

HB

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

UNITED STATES OF AMERICA)

Plaintiff,)

v.)

Civil No. 08-5745

CHALAMAR MUHAMMAD, CURTIS)
MUHAMMAD, and DORANNA)
MUHAMMAD, d/b/a WFM BUSINESS)
MANAGEMENT SYSTEMS, INC., WFM)
BUSINESS CONSULTING SERVICES,)
INC., WFM BUSINESS MANAGEMENT)
SOLUTIONS, INC., WFM TAX)
PLANNING & FINANCIAL SERVICES,)
INC., BUSINESS MANAGEMENT)
SOLUTIONS, BUSINESS MANAGEMENT)
CONSULTING SERVICES, TAX)
PREPARATION AND FINANCIAL)
SERVICES, CDC FINANCIAL SERVICES,)
CDC FINANCIAL PLANNING)
AND TAX PREPARATION COMPANY,)
and CDC TAX PREPARATION AND)
FINANCIAL SERVICES,)

Defendants.)

COMPLAINT FOR PERMANENT INJUNCTION AND OTHER RELIEF

The United States makes the following allegations against the defendants, Chalamar Muhammad, Curtis Muhammad, and Doranna Muhammad, doing business as WFM Business Management Systems, Inc., WFM Business Consulting Services Inc., WFM Business Management Solutions, Inc., WFM Tax Planning & Financial Services, Inc., Business Management Solutions, Business Management Consulting Services, Tax Preparation and Financial Services, CDC Tax Preparation and Financial Services, CDC Financial Planning and Tax Preparation Company, and CDC Financial Services (collectively referred to as "the Muhammads' business"):

A TRUE COPY CERTIFIED TO FROM THE RECORD

DATE 12-11-08

ATTEST 

CLERK OF THE DISTRICT COURT
EASTERN DISTRICT OF PENNSYLVANIA

1. This is a civil action brought by the United States pursuant to §§ 7402(a), 7407, and 7408 of the Internal Revenue Code of 1986 (26 U.S.C.) (“I.R.C.”) to enjoin Chalamar Muhammad, Curtis Muhammad, and Doranna Muhammad, and anyone in active concert or participation with them, from:

- a. Acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns for any person or entity other than himself or herself;
- b. Appearing as a representative on behalf of any person or organization whose tax liabilities are under examination or investigation by the Internal Revenue Service;
- c. Preparing or filing, or assisting in the preparation or filing of tax returns or other related forms or documents for others;
- d. Filing (or helping or soliciting others to file) tax returns for others through the Internal Revenue Service E-File program or any other IRS service or program by which one electronically files tax returns;
- e. Seeking permission or authorization (or helping or soliciting others to seek permission or authorization) to file tax returns for others through the Internal Revenue Service E-File program or any other IRS service or program by which one electronically files tax returns;
- f. Instructing or advising customers, or assisting in the instruction or advice to customers to understate their federal tax liabilities;
- g. Engaging in any activity subject to penalty under I.R.C. §§ 6694, 6695, 6700, 6701, or any other penalty provision in the Internal Revenue Code;
- h. Engaging in conduct designed or intended to, or having the effect of, obstructing or delaying any Internal Revenue Service investigation or audit; and
- i. Engaging in any other conduct that interferes with the proper administration and enforcement of the internal revenue laws.

Jurisdiction

2. This civil action has been authorized and 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 of the United States, pursuant to the provisions of I.R.C. §§ 7401, 7407(a), and 7408(a).

3. Jurisdiction is conferred upon this Court by I.R.C §§ 7402(a), 7407, and 7408, and 28 U.S.C. §§ 1340 and 1345.

4. Venue is proper in this Court under 28 U.S.C. § 1391(b) because the defendants reside in this judicial district and a substantial part of the conduct described in this complaint occurred in this judicial district. Chalamar and Curtis Muhammad reside at 128 Freedom Valley Circle, Coatesville, PA, and Doranna Muhammad resides at 24 Skyview Lane, Thorndale, PA. The defendants operate their tax preparation business at 24 Skyview Lane, Thorndale, PA.

Defendants

5. Chalamar Muhammad is a tax return preparer who, since at least 2003, has prepared fraudulent federal income tax returns that report inflated or false deductions and include false corroborating documentation, in order to receive higher tax refunds for customers. The returns claim inflated or fabricated charitable deductions, education deductions and credits, mortgage interest paid, business expenses, real estate taxes paid, dependent exemptions, and capital losses.

6. Chalamar is neither a licensed Certified Public Accountant nor a lawyer. She stated to the IRS that she has had no training in tax preparation and claims to call an IRS1-800 number whenever she has a tax question. Chalamar did not file her own individual tax returns for 2001, 2002, 2003, and 2004 until August 2005.

