration of the internal revenue laws, and that injunctive relief against them is appropriate to prevent the recurrence of that conduct pursuant to 26 U.S.C. §§ 7402(a).

D. That the Court enter a permanent injunction prohibiting Defendants and any other person working in concert and/or participation with them from directly or indirectly:

1. preparing or assisting in the preparation of federal income tax returns, amended returns, and other related documents and forms for others;
2. preparing or assisting in the preparation of federal tax returns that they know will result in the understatement of any tax liability or the overstatement of federal tax refunds;
3. engaging in any activity subject to penalty under 26 U.S.C. §§ 6694, 6695, and 6701; and
4. engaging in any fraudulent or deceptive conduct which substantially interferes with the proper administration and enforcement of internal revenue laws.

E. That the Court enter an injunction:

1. Requiring Defendants, at their own expense, to send by certified mail, return receipt requested, a copy of the final injunction entered against them in this action to each person for whom they prepared federal income tax returns or any other federal tax forms on or after January 1, 2008;
2. Requiring Defendants to turn over to the United States copies of all returns or claims for refund that they prepared for customers on or after January 1, 2008;
3. Requiring Defendants to turn over to the United States a list with the name, address and telephone number, e-mail address (if known), and social security number or other taxpayer identification number of all customers for whom they prepared returns on or after January 1, 2008;

4. Requiring Defendants, within forty-five (45) days of entry of the final injunction in this action, to file a sworn statement with the Court evidencing their compliance with the foregoing directives; and
5. Requiring Defendants to keep records of their compliance with the foregoing directives, which may be produced to the Court, if requested, or to the United States pursuant to paragraph F, below.

F. That the Court enter an order allowing the United States to monitor Defendants' compliance with this injunction, and to engage in post-judgment discovery in accordance with the Federal Rules of Civil Procedure; and

G. That the Court grant the United States such other and further relief as the Court deems appropriate.

Respectfully submitted,

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