

State of Maryland,

City of Baltimore, to wit:

IN THE CIRCUIT COURT FOR BALTIMORE CITY

The State of Maryland
-vs-
**LATEISHA
VANESSA KONE**

Defendant(s):

Date of Offense: **JANUARY THROUGH FEBRUARY 2015**

Location: **BALTIMORE CITY**

Complainant: **Cpl. SHA BROWN**

INDICTMENT

The Jurors of the State of Maryland for the body of the City of Baltimore, do upon their oaths and affirmations, present that the aforesaid DEFENDANT, from on or about January 1, 2015, through on or about February 21, 2015, in Baltimore City, Maryland, did willfully, knowingly, intentionally, and unlawfully, with others known and unknown, combine, conspire, confederate, and agree to, pursuant to one scheme and continuing course of conduct, steal the property of the State of Maryland having a value of \$100,000 or more in violation of the common law of Maryland, contrary to the form of the Act of Assembly in such case made and provided, and against the peace, government and dignity of the State.

BACKGROUND

1. JTH Tax, Inc., d/b/a Liberty Tax Service (“Liberty Tax”), is headquartered in Virginia Beach, Virginia, and is a national franchisor that markets tax preparation services across the United States through individual franchise branches that are, for the most part, independently owned and operated.
2. Individual franchise owners enter into franchise agreements with Liberty Tax. Pursuant to these agreements, franchise owners agree that all services will be provided under the direct supervision and control of themselves or a full-time general manager.
3. The 2014 tax filing season ran from January 1, 2015 to April 15, 2015.
4. From some time prior to January 1, 2015, until on or about February 21, 2015, Lateisha Vanessa KONE (a/k/a Lateisha Dickens) owned several Liberty Tax franchises in Baltimore City, Maryland. These branches were located at: (a) 2312 East Monument Street, Baltimore, Maryland 21205; (b) 312 South Broadway, Baltimore, Maryland 21231; (c) 1808 Pennsylvania Avenue, Baltimore, Maryland 21217; (d) 2201 North Charles Street, Baltimore, Maryland 21218; (e) 3602 Falls Road, Baltimore, Maryland 21211; and (f) 1742 W. North Avenue, Baltimore, Maryland 21215.

THEFT, CONSPIRACY, FRAUD

5. During that time, KONE was the owner of Tax Angel, Inc., a Maryland-registered corporation, which KONE used to operate her Liberty Tax franchise branches.
6. At her branch locations, KONE employed income tax return preparers including, *inter alios*, Marquee BRAXTON, Tiona DAVIS, Miyarta GRAY, Whitney HALL, Melinda IRELAND, Azucar JOHNSON, Sharron LAWSON, and Krystal PEREZ.
7. KONE provided tax preparation training to tax preparers employed at her Liberty Tax franchise locations and had control over and responsibility for the preparation and filing of tax returns by her employees.
8. The Internal Revenue Service (IRS) issues to anyone who prepares or assists in preparing tax returns for compensation an individual Preparer Tax Identification Number (PTIN). State law requires paid income tax return preparers to include their individual PTIN on each tax return they prepare and file.
9. Between January 1, 2015, and February 21, 2015, BRAXTON, DAVIS, GRAY, HALL, IRELAND, JOHNSON, KONE, LAWSON, and PEREZ (collectively, “the defendants”) filed income tax returns for other individuals under their respective names as the tax preparer, sometimes using their assigned PTINs and sometimes using false PTINs.
10. On or about June 17, 2015, the IRS received complaints from Liberty Tax Service, the national franchisor, alleging that GRAY, HALL, IRELAND, JOHNSON, KONE, LAWSON, and PEREZ, worked at Liberty Tax franchise locations in Baltimore City, Maryland and had used false items and documents to prepare income tax returns.