7. Chalamar has been a principal and/or owner of the Muhammads' tax preparation business since at least 2003. Beginning in 2003, she exercised control over the business' finances, paid herself a salary from the business' funds, and filed an application for an Electronic Filing Identification Number (EFIN) — which is needed to electronically file income tax returns

through the IRS's E-File program — with the Internal Revenue Service in which she identified herself as the Responsible Official and Vice President of the company. She obtained an EFIN in January 2004, which the Muhammads' business used to electronically file fraudulent tax returns with the IRS for the 2003 and 2004 tax years.

8. Curtis Muhammad, Chalamar's husband, is an accountant but, upon information and belief, is neither a Certified Public Accountant nor an attorney. Curtis earned a biomedical engineering degree from a community college in 1990 and worked as an accountant while serving in the Air Force. He testified before the United States Tax Court that he is also an electrician. Curtis has also worked as a consultant for Waddell & Reed. Currently, Curtis is a financial advisor who offers his services to the customers of the Muhammads' business.

9. Curtis has been actively involved in the preparation of fraudulent federal income tax returns since at least 2005. Curtis has prepared or aided in the preparation of tax returns for customers of the Muhammads' business. Curtis applied for an EFIN in October 2005, at which time he identified himself as Vice President of the Muhammads' business. Curtis obtained an EFIN in December 2005, which the Muhammads' business used to electronically file fraudulent tax returns with the IRS for the 2005 and 2006 tax years

10. In 2003, Chalamar prepared Curtis' 2002 tax return, which claimed deductions for charitable contributions, business expenses, rental expenses, and business use of the home. The IRS disallowed all of the deductions for lack of sufficient substantiation. Curtis sued the United States over this issue in 2006. The United States Tax Court also disallowed each deduction for lack of sufficient substantiation.

11. Doranna Muhammad, Chalamar's mother, has been an owner and executive of the Muhammads' business for as many as 12 years. In July 2003, Doranna claimed that she had

been owner and Vice President of the Muhammads' business for seven years. In 2005, Curtis listed Doranna as the President of the Muhammads' business on his EFIN application. In December 2007, Doranna applied for an EFIN and identified herself as the CEO of the Muhammads' business on her application.

The Muhammads' Tax Preparation Activities

12. The defendants have used at least ten business names to prepare fraudulent tax returns since at least 2002: WFM Business Management Systems, Inc., WFM Business Consulting Services Inc., WFM Business Management Solutions, Inc., WFM Tax Planning & Financial Services, Inc., Business Management Solutions, Business Management Consulting Services, Tax Preparation and Financial Services, CDC Tax Preparation and Financial Services, CDC Financial Planning and Tax Preparation Company, and CDC Financial Services.

13. As more thoroughly explained below, the organizations named in paragraph 12 constitute one tax preparation business started by Chalamar's father, Chester Muhammad, and now run by Chalamar.

14. Currently, the Muhammads' tax preparation business operates under the name CDC Tax Preparation and Financial Services but also file customers' returns with the IRS under at least one of the business' prior names. Defendants advertise this business over the internet at <http://www.cdctaxpreparation.com>.

15. The organizations identified in paragraph 12 are or were claimed to be located in Bala Cynwyd, PA; Thorndale, PA; Coatesville, PA; and West Chester, PA. However the Muhammads' business is in fact operated out of Doranna's residence, 24 Skyview Lane, Thorndale, PA.

16. The Muhammads' customers typically drop off their tax return information at the defendants' office without speaking with any particular employee. The returns are prepared without the customer present, and the customer is not contacted with questions that would allow the tax return preparer to determine whether the customer is eligible for certain deductions and credits frequently claimed on the Muhammads' customers' returns. Either Chalamar or another person contacts the customer when his or her tax return is completed. The tax return preparer does not typically review the completed tax returns with the customer.

17. The Muhammads' business has prepared and electronically-filed at least 2,633 federal income tax returns since and including the 2003 tax year.

18. The total of 2,633 electronically-filed returns likely does not represent the true volume of the Muhammads' tax preparation activities. This figure does not include amended returns, returns the Muhammads' business has filed using an EFIN that the IRS has not identified, and returns the Muhammads' business filed in paper form with no preparer identification information reported.

19. The total size of Muhammads' customer base is not known due to the fact that Chalamar has failed to provide the IRS with a complete customer list. On multiple occasions in 2006 and 2007, the IRS issued requests to Chalamar Muhammad seeking, among other items, a list of customers that have used the Muhammads' tax preparation business. In November 2008, the IRS issued a letter requesting the information pursuant to I.R.C. § 6107(b). Chalamar responded with an incomplete list of only 50 returns prepared and filed for the 2006 and 2007 tax years.

20. Chalamar Muhammad prepared the majority of the returns that have been electronically filed with the IRS. Yet less than 1% of the 2,633 electronically-filed returns identify a paid tax return preparer as required by law.

The Muhammads' Tax Scheme

21. The IRS has examined at least 831 federal income tax returns prepared and electronically filed by the Muhammads' business for the 2003, 2004, 2005, and 2006 tax years. For the 2003 and 2004 tax years, the IRS examined 786 federal income tax returns that were electronically filed using Chalamar's EFIN. For the 2005 and 2006 tax years, the IRS has examined a total of 45 federal income tax returns that were electronically filed using Curtis' EFIN. The IRS is in the process of auditing an additional 29 returns for the 2005 and 2006 tax years.

