UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

United States v. Martha A. Velarde

No. 2:11-cv-01458-ODW (MANx) (C.D. Cal. Sept. 4, 2025) · No. 2:11-cv-01458-ODW (MANx) · Decided September 4, 2025

SUMMARY

The United States District Court for the Central District of California held Martha A. Velarde in civil contempt for violating a limited injunction governing federal tax-return preparation. The court found by clear and convincing evidence that Velarde knowingly used incorrect social security numbers for qualifying persons without making the required due-diligence inquiries, in violation of 26 U.S.C. § 6695 and applicable Treasury regulations. The court imposed a $20,000 coercive sanction, payable within 60 days, while declining to award the Government's requested $228,575 disgorgement.

CASE DETAILS

COURT	United States District Court for the Central District of California
WRITING FOR THE COURT	Otis D. Wright II
JURISDICTION	United States District Court for the Central District of California
DECIDED	September 4, 2025
DOCKET	2:11-cv-01458-ODW (MANx)
DISPOSITION	other
PROCEDURAL POSTURE	The United States moved for an order to show cause and civil-contempt sanctions based on alleged violations of a final judgment of limited injunction. After an evidentiary hearing and closing arguments, the court held Velarde in civil contempt and imposed a $20,000 coercive sanction.
STANDARD OF REVIEW	In a civil-contempt proceeding, the moving party must prove by clear and convincing evidence that the defendant violated a specific and definite court order. The burden then shifts to the alleged contemnor to demonstrate why compliance was not possible.
PRECEDENTIAL VALUE	unpublished district-court order; precedential status unknown
PARTIES	United States of America v. Martha A. Velarde

TOPICS

tax preparer liability · tax penalties · contempt · tax · evidence

PRACTICE AREAS

tax controversy · civil contempt · tax-return preparer enforcement

QUESTIONS PRESENTED

1. Whether the Government proved by clear and convincing evidence that Velarde violated the specific and definite terms of the Limited Injunction.
2. Whether Velarde demonstrated that she was unable to comply with the injunction's tax-return-preparer due-diligence requirements.
3. Whether a $20,000 civil-contempt sanction was appropriate to coerce compliance with the injunction.

HOLDINGS

1. The Government proved by clear and convincing evidence that Velarde violated the Limited Injunction by knowingly providing incorrect social-security numbers for qualifying persons without making the reasonable inquiries required by the applicable due-diligence regulation.
2. The Government did not prove by clear and convincing evidence that Velarde improperly claimed head-of-household status on all of the challenged returns.
3. A $20,000 sanction was appropriate to compel Velarde's compliance with the Limited Injunction.

KEY QUOTATIONS

> *"The burden then shifts to the contemnors to demonstrate why they were unable to comply."* (at 3)

> *"Knowingly providing incorrect social security numbers without making reasonable inquiries is a violation of due diligence requirements."* (at 5)

> *"The Court HOLDS Velarde in civil contempt and imposes the SANCTION of $20,000."* (at 6)

FACTUAL BACKGROUND

Velarde is a federal income-tax preparer who operates MAV Service. The 2011 injunction barred her from preparing returns that improperly understated customers' tax liabilities and from violating due-diligence requirements concerning earned-income-credit and head-of-household claims. Between 2021 and 2024, Velarde and her associates prepared returns using social-security numbers that did not match the names of qualifying persons; Velarde admitted that she knowingly used random nine-digit numbers as a software workaround. The court also considered, but did not find proven by clear and convincing evidence, the Government's allegation that she improperly claimed head-of-household status on 2,079 returns.

PROCEDURAL HISTORY

The Government filed the underlying action in 2011, alleging that Velarde prepared federal income-tax returns containing false information. On September 13, 2011, the court entered a stipulated Final Judgment of Limited

Injunction prohibiting specified conduct under 26 U.S.C. §§ 6694 and 6695. In 2024, the Government sought an order to show cause alleging that Velarde continued violating the injunction; after briefing and a July 14, 2025 evidentiary hearing, the court found a violation based on knowingly using incorrect social-security numbers and imposed a $20,000 sanction.

