

**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.

OPINION

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. 28 1 II. BACKGROUND 2 Velarde is a federal income tax preparer and has prepared federal income tax 3 returns since 1998.

(Appl. 1.) She owns MAV Service and provides tax preparation 4 services as a sole proprietor with two other tax preparers, Jessica Velarde and Adam 5 Salcedo. (Id. at 1, 3.) 6 On February 17, 2011, the Government sued Velarde for preparing federal 7 income tax returns containing false information to reduce her customers’ tax 8 liabilities. (Compl. ¶ 12, ECF No. 1.)

On September 13, 2011, the Court granted the 9 parties' Stipulation for Entry of Final Judgment of Limited Injunction, (Stip., ECF 10 No. 18), and enjoined Velarde from, among other things, directly or indirectly: 11 B. Engaging in activity subject to penalty under 26 U.S.C. § 6694, i.e., preparing federal income tax returns that improperly 12 understate customers' tax liabilities; 13 C. Engaging in activity subject to penalty under 26 U.S.C. § 6695, 14 including § 6695(g), which [p]enalizes claiming an Earned Income Tax Credit without complying with due diligence requirements 15 imposed by Treasury regulations....

16 17 (Final J. 2–3, ECF No. 19). 18 On July 30, 2024, the Government filed an Application for Order to Show 19 Cause. (Appl. 10.) The Government asserts that Velarde has continued to prepare tax 20 returns in violation of the Court's injunction by (1) inappropriately claiming the head 21 of household filing status and (2) using social security numbers that did not match the 22 name associated.

(Id. at 3, 10.) The Government asked the Court to order Velarde to 23 show cause why she should not be held in contempt and requests that the Court 24 sanction and further enjoin Velarde from directly or indirectly filing or preparing 25 federal tax returns. (Id. at 10–11.)

The Court granted the Government's request for 26 an order to show cause. (Order Show Cause.) The parties each filed responsive 27 papers and presented evidence during an evidentiary hearing on July 14, 2025. 28 (Resp.; Reply ISO Appl.; Mins. Evid. Hr'g.) 1 III. LEGAL STANDARD 2 District courts have the inherent power to enforce their orders through civil 3 contempt.

Spallone v. United States, 493 U.S. 265, 276 (1990). Civil contempt 4 “consists of a party's disobedience to a specific and definite court order by failure to 5 take all reasonable steps within the party's power to comply.” In re Dual-Deck Video 6 Cassette Recorder Antitrust Litig., 10 F.3d 693, 695 (9th Cir. 1993). “The contempt 7 need not be willful, and there is no good faith exception to the requirement of 8 obedience to a court order, but a person should not be held in contempt if his action 9 appears to be based on a good faith and reasonable interpretation of the court's order.” 10 Id. (cleaned up).

Civil contempt sanctions are employed: (1) to coerce the defendant 11 into compliance with the court's order, and (2) to compensate the complainant for 12 losses sustained. Shuffler v. Heritage Bank, 720 F.2d 1141, 1147 (9th Cir. 1983). 13 In a civil contempt action, “[t]he moving party has the burden of showing by 14 clear and convincing evidence that the contemnors violated a specific and definite 15 order of the court.” FTC v. Affordable Media, LLC, 179 F.3d 1228, 1239 (9th Cir.

16 1999) (quoting Stone v. City & County of San Francisco, 968 F.2d 850, 856 n.9 17 (9th Cir. 1992)). “The burden then shifts to the contemnors to demonstrate why they 18 were unable to comply.” Id. 19 IV. DISCUSSION 20 The Government asserts that Velarde violated 26 U.S.C. §§

6694 and 6695. 21 (Appl. 9.) Section 6695 penalizes a tax return preparer for failing to comply with due 22 diligence requirements with respect to determining the taxpayer's eligibility to file as 23 a head of household.