22. More than 90% of the returns the IRS audited for the 2003 through 2006 tax years understated the tax liability of the Muhammads' customer, as shown in the table below.

Year	Total Returns E-Filed	Completed Examinations (#)	Returns with Positive Adjustments	
			(#)	(%)
2003	821	513	476	92.8%
2004	856	273	246	90.1%
2005	452	30	26	86.7%
2006	273	15	11	73.3%
Total	2,402	831	759	91.3%

23. The return preparer scheme consists of Chalamar or another person at the Muhammads' business preparing customers' tax returns or amended returns that contain, among other fraudulent items, fictitious or inflated charitable deductions, education deductions and credits, mortgage interest paid, business expenses, real estate taxes paid, dependent exemptions, and capital losses. The defendants also provided fictitious documents and forms to substantiate the bogus deductions. Specific examples are provided in paragraphs 24 to 30.

Charitable Contributions

24. One of the typical methods Chalamar or another person at the Muhammads' business uses to understate the tax liability of the Muhammads' customers on their tax returns is to fabricate or grossly inflate the amount of charitable contributions that the taxpayer allegedly paid. This process includes claiming deductions for fictitious payments to churches that the customers have never attended or that do not exist. For example:

- a. Chalamar prepared the 2005 and 2006 joint federal income tax returns for Keith and Susan Ream. The couple did not tell Chalamar, or provide her with any documents suggesting, that they contributed to a charitable organization. Yet Chalamar claimed that the couple donated \$10,000 in 2005 and \$8,200 in 2006. The IRS disallowed these amounts in full.
- b. Chalamar prepared the amended 2004 joint income tax return for Arthur and Angela Nixon, after the IRS audited their original return. On the amended return, Chalamar reported that the couple donated \$12,096 to "Highway Gospel" and included a computer-generated list of contribution amounts and dates to substantiate this claim. However, the couple had never heard of or donated to Highway Gospel and did not provide any documents to Chalamar to substantiate this or any other charitable contribution claim. The IRS disallowed the \$12,096 deduction in full.
- c. Curtis was the contact for David and Carol Jones in the preparation of their 2006 joint federal income tax return. Curtis asked Mr. Jones how much he paid to his church in 2006, and Mr. Jones responded that he paid approximately \$20 a week or \$1000 for the year. The tax return that the Muhammads' business filed claimed \$10,000 in charitable contributions, 90% of which the IRS disallowed during the customers' subsequent audit.

Education-Related Credits and Deductions

25. The defendants provide fictitious documents and forms to claim fraudulent educational credits and tuition expenses deductions for institutions that the Muhammads' customers never attended. The Muhammads' business alters tuition expense statements (Form 1098-Ts) in order to substantiate these false education expenses for their customers.

26. In 2003, Chalamar prepared an amended 2001 tax return for Gilbert Saunders. The amended return claimed that a number of items had been omitted in error from the original return, including a Form 1098-T, a Tuition Statement, from Temple University as evidence of

tuition payments the taxpayer supposedly made. The statement claimed that Temple issued the document from a P.O. Box in Bakersfield, CA. However, the Form 1098-T that Chalamar provided contained a U.S. Postal Service bar code indicating that the statement was mailed from Coatesville, PA.

27. The IRS has received at least six other Form 1098-Ts for five of the Muhammads' customers that contain the same bar code that was found on the Form 1098-T described above. These bogus forms were used to substantiate claims that five taxpayers attended five different educational institutions in three states.

Other Fraudulent Deductions

28. Chalamar Muhammad has prepared tax returns that fraudulently claim dependent exemptions. For example, Chalamar prepared the 2006 joint federal income tax return for Matthew and Helen James. On this return, Chalamar listed two of the couple's grandchildren as dependents on their return. However, the taxpayers only provided their grandchildren's social security numbers to Chalamar. This information is insufficient for Chalamar to determine whether the taxpayers could claim their grandchildren as dependents. Upon examination, the IRS determined that the couple could not claim their grandchildren as dependents.

29. Several returns prepared by Chalamar or another person at the Muhammads' business contained fraudulent capital losses. To substantiate the capital loss deductions, the Muhammads' business submitted the same Vanguard statement showing a capital loss for multiple taxpayers. In each case, the taxpayer admitted that they did not have brokerage account and that the Form 1099 did not belong to them.