METHODS OF THE CONSPIRACY

11. The Earned Income Credit (EIC) is a refundable tax credit available to certain low-income taxpayers. This refundable tax credit entitles qualifying taxpayers to receive refunds even if they have no tax liability and have made no withholding tax payments. The amount of the taxpayer’s credit is based upon multiple variables including the taxpayer’s marital status, filing status, number of qualified dependents and income caps.
12. The earned income credit available for the 2014 tax year for a single taxpayer with no qualifying dependents increased as the taxpayer’s income increased between \$1 and \$6450, and it began to decrease as the taxpayer’s income exceeded \$8150. Accordingly, the optimal income that would result in the maximum EIC refund for the 2014 tax year for a single taxpayer with no qualifying dependents was between \$6450 and \$8150.
13. Given the potential for abuse in claiming an EIC refund, the IRS has imposed due diligence requirements on income tax return preparers claiming the EIC on behalf of their customers. These requirements mandate that a preparer “must not know, or have reason to know, that any information used by the tax return preparer in determining the taxpayer’s eligibility for, or the amount of, the EIC is incorrect.” Tax return preparers are required to make

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reasonable inquiries of their clients, to complete certain forms, and to preserve related documentation for three years.

14. Wages paid to household employees are not subject to income tax withholding requirements. In 2014, employers of household employees were not required to withhold and pay social security or Medicare taxes unless the cash wages paid to the household employee totaled more than \$1900 for the calendar year. A household employee is a person who is employed to work in a home providing services such as house cleaning, yard work, or babysitting.
15. In order to recruit customers for whom preparers could claim the earned income credit, Liberty Tax branch locations operated by KONE would offer \$50 in cash to anyone who would come into the store and have a return prepared. These marketing tactics were directed at locations such as transitional homes, drug rehabilitation centers, and shelters for the homeless.
16. The DEFENDANTS prepared income tax returns for customers who stated that they had earned no income, falsely indicating on the returns that the individual had earned income as a household employee.
17. The DEFENDANTS asked customers for the names of up to four friends and family members, sometimes advising customers that they would receive a referral fee if those friends or family members used tax preparation services provided by Liberty Tax.
18. The DEFENDANTS submitted these referred names on the tax return as individuals who had employed the customer as a household employee. The DEFENDANTS would typically indicate on the return wages from each purported employer of around \$1700 in the 2014 tax year, for a total maximum income of around \$6800.
19. Using a total income in the optimal range of more than \$6450 and less than \$8150, the DEFENDANTS filed tax returns seeking the maximum state and federal EIC refund. For the 2014 tax year, the maximum federal EIC refund for a person with no dependents was \$496, and the corresponding maximum state EIC refund was \$124 (25% of the federal refund), which would be achieved if the reported income was between \$6450 and \$8150.
20. For their tax return preparation services, the DEFENDANTS charged fees of between \$399 and \$507, with most fees being either \$449 or \$459, which customers were sometimes advised would be subtracted from the state and federal refund.
21. Tax preparers employed by KONE were paid an hourly wage and were often eligible to receive a bonus based on the number of returns they filed and the fees they generated.
22. Between January 1, 2015, and February 21, 2015, the DEFENDANTS filed nearly 1100 income tax returns that claimed an earned income credit refund and listed a total income of between \$6450 and \$8150. These returns claimed state EIC refunds of approximately \$134,500, and federal EIC refunds of approximately \$538,000.

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23. Because many of these returns were flagged as suspicious and subject to further review, only some of the refunds were ever paid to customers.