DISPOSITION

other

CASES CITED

- Spallone v. United States, 493 U.S. 265, 276 (1990)
- In re Dual-Deck Video Cassette Recorder Antitrust Litig., 10 F.3d 693, 695 (9th Cir. 1993)
- Shuffler v. Heritage Bank, 720 F.2d 1141, 1147 (9th Cir. 1983)
- FTC v. Affordable Media, LLC, 179 F.3d 1228, 1239 (9th Cir. 1999)
- Stone v. City & County of San Francisco, 968 F.2d 850, 856 n.9 (9th Cir. 1992)
- FTC v. Productive Mktg., Inc., 136 F. Supp. 2d 1096, 1112 (C.D. Cal. 2001)
- United States v. Mine Workers of Am., 330 U.S. 258, 304 (1947)
- Int'l Union, United Mine Workers of Am. v. Bagwell, 512 U.S. 821, 827 (1994)

OPINION

United States v. Martha A Velarde
PER CURIAM.
O 1 2 3 4 5 6 7 8 United States District Court 9 Central District of California 10 11 UNITED STATES OF AMERICA, Case № 2:11-cv-01458-ODW (MANx) 12 Plaintiff,
ORDER HOLDING DEFENDANT
13 v.
MARTHA A VELARDE IN CIVIL
14 MARTHA A. VELARDE, CONTEMPT [20]
15 Defendant. 16
17 I. INTRODUCTION
18 Plaintiff United States of America (the “Government”) requested the Court to 19 order Defendant Martha A. Velarde to show cause why she should not be held in 20 contempt for violating this Court’s Final Judgment of Limited Injunction (“Limited 21 Injunction”). (Appl. 10, ECF No. 20.) The Court granted the Government’s request 22 and ordered Velarde to respond to the Government’s allegations. (Order Show Cause, 23 ECF No. 25.) Velarde responded, (Resp., ECF No. 26), and the Government replied, 24 (Reply ISO Appl., ECF No. 32). On July 14, 2025, the Court held a hearing on the 25 Order to Show Cause, and, on August 5, 2025, heard closing arguments from the 26 parties. (Mins. Evid. Hr’g, ECF Nos. 55, 59.) Having considered the parties’ papers, 27 arguments, declarations, and evidence, the Court HOLDS Velarde in contempt.

II. BACKGROUND

Velarde is a federal income tax preparer and has prepared federal income tax returns since 1998. (Appl. 1.) She owns MAV Service and provides tax preparation services as a sole proprietor with two other tax preparers, Jessica Velarde and Adam Salcedo. (Id. at 1, 3.)

On February 17, 2011, the Government sued Velarde for preparing federal income tax returns containing false information to reduce her customers' tax liabilities. (Compl. ¶ 12, ECF No. 1.) On September 13, 2011, the Court granted the parties' Stipulation for Entry of Final Judgment of Limited Injunction, (Stip., ECF No. 18), and enjoined Velarde from, among other things, directly or indirectly:

> B. Engaging in activity subject to penalty under 26 U.S.C. § 6694, i.e., preparing federal income tax returns that improperly understate customers' tax liabilities;
>
> C. Engaging in activity subject to penalty under 26 U.S.C. § 6695, including § 6695(g), which [p]enalizes claiming an Earned Income Tax Credit without complying with due diligence requirements imposed by Treasury regulations . . . .

(Final J. 2–3, ECF No. 19).

On July 30, 2024, the Government filed an Application for Order to Show Cause. (Appl. 10.) The Government asserts that Velarde has continued to prepare tax returns in violation of the Court's injunction by (1) inappropriately claiming the head of household filing status and (2) using social security numbers that did not match the name associated. (Id. at 3, 10.) The Government asked the Court to order Velarde to show cause why she should not be held in contempt and requests that the Court sanction and further enjoin Velarde from directly or indirectly filing or preparing federal tax returns. (Id. at 10–11.) The Court granted the Government's request for an order to show cause. (Order Show Cause.) The parties each filed responsive papers and presented evidence during an evidentiary hearing on July 14, 2025. (Resp.; Reply ISO Appl.; Mins. Evid. Hr'g.)