30. Chalamar or another person at the Muhammads' business has also prepared tax returns for customers that fraudulently claim deductions for mortgage interest paid and real estate taxes paid. For example:

- a. The Muhammads' business prepared the 2004 and 2005 joint federal income tax returns for Matthew and Helen James in addition to the 2006 return described above. The 2004 and 2005 joint federal income tax returns reflected mortgage interest deductions, though the Jameses did not have a mortgage and never provided a mortgage interest statement to the Muhammads' business.
- b. Chalamar Muhammad prepared the 2005 and 2006 joint federal income tax returns for James and Bonnie Dickinson. The couple owned a home and maintained a rental property during this period. The couple provided Chalamar with receipts and other documents showing \$5297 in real estate taxes paid for 2005. Yet Chalamar reported on their 2005 tax return that the couple paid \$7665, more than \$2300 above what the couple told her. For the 2006 tax year, Chalamar again claimed more in real estate taxes paid than what she knew could be substantiated using the couple's tax information. Specifically, the couple provided her documents showing \$7083 in real estate taxes paid, but Chalamar claimed that they paid \$9869.

The Muhammads' Response to IRS Efforts to Enforce the Internal Revenue Laws

31. In several respects, the Muhammads have actively interfered with IRS efforts to enforce the internal revenue laws.

32. On several occasions after the IRS audited one of the Muhammads' customers, Chalamar or another person at the Muhammads' business prepared an amended tax return (Form 1040X) for the customer or offered to handle an appeal of the IRS audit. In the process, the Muhammads' business sent fabricated letters and documents to the IRS in an attempt to reverse the examination results of their customers' tax returns.

33. The letters described in paragraph 32 request an appeal of the IRS examination results, and are signed in the taxpayer's name using a script-like computer font. However, the taxpayers whose names are signed to the letters are unaware of the letter's existence and content. These letters are nearly identical in content and appearance to one another.

34. Both the amended tax returns and the letters described in paragraph 32 contain fraudulent documents, such as fictitious Form 1098-Ts, Vanguard brokerage statements, and charitable contributions statements, described above.

35. In addition to sending fictitious documents, forged appeals letters, and fraudulent amended tax returns to the IRS, the Muhammads' business has told customers who are notified that the IRS will be auditing their tax returns that the customers do not need to cooperate with the Internal Revenue Service.

36. In addition to directly interfering with IRS examinations, the Muhammads have evaded or obstructed IRS efforts to prevent the electronic filing of fraudulent tax returns.

37. As described in paragraphs 38 to 58, each time the IRS suspends or notifies the Muhammads of its intention to suspend a family member's participation in the E-File program, the Muhammads enlist a new family member to obtain an EFIN, change the name of the business on the EFIN application, and provide other false information on the EFIN application.

38. Chalamar's father, Chester Muhammad, founded the Muhammads' business. Numerous fraudulent returns were prepared by this company, including amended returns with attached false corroborating documents, and filed using an EFIN obtained under Chester's name and associated with the business name WFM Business Management Systems, Inc.

39. In 2002, the IRS initiated an investigation of the Muhammads' business and Chester Muhammad after noticing a pattern of false deductions. The IRS informed Chester of this investigation in or around November 2002.

40. In 2003, Chalamar began preparing returns at the Muhammads' business.

41. In June 2003, Chalamar applied for an EFIN using the business name WFM Business Consulting Services, Inc., d/b/a WFM Business Management Solutions, Inc. Chalamar listed

herself as the Responsible Official and Vice President on the application. The Muhammads' business used Chalamar's EFIN to electronically file tax returns for the 2003 and 2004 tax years.

42. In July 2003, Chalamar opened a business checking account under the name Business Management Solutions. Chalamar deposited customers' payments for tax preparation services into this account and paid herself a salary out of the account.

43. In January 2004, the IRS interviewed Chalamar as part of the investigation of her father. Thereafter, Chalamar continued to prepare tax returns and amended tax returns but ceased identifying herself on the vast majority of the returns.

44. In July 2005, the IRS notified Chalamar that she might be suspended from the E-File program for her failure to file her own federal income tax returns for the 2001 through 2004 tax years.

45. In October 2005, Curtis Muhammand applied for a new EFIN under the business name WFM Tax Planning and Financial Services, Inc. His EFIN application identified himself as Vice President and Doranna Muhammad as President of the company. The IRS approved this application in December 2005.

46. The IRS suspended Chalamar's EFIN on January 10, 2006, due to her preparation of false and fraudulent federal income tax returns. Thereafter, the Muhammads' business used Curtis' EFIN to electronically file federal income tax returns for the 2005 and 2006 tax years.

47. Chester Muhammad died in February 2006. Chalamar continued to operate the business under the name WFM Business Management Solutions.

48. In December 2006, Chalamar closed the Business Management Solutions ("BMS") checking account. On the same day, she opened a new business checking account under the

name CDC Tax Preparation and Financial Services (“CDC”) and transferred the balance of the BMS account directly to the CDC checking account.

49. For the 2006 tax year (the 2007 filing year) the Muhammads’ business operated under the name CDC. Chalamar continued to use the EFIN obtained by Curtis, applied for under the name WFM Tax Planning & Financial Services, Inc., to electronically file customers’ returns. Some of these returns also contained the employer identification number associated with the name WFM Business Consulting Services, Inc.

