



# Department of Justice

United States Attorney Stephen J. Murphy  
Eastern District of Michigan

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CONTACT: PUBLIC AFFAIRS  
PHONE: (202) 514-2007

## **U.S. GOVERNMENT SUES JACKSON HEWITT TAX PREPARATION FRANCHISES IN FOUR STATES, ALLEGING PERVASIVE FRAUD**

***Suits Allege More Than \$70 Million in Losses to the U.S. Treasury;  
Seek to Bar Firms From Preparing Returns***

WASHINGTON - The United States has filed civil injunction suits against five corporations that operate Jackson Hewitt tax preparation franchises, as well as 24 individuals who manage or work at the franchises, the Justice Department and the Internal Revenue Service (IRS) announced today. According to the four lawsuits—filed in federal courts in Chicago, Atlanta, Detroit and Raleigh, N.C.—the corporations operate under franchise agreements with Jackson Hewitt Tax Services Inc. of Parsippany, N.J., the nation's second largest tax preparation firm.

United States Attorney Stephen J. Murphy said "Today's action aims to halt a situation where apparently the foxes were guarding the hen house, in that five tax preparation franchises and their professional tax preparers are being sued by the Department of Justice for actually facilitating and encouraging tax fraud by their customers. Citizens who bring their tax returns to a specialist, seeking assistance, should be able to trust that they are getting accurate advice about taxes, not being delivered into the hands of an expert in fraud."

The suits allege that one of the individual defendants, Farrukh Sohail of Atlanta, Ga., wholly or partly owns each of the five corporations, which prepared and filed over 105,000 federal income tax returns last year. The five corporations allegedly operate more than 125 Jackson Hewitt retail tax preparation stores in the Chicago, Atlanta, Detroit and Raleigh-Durham, N.C. areas.

According to the government complaint, Sohail and other defendants "created and fostered a business environment" at the Jackson Hewitt franchises "in which fraudulent tax return preparation is encouraged and flourishes." Examples of fraud alleged in the lawsuits include filing false returns claiming refunds based on phony W-2 forms; using fabricated businesses and business expenses on returns to claim bogus deductions; claiming fuel tax credits in absurd amounts for customers clearly not entitled to any credits; and massive fraud related to claiming the federal earned income tax credit.

One complaint cites a Jackson Hewitt franchise customer whose Jackson Hewitt-prepared tax return claimed he was a barber who was entitled to a fuel tax credit for buying 25,000 gallons of gasoline for off-highway business use. The complaint alleges the customer would have had to drive 1,370 miles each day, seven days a week, to consume that much fuel in one year, leaving little if any time to cut hair. Last December, the Justice Department sued a Miami tax preparer alleging similar fraudulent claims of the fuel tax credit. <http://www.usdoj.gov/tax/txdv06860.htm>. In July 2006, a federal court in Miami enjoined a large Jackson Hewitt franchise from asserting frivolous positions on tax returns. Details on that case are available at <http://www.usdoj.gov/tax/txdv06429.htm>.

The suits further allege that some of the Jackson Hewitt franchises' managers and employees received kickbacks from customers for helping the customers file fraudulent tax returns. The suits further allege more than \$70 million in combined losses to the U.S. Treasury, and seek court orders barring the franchises and other defendants from preparing tax returns for others.

"Preparing federal income tax returns based on falsehoods and fabrications is a serious violation of the law," said Eileen J. O'Connor, Assistant Attorney General for the Justice Department's Tax Division. "The Justice Department and Internal Revenue Service are working vigorously to put a stop to these activities."

"When practitioners prepare a false tax return, it has a corrosive impact on the tax system," said IRS Commissioner Mark W. Everson. "I am deeply disturbed by the allegation that a major franchisee of the nation's second-largest tax preparation firm is intentionally preparing improper tax returns with inflated refunds. I'm particularly concerned that many taxpayers of modest means could actually end up owing the government thousands of dollars if they claimed an improper refund."

Fraudulent returns with false W-2 forms are first on the IRS's list of the "Dirty Dozen" tax scams posted at <http://www.irs.gov/newsroom/article/0,,id=154293,00.html>.

The five Jackson Hewitt franchises named in the four suits are:

- Chicago Suit: Smart Tax, Inc., d/b/a Jackson Hewitt Tax Service; Ask Tax, Inc., d/b/a Jackson Hewitt Tax Service;
- Atlanta Suit: Smart Tax of Georgia, Inc., d/b/a Jackson Hewitt Tax Service;
- Detroit Suit: So Far, Inc., d/b/a Jackson Hewitt Tax Service; and
- Raleigh Suit: Smart Tax of North Carolina, Inc., d/b/a Jackson Hewitt Tax Service

Since 2001, the Justice Department's Tax Division has obtained more than 230 injunctions to stop the promotion of tax fraud schemes and the preparation of fraudulent

returns.

More information about the Justice Department's efforts to stop tax scams can be found at <http://www.usdoj.gov/tax/taxpress2007.htm>. Information about the Justice Department's Tax Division can be found at <http://www.usdoj.gov/tax>.

For additional information on tax return preparer fraud, visit the Newsroom section of IRS.gov at <http://www.irs.gov/newsroom/article/0,,id=167391,00.html>.