III. LEGAL STANDARD

District courts have the inherent power to enforce their orders through civil contempt. Spallone v. United States, 493 U.S. 265, 276 (1990). Civil contempt "consists of a party's disobedience to a specific and definite court order by failure to take all reasonable steps within the party's power to comply." In re Dual-Deck Video Cassette Recorder Antitrust Litig., 10 F.3d 693, 695 (9th Cir. 1993). "The contempt need not be willful, and there is no good faith exception to the requirement of obedience to a court order, but a person should not be held in contempt if his action appears to be based on a good faith and reasonable interpretation of the court's order." Id. (cleaned up). Civil contempt sanctions are employed: (1) to coerce the defendant into compliance with the court's order, and (2) to compensate the complainant for losses sustained. Shuffler v. Heritage Bank, 720 F.2d 1141, 1147 (9th Cir. 1983). In a civil contempt action, "[t]he moving party has the burden of showing by clear and convincing evidence that the contemnors violated a specific and definite order of the court." FTC v. Affordable Media, LLC, 179 F.3d 1228, 1239 (9th Cir. 1999) (quoting Stone v. City & County of San Francisco, 968 F.2d 850, 856 n.9 (9th Cir. 1992)). “The burden then shifts to the contemnors to demonstrate why they were unable to comply.” Id.

IV. DISCUSSION

The Government asserts that Velarde violated 26 U.S.C. §§ 6694 and 6695. (Appl. 9.) Section 6695 penalizes a tax return preparer for failing to comply with due diligence requirements with respect to determining the taxpayer’s eligibility to file as a head of household. Section 6694 penalizes a tax return preparer for preparing tax returns that she knew or reasonably should have known would result in an understatement of tax liability or preparing such tax returns with willful or reckless disregard to rules and regulations.

The parties do not dispute that the Court’s Limited Injunction is specific and definite. (See Appl.; Resp.) Thus, at issue is whether (1) the Government presents clear and convincing evidence that Velarde violated the Court’s Limited Injunction and (2) Velarde demonstrates why she was unable to comply.

Here, the Government presents clear and convincing evidence of a violation of 26 U.S.C. § 6695. Section 6695 imposes penalties for failure to file correct information on tax returns and for failure to be diligent in determining eligibility to file as head as household. 26 U.S.C. § 6695(e), (g). The Court enjoined Velarde from failing to comply with “due diligence requirements imposed by Treasury regulations.” (Final J. ¶ 3.c.) Due diligence requires that “[t]he tax return preparer must not know, or have reason to know, that any information used by the tax return preparer in determining the taxpayer’s eligibility to file as head of household . . . is incorrect.” 26 C.F.R. § 1.6695-2(b)(3)(i). The tax return preparer must also “make reasonable inquiries if a reasonable and well-informed tax return preparer knowledgeable in the law would conclude that the information furnished to the tax return preparer appears to be incorrect, inconsistent, or incomplete.” Id.

The Government contends that, between 2021 and 2024, Velarde and her associates prepared a total of 2,807 tax returns with social security numbers that did not match the name associated with the qualifying person. (Appl. 5; Decl. Carol Lee (“Lee Decl.”) ¶ 18, ECF No. 20-1.) Velarde does not dispute that she used names and social security numbers for “qualified persons” on tax returns that “are mismatched.” (Resp. 6.) She admitted, in her response and testimony, to purposefully using “a random nine-digit number” as “a workaround” to what she considered a “flaw” in the software she used to prepare tax filings. (Id. at 2; see also Evid. Hr’g Tr. 148:25 to 149:2, ECF No. 57.) Velarde explains that, based on her understanding, she did not need to provide a social security number for qualifying persons. (Evid. Hr’g Tr. 149:3–6.) Even so, Velarde fails to explain why, instead of reasonably requesting the correct names and social security numbers for the qualifying persons, she chose to knowingly provide “incorrect, inconsistent, or incomplete” information by inputting random nine-digit numbers. Knowingly providing incorrect social security numbers without making reasonable inquiries is a violation of due diligence requirements. See 26 C.F.R. § 1.6695-2(b)(3) (i). Accordingly, Velarde fails to demonstrate why she was unable to comply with due diligence requirements.