50. The Muhammads’ business mailed postcards and/or letters to its customers notifying them of the name change.

51. At least thirty percent of customers whose returns the Muhammads’ business filed while operating under the name CDC for the 2006 tax year also had returns filed by the Muhammads’ business for the 2002 through 2005 tax years.

52. The Muhammads’ business’ website, <http://www.cdctaxpreparation.com>, is registered in Chalamar’s name. It has claimed that CDC has been in operation since 1998.

53. The Muhammads’ business operated out of 24 Skyview Lane, Thorndale, PA, before and after the business changed its name to CDC.

54. In November 2007, the IRS informed Curtis that his EFIN was immediately suspended for two years due to his failure to keep required taxpayer records and because he knowingly accepted assistance from Chalamar, who was previously suspended from the E-File program.

55. In December 2007, Doranna Muhammad applied for an EFIN, under the name CDC Financial Services. In her application, Doranna identified herself as CEO of the company and claimed that it was located at One Bala Ave., Suite 501, Bala Cynwyd, PA.

56. The address listed for the Muhammads' business on Doranna's EFIN application is false. The address listed is, and has been for several years, the location of an office of the company Waddell & Reed, which previously employed Curtis Muhammad.

57. The Muhammads' business used Doranna's EFIN to electronically file returns the customers' 2007 tax returns. This EFIN is currently inactive for the failure to maintain an accurate business address on file with the IRS.

58. The following chart, which identifies which EFIN the Muhammads used to electronically file federal income tax returns in each year, demonstrates the effect to the Muhammads' conduct.

Electronically-Filed Tax Returns					
EFIN Belongs To...	2003	2004	2005	2006	2007
Chalamar	821	856			
Curtis			452	273	
Doranna					231
				Total	2,633

59. In addition to the above conduct, Chalamar Muhammad has made false statements to the Internal Revenue Service with respect to her tax preparation activities and the Muhammads' business.

60. The IRS interviewed Chalamar in October 2007. The following are examples of false statements Chalamar made during the interview.

- a. Chalamar stated that CDC is not related to the businesses owned by her father.
- b. Chalamar stated that she did not hold a position at the Muhammads' business while her father was alive.
- c. Chalamar stated that she did not control the bank account held in the name of Business Management Solutions.

- d. Chalamar stated that she did not prepare amended tax returns for customers of the Muhammads' business prior to 2007.
- e. Chalamar stated that she did not prepare tax returns with false information.
- f. Chalamar stated that CDC did not have a website.

Harm to Public

61. The Muhammads' business' preparation of false and fraudulent returns has resulted in customers significantly under-reporting their tax liabilities. As a result, those customers must pay interest and penalties in addition to the taxes that they owe.

62. The United States is harmed by Muhammads' scheme because the returns prepared by the Muhammads' business claim tax deductions to which the taxpayers are not entitled. The IRS estimates that the Muhammads' conduct has caused revenue losses of more than \$2.2 million for tax years 2003 through 2006 alone. The following chart breaks down the actual damages per tax:

Year	Total Returns Filed	Returns Examined (#)	Returns with Positive Adjustments		Net Adjustments
			(#)	(%)	
2003	821	513	476	92.8%	\$1,345,710
2004	856	273	246	90.1%	\$793,838
2005	452	30	26	86.7%	\$58,903
2006	273	15	11	73.3%	\$23,027
Total	2,402	831	759	91.3%	\$2,221,478
Average Loss Per Return with Adjustments					\$2,927

63. At present, 2,633 returns are known to have been electronically filed by the Muhammads' business since and including the 2003 tax year. An approximate tax loss per return of \$2,927 yields an estimated total harm to the Treasury of \$7.04 million for tax years 2003 to 2007.

64. The figures identified in paragraph 62 do not account for those of the defendants' customers who may be filing paper returns with no preparer identification information reported or returns filed under an unidentified EFIN.

65. The figures identified in paragraph 62 do not account for the amended returns for customers that Chalamar or another person at the Muhammads' business prepared.

66. The estimated damages do not fully account for the harm to the United States because there are substantial administrative costs to the government for detecting and correcting the incorrect tax returns resulting from defendant's fraudulent activities.

67. In addition, these audits have resulted in over 135 petitions filed with the United States Tax Court, requiring diversion of the federal judiciary's resources.

68. The Internal Revenue Service is harmed because it must dedicate scarce resources to detecting and examining inaccurate returns filed by the Muhammads' customers and to assessing and collecting unpaid taxes.

69. The Muhammads' activities also undermine public confidence in the fairness of the federal tax system and incite non-compliance with the internal revenue laws.

Count I

Injunction under I.R.C. § 7407

70. The Government incorporates by reference the allegations in paragraphs 1-69, above.

71. Section 7407 of the Internal Revenue Code authorizes a district court to enjoin a tax return preparer from specified misconduct (which is described in I.R.C. §§ 6694 and 6695, and I.R.C. § 7407 itself) if the court finds that the preparer has engaged in such conduct and injunctive relief is appropriate to prevent the recurrence of such 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 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.