EXAMPLES OF OVERT ACTS IN FURTHERANCE OF THE CONSPIRACY

24. On or about January 11, 2015, KONE prepared and filed a return for taxpayer GW, reporting that GW received income as a household employee in the amount of \$7200 in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
25. On or about January 12, 2015, DAVIS, HALL and IRELAND prepared and filed returns for taxpayers MC, PH, ML, RM, and DP, reporting that each received income as a household employee in the amount of \$7200, \$6400, \$7200, \$7200, and \$6350, respectively, in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
26. On or about January 13, 2015, KONE, IRELAND, PEREZ, and BRAXTON prepared and filed returns for taxpayers JJ, SB, JJ, RJ, JM, RR, PW, and RW, reporting that each received income as a household employee in the amount of \$7200, \$6800, \$6336, \$7200, \$7200, \$6400, \$7200, and \$6400, respectively, in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
27. On or about January 14, 2015, LAWSON, IRELAND, JOHNSON and GRAY prepared and filed returns for taxpayers RC, SG, RH, KK, AP, and ER, reporting that each received income as a household employee in the amount of \$7200, \$6500, \$6400, \$6400, \$6400, and \$5700, respectively, in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
28. On or about January 15, 2015, LAWSON, JOHNSON and HALL prepared and filed returns for taxpayers SG, EG, EH, AJ, RK, CL and JT, reporting that each received income as a household employee in the amount of \$6400, \$6400, \$6400, \$6400, \$6400, \$7200, and \$7200, respectively, in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
29. On or about January 17, 2015, IRELAND prepared and filed returns for taxpayers DD and MH, reporting that each received income as a household employee in the amount of \$6821 and \$6682, respectively, in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.
30. On or about January 20, 2015, LAWSON prepared and filed a return for taxpayer ZC, reporting that ZC received income as a household employee in the amount of \$6400 in 2014, claiming an earned income credit and a corresponding refund, knowing that such reported information was false.

[CR §7-104(g)(1)(iii)] 1C0624, 1C0634

SECOND COUNT

The Jurors of the State of Maryland for the body of the City of Baltimore, do upon their oaths and affirmations, present that the aforesaid DEFENDANT, being an income tax return preparer, from on or about January 1, 2015, through on or about February 21, 2015, in Baltimore City, Maryland, did willfully, knowingly, intentionally, and unlawfully, with others known and unknown, combine, conspire, confederate, and agree to prepare, assist in preparing and cause the preparation of false income tax returns and claims for refund with fraudulent intent in violation of the common law of Maryland, contrary to the form of the Act of Assembly in such case made and provided, and against the peace, government and dignity of the State.

[TG §13-1004] 1C0751

THIRD COUNT

The Jurors of the State of Maryland for the body of the City of Baltimore, do upon their oaths and affirmations, present that the aforesaid DEFENDANT, being an income tax return preparer, on or about January 13, 2015, in Baltimore City, Maryland, willfully prepared, assisted in the preparation, and caused the preparation of a false income tax return and claim for refund in the name of JJ, with fraudulent intent, in violation of the Common Law, Tax General Article §13-1004, of the Maryland Code; against the peace, government and dignity of the State.

[TG §13-1004] 1 0751

FOURTH COUNT

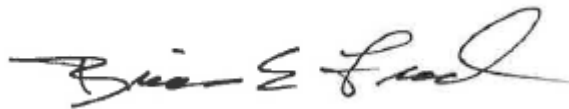
The Jurors of the State of Maryland for the body of the City of Baltimore, do upon their oaths and affirmations, present that the aforesaid DEFENDANT, being an income tax return preparer, on or about January 11, 2015, in Baltimore City, Maryland, willfully prepared, assisted in the preparation, and caused the preparation of a false income tax return and claim for refund in the name of GW, with fraudulent intent, in violation of the Common Law, Tax General Article §13-1004, of the Maryland Code; against the peace, government and dignity of the State.

[TG §13-1004] 1 0751

FIFTH COUNT

The Jurors of the State of Maryland for the body of the City of Baltimore, do upon their oaths and affirmations, present that the aforesaid DEFENDANT, being an income tax return preparer, on or about January 13, 2015, in Baltimore City, Maryland, willfully prepared, assisted in the preparation, and caused the preparation of a false income tax return and claim for refund in the name of PW, with fraudulent intent, in violation of the Common Law, Tax General Article §13-1004, of the Maryland Code; against the peace, government and dignity of the State.

[TG §13-1004] 1 0751

A handwritten signature in black ink, appearing to read "Brian E. Frosh". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Brian E. Frosh
Maryland Attorney General