As the Court finds that Velarde violated 26 U.S.C. § 6695, it need not reach the Government's argument that Velarde inappropriately claimed the head of household filing status in violation of 26 U.S.C. § 6694. Nevertheless, the Court briefly notes that the Government fails to carry its burden to show that Velarde improperly claimed the head of household status by clear and convincing evidence. The Government argues that Velarde filed a total of 2,079 tax returns with improperly claimed head of household status. (Lee Decl. ¶ 26.) The Government presents evidence that multiple taxpayers who lived at the same dwelling claimed head of household status. (Evid. Hr'g Tr. 152:9 to 153:14.) But Carol Lee, an IRS Revenue Agent, concedes that it is possible for multiple households—i.e., family units—to reside in the same dwelling and for each head of those family units to properly claim head of household status. (Id. at 177:1–24.) While the Government claims that Velarde improperly assigned head of household statuses, it fails to support these claims by presenting evidence to show that exceptions, such as the ability for multiple head of households to reside in the same dwelling, did not apply to those tax returns.

In any event, the Court finds the Government demonstrates by clear and convincing evidence that Velarde violated the Limited Injunction by failing to exercise due diligence under 26 U.S.C. § 6695 and turns to sanctions. The Court may impose sanctions (1) to coerce the defendant into compliance with the court's order, and (2) to compensate the complainant for losses sustained. Shuffler, 720 F.2d at 1147; FTC v. Productive Mktg., Inc., 136 F. Supp. 2d 1096, 1112 (C.D. Cal. 2001). The court may exercise its discretion to sanction for the purpose of making the defendant comply and must "consider the character and magnitude of the harm threatened by continued contumacy, and the probable effectiveness of any suggested sanction in bringing about the result desired." United States v. Mine Workers of Am., 330 U.S. 258, 304 (1947). Civil contempt "may be imposed in an ordinary civil proceeding upon notice and an opportunity to be heard." Int'l Union, United Mine Workers of Am. v. Bagwell, 512 U.S. 821, 827 (1994).

The Government seeks a sanction in the amount of $228,575 for disgorgement of Velarde's ill-gotten gains. (Appl. 11.) This is the amount Velarde charged for tax returns that "she prepared with improperly claimed head of household status" between 2021 and 2024. (Id. at 7.) As discussed above, the Government fails to show by clear and convincing evidence that Velarde improperly claimed head of household status for all 2,079 tax returns. Accordingly, the requested amount is not appropriate.

The Court finds, however, that a sanction in the amount of $20,000 is appropriate to compel Velarde to comply with the Limited Injunction. This is not the first time that Velarde violated due diligence requirements. In addition to this lawsuit, the IRS fined Velarde $6,000 in 2016 and $4,080 in 2018 for failing to diligently determine her customers' tax benefits. (Lee Decl. ¶¶ 6–7.) Despite these previous fines, Velarde was not deterred and persisted in knowingly using fictitious social security numbers for qualified persons. The Court also notes that sanctions not exceeding $25,000 are permitted under 26 U.S.C. § 6695. Accordingly, the Court imposes a sanction in the amount of

$20,000 for Velarde’s failure to exercise due diligence by knowingly providing incorrect social security numbers for qualifying persons.

Vv. CONCLUSION

For the reasons discussed above, the Court HOLDS Velarde in civil contempt | and imposes the SANCTION of $20,000. Velarde shall pay the sanction within sixty || days of this Order. IT IS SO ORDERED.

September 4, 2025 N .

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OTIS D. HT,

b UNITED STATES DISTRICT JUDGE