72. For returns prepared on or before May 25, 2007, I.R.C. § 6694(a) provided that a tax return preparer is subject to penalty if she prepares a return or claim for refund understating a customer's tax liability based on a position for which there is no realistic possibility of the position being sustained on the merits, and the preparer knew or should have known of the position.

73. For returns prepared after May 25, 2007, I.R.C. § 6694(a) provides that a tax return preparer is subject to penalty if he or she prepares a return or claim for refund understating a customer's tax liability based on a position for which there was not a reasonable belief that the position would more likely than not be sustained on the merits, and the preparer knew or should have known of the position.

74. I.R.C. § 6694(b) penalizes a tax return preparer for a willful attempt in any manner to understate the liability for tax on the return or claim, and for a reckless or intentional disregard of internal revenue rules or regulations.

75. I.R.C. § 7701(a)(36) defines a "tax return preparer" as a person who prepares for compensation or who employs one or more persons to prepare for compensation, any return or a substantial portion thereof.

76. Chalamar Muhammad is a tax return preparer.

77. Chalamar willfully prepared tax returns for customers of the Muhammads' business that she knew contained false and grossly inflated claims. She knew that these false deductions, credits, and exemptions would understate the customers' tax liability.

78. Chalamar knew or should have known that the returns she prepared for customers of the Muhammads' business contained claims of which she knew or should have known and for which there was no realistic possibility of being sustained on the merits (for returns prepared prior to and including May 25, 2007) or for which there could not have been a reasonable belief that the position would more likely than not be sustained on the merits (for returns prepared after May 25, 2007). Chalamar fabricated these claims and their supporting documentation. There could be no possibility that these false deductions, credits, and exemptions would be sustained on the merits because they were fabricated.

79. Preparing federal income tax returns that willfully understate the taxpayer's liability and that contain unrealistic or unreasonable and frivolous positions subjects Chalamar to penalty under I.R.C. § 6694.

80. I.R.C. § 7407 authorizes a district court to enjoin a tax return preparer from engaging in conduct subject to penalty under I.R.C. § 6695.

81. I.R.C. § 6695 penalizes a tax return preparer who fails to sign a return, to supply an identification number on the return, to retain a copy or list of each return or claim prepared, or to provide a copy or list of each return or claim prepared in the preceding three tax years to the Internal Revenue Service upon request.

82. Chalamar Muhammad has violated I.R.C. § 6695 by preparing and filing returns but failing to sign the returns.

83. Chalamar Muhammad has violated I.R.C. § 6695 by preparing and filing returns but failing to put any identification number on them.

84. Chalamar Muhammad has violated I.R.C. § 6695 by failing to provide the Internal Revenue Service with a complete list of the returns she has prepared and filed for customers in the three prior tax years, or copies of the returns themselves.

85. I.R.C. § 7407(b)(1)(D) authorizes a district court to enjoin a tax return preparer who has engaged in “any other fraudulent or deceptive conduct which substantially interferes with the proper administration of the Internal Revenue laws” that is not otherwise specified in I.R.C. § 7407(b)(1).

86. Chalamar has sent or caused to be sent forged letters and false documents to the Internal Revenue Service on behalf of customers of the Muhammads’ business.

87. Chalamar has interfered with IRS efforts to administer the Internal Revenue laws by continuing to electronically file fraudulent tax returns after the IRS suspended her from the E-File program.

88. Chalamar has further interfered with the proper administration of the Internal Revenue laws by making false and deceptive statements to the Internal Revenue Service with respect to the Muhammads’ tax preparation business and her tax return preparation activities.

89. I.R.C. § 7407(b) provides that if a tax return preparer has “continually or repeatedly” engaged in conduct listed in subsection (b)(1) (which includes conduct subject to penalty under I.R.C. §§ 6694 and 6695, and otherwise described in I.R.C. § 7407(b)(1)(D)) and an injunction merely barring such misconduct would be insufficient to prevent the defendant’s interference with tax administration, then that person should be enjoined not only from the misconduct but also barred altogether from preparing tax returns for others.

90. Chalamar has continually and repeatedly engaged in conduct subject to penalty under I.R.C. § 6694. Despite having hundreds of customers who have been audited and assessed taxes, penalties, and interest for fraudulent tax returns that she prepared, Chalamar has continually, over several years, and repeatedly prepared fraudulent federal income tax returns (Form 1040s) and amended returns (Form 1040Xs).

91. Chalamar has continually and repeatedly engaged in conduct subject to penalty under I.R.C. § 6695. Since the 2003 tax year, Chalamar has prepared hundreds of customers' tax returns each year without signing her name or including a preparer identification number. She has continued to fail to fully respond to the Internal Revenue Service's request for a customer list.

92. Chalamar has continually and repeatedly engaged in enjoined conduct described by I.R.C. § 7407(b)(1)(D). Multiple times and over several years, Chalamar has made false statements to the Internal Revenue Service with respect to the Muhammads' business and her tax preparation activities. She has sent or caused to be sent fabricated appeals letters and supporting documentation allegedly from the Muhammads' customers. She has also prepared fraudulent amended tax returns (Form 1040Xs) to negate the effect of adjustments the IRS made during examinations of the taxpayers' original tax returns.

93. Anything less than a complete bar on the preparing of returns is unlikely to stop Chalamar Muhammad. Chalamar's record of deceit and fraud shows there is a high likelihood that she would continue her schemes if she is merely barred from filing improper returns.

Count II

Injunction under I.R.C. § 7408

94. The United States incorporates by reference the allegations in paragraphs 1-93, above.

95. I.R.C. § 7408(a) authorizes a district court to enjoin persons who have engaged in conduct subject to penalty under I.R.C. § 6701 from engaging in further such conduct if injunctive relief is appropriate to prevent recurrence of the conduct.

96. I.R.C. § 6701 imposes a civil penalty on any person who aids or assists in, procures, or advises with respect to the preparation or presentation of any portion of a federal tax return, refund claim, or other document, knowing or having reason to believe that such document will be used in connection with any material matter under the tax laws and knowing that such portion, if used, would result in an understatement of another person's tax liability.

97. Chalamar Muhammad has violated I.R.C. § 6701 by preparing tax returns for others that she knew or had reason to believe would understate her customers' true tax liabilities and that contained deductions, exemptions, and credits that she knew were false or fraudulent.

98. Chalamar had reason to believe that her conduct, as described above, is illegal. Chalamar has been preparing tax returns since at least 2003. The IRS has audited hundreds of tax returns that Chalamar prepared, and determined that these returns contained fraudulent deductions, credits, and exemptions. The IRS suspended Chalamar's EFIN in January 2006 for filing fraudulent tax returns. Yet Chalamar continues to prepare returns in the same fraudulent manner.

99. Curtis has violated § 6701 by aiding in the preparation of federal income tax returns based on the defendants' schemes.

100. On at least one occasion, Curtis was the contact person for a couple who used the defendants' tax preparation services. He accepted their documents and asked them how much they had contributed to religious organizations for the tax year. Despite his knowledge of the amount the couple had actually contributed, the tax return prepared for the couple reported a charitable contributions amount ten times that which the couple had told Curtis.

101. Curtis has reason to believe that his conduct, as described above, is illegal and that the tax return for the couple would contain a false charitable contributions amount that would understate the taxpayer's tax liability. Curtis knew how much the taxpayer contributed for the year, and knew that it was one-tenth the amount reported on the taxpayer's return. Even if Curtis did not personally prepare the tax return, he knew or should have known that the information he gathered and contributed to the return would overstate the taxpayer's charitable contributions donation and that such overstatement would understate the taxpayer's tax liability. He is or has served as Vice President of the Muhammads' business. He has been married to Chalamar Muhammad for several years, including at the time that the IRS revoked Chalamar's EFIN for her fraudulent tax preparation activities. Further, Chalamar prepared Curtis' 2002 tax return, which both the IRS and the U.S. Tax Court found to contain unsubstantiated cash charitable contributions.

102. Chalamar and Curtis have demonstrated their intention to continue to engage in such conduct and in other conduct subject to penalty under the Internal Revenue Code. They have repeatedly prepared or assisted in the preparation of income tax returns in a manner that may be penalized under I.R.C. § 6701. Further, they have continued the Muhammads' tax preparation business under multiple names over several years, taking multiple measures to prevent the IRS from detecting their illegal conduct.

103. An injunction against Chalamar and Curtis Muhammad is necessary and appropriate to prevent the recurrence of their conduct subjecting them to penalty under I.R.C. § 6701 and for engaging in any other conduct subject to penalty under the Internal Revenue Code.

Count III

Injunction under I.R.C. § 7402

104. Plaintiff incorporates by reference the allegations in paragraphs 1-103, above.

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

106. Chalamar, Curtis, and Doranna Muhammad, acting individually and through the Muhammads' business have engaged in conduct, described above, that substantially interferes with the enforcement of the internal revenue laws.

107. An injunction prohibiting the defendants from preparing or assisting in the preparation of tax returns is needed to stop the filing of fraudulent tax returns and to prohibit them otherwise interfering with the proper administration and enforcement of the internal revenue laws.

108. If defendants are not enjoined, they are likely to continue to interfere with the enforcement of the internal revenue laws. The defendants have continually and repeatedly engaged in illegal conduct over several years. The Muhammads, individually and through their business, have sent and caused to be sent false and fraudulent tax returns and other documents to the Internal Revenue Service. They have told their customers that they do not need to cooperate with IRS examination efforts. The Muhammads have evaded IRS efforts to prevent the electronic filing of fraudulent tax returns. Chalamar has also refused to cooperate with the IRS investigation against her by failing to provide documents and information on request. Chalamar has continued to prepare fraudulent income tax returns, and Chalamar and Curtis have engaged in conduct subject to penalty under I.R.C. § 6701.

109. If the defendants are not enjoined, the United States will suffer irreparable harm from the underpayment of tax liability, the exhaustion of resources to enforce the internal revenue laws, and because the losses caused by defendants' actions will continue to increase.

110. While the United States will suffer substantial, irreparable injury if the defendants are not enjoined, defendants will not be greatly harmed by being compelled to obey the law.

111. The public interest would be advanced by enjoining the defendants because an injunction will stop their illegal conduct and the harm that conduct is causing the United States Treasury and the public.

112. An injunction under I.R.C. § 7402 is necessary and appropriate, and the United States is entitled to injunction relief under I.R.C. § 7402. The injunction should bar Chalamar, Curtis, and Doranna Muhammad, and anyone acting in concert with them, from preparing or filing tax returns for others, representing scheme participants before the IRS or in the courts, and from otherwise engaging in conduct that interferes with the proper administration of the internal revenue laws.

Relief Sought

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

A. That the Court find that Chalamar has continually and repeatedly engaged in conduct subject to penalty under I.R.C. §§ 6694 and 6695, and conduct that may be enjoined under I.R.C. § 7407(b)(1)(D), and that injunctive relief is appropriate under I.R.C. § 7407 to prevent Chalamar and anyone acting in concert with her from acting as a tax return preparer ;

B. That the Court find that defendants Chalamar and Curtis Muhammad have engaged in conduct subject to penalty under I.R.C. § 6701, that such conduct interferes with the administration and enforcement of the internal revenue laws, and that injunctive relief is

appropriate under I.R.C. § 7408 to prevent Chalamar and Curtis and anyone acting in concert with them from engaging in any further such conduct or other conduct subject to penalty under the Internal Revenue Code;

C. That the Court find that the defendants have engaged in conduct that interferes with the enforcement of the internal revenue laws, and that injunctive relief against the defendants and their representatives, agents, servants, employees, attorneys, and anyone acting in concert with them is appropriate to prevent the recurrence of that conduct under I.R.C. § 7402(a);

D. That the Court, under I.R.C. §§ 7402, 7408, and 7407, enter a permanent injunction prohibiting the defendants, as well as their agents, servants, employees, attorneys, and anyone in active concert or participation with them, from directly or indirectly:

- a. Acting as a federal tax return preparer or requesting, assisting in, or directing the preparation or filing of federal tax returns for any person or entity other than himself or herself;
- b. Appearing as a representative on behalf of any person or organization whose tax liabilities are under examination or investigation by the Internal Revenue Service;
- c. Preparing or filing, or assisting in the preparation or filing of tax returns or other related forms or documents for others;
- d. Filing (or helping or soliciting others to file) tax returns for others through the Internal Revenue Service E-File program or any other IRS service or program by which one electronically files tax returns;
- e. Seeking permission or authorization (or helping or soliciting others to seek permission or authorization) to file tax returns for others through the Internal Revenue Service E-File program or any other IRS service or program by which one electronically files tax returns;
- f. Instructing or advising customers, or assisting in the instruction or advice to customers to understate their federal tax liabilities;
- g. Engaging in any activity subject to penalty under I.R.C. §§ 6694, 6695, 6700, 6701, or any other penalty provision in the Internal Revenue Code;

- h. Engaging in conduct designed or intended to, or having the effect of, obstructing or delaying any Internal Revenue Service investigation or audit; and
- i. Engaging in any other conduct that interferes with the proper administration and enforcement of the internal revenue laws.

E. That the Court, pursuant to I.R.C. § 7402, enter an injunction requiring defendants to produce to counsel for the United States a list identifying (by name, address, e-mail address, phone number, and Social Security or other tax identification number) all of the customers who, for any of the tax years 2005 to the present, have used the tax preparation services of the Muhammads' business as it is known under any of its names, including WFM Business Management Systems, Inc., WFM Business Consulting Services Inc., WFM Business Management Solutions, Inc., WFM Tax Planning & Financial Services, Inc., Business Management Solutions, Business Management Consulting Services, Tax Preparation and Financial Services, CDC Tax Preparation and Financial Services, CDC Financial Planning and Tax Preparation Company, and CDC Financial Services.

F. That the Court, pursuant to I.R.C. § 7402, enter an injunction requiring defendants at their own expense to contact by mail (or by e-mail, if a mailing address is unknown) all of their customers related to any of the defendants' tax preparation businesses and inform those individuals of the Court's findings concerning the falsity of the defendants' prior representations and attach a copy of the permanent injunction, to post a copy of the permanent injunction on the defendants' website (www.cdctaxpreparation.com), and to file with the Court, within 20 days of the date on which the permanent injunction is entered, a certification signed under penalty of perjury that they have done so;

G. That the Court allow the United States full post-judgment discovery to monitor compliance with the injunction;

H. That the Court retain jurisdiction over this action for purpose of implementing and enforcing the final judgment and any additional orders necessary and appropriate to the public interest; and

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

Dated this 17th of December, 2008.

Respectfully submitted,

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