Section 6694 penalizes a tax return preparer for preparing tax 24 returns that she knew or reasonably should have known would result in an 25 understatement of tax liability or preparing such tax returns with willful or reckless 26 disregard to rules and regulations. 27 The parties do not dispute that the Court's Limited Injunction is specific and 28 definite.

(See Appl.; Resp.) Thus, at issue is whether (1) the Government presents 1 clear and convincing evidence that Velarde violated the Court's Limited Injunction 2 and (2) Velarde demonstrates why she was unable to comply. 3 Here, the Government presents clear and convincing evidence of a violation of 4 26 U.S.C. § 6695. Section 6695 imposes penalties for failure to file correct 5 information on tax returns and for failure to be diligent in determining eligibility to 6 file as head as household.

26 U.S.C. § 6695(e), (g). The Court enjoined Velarde from 7 failing to comply with "due diligence requirements imposed by Treasury regulations." 8 (Final J. ¶ 3.c.) Due diligence requires that "[t]he tax return preparer must not know, 9 or have reason to know, that any information used by the tax return preparer in 10 determining the taxpayer's eligibility to file as head of household... is incorrect." 11 26 C.F.R. § 1.6695-2(b)(3)(i).

The tax return preparer must also "make reasonable 12 inquiries if a reasonable and well-informed tax return preparer knowledgeable in the 13 law would conclude that the information furnished to the tax return preparer appears 14 to be incorrect, inconsistent, or incomplete." Id. 15 The Government contends that, between 2021 and 2024, Velarde and her 16 associates prepared a total of 2,807 tax returns with social security numbers that did 17 not match the name associated with the qualifying person.

(Appl. 5; Decl. Carol Lee 18 ("Lee Decl.") ¶ 18, ECF No. 20-1.) Velarde does not dispute that she used names and 19 social security numbers for "qualified persons" on tax returns that "are mismatched." 20 (Resp. 6.) She admitted, in her response and testimony, to purposefully using "a 21 random nine-digit number" as "a workaround" to what she considered a "flaw" in the 22 software she used to prepare tax filings.

(Id. at 2; see also Evid. Hr'g Tr. 148:25 to 23 149:2, ECF No. 57.) Velarde explains that, based on her understanding, she did not 24 need to provide a social security number for qualifying persons. (Evid. Hr'g 25 Tr. 149:3-6.) Even so, Velarde fails to explain why, instead of reasonably requesting 26 the correct names and social security numbers for the qualifying persons, she chose to 27 knowingly provide "incorrect, inconsistent, or incomplete" information by inputting 28 random nine-digit numbers.

Knowingly providing incorrect social security numbers 1 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 3 unable to comply with due diligence requirements. 4 As the Court finds that Velarde violated 26 U.S.C. § 6695, it need not reach the 5 Government's argument that Velarde inappropriately claimed the head of household 6 filing status in violation of 26 U.S.C. § 6694.

Nevertheless, the Court briefly notes 7 that the Government fails to carry its burden to show that Velarde improperly claimed 8 the head of household status by clear and convincing evidence. The Government 9 argues that Velarde filed a total of 2,079 tax returns with improperly claimed head of 10 household status. (Lee Decl. ¶ 26.)

The Government presents evidence that multiple 11 taxpayers who lived at the same dwelling claimed head of household status. (Evid. 12 Hr'g Tr. 152:9 to 153:14.) But Carol Lee, an IRS Revenue Agent, concedes that it is 13 possible for multiple households—i.e., family units—to reside in the same dwelling 14 and for each head of those family units to properly claim head of household status.

15 (Id. at 177:1–24.) While the Government claims that Velarde improperly assigned 16 head of household statuses, it fails to support these claims by presenting evidence to 17 show that exceptions, such as the ability for multiple head of households to reside in 18 the same dwelling, did not apply to those tax returns. 19 In any event, the Court finds the Government demonstrates by clear and 20 convincing evidence that Velarde violated the Limited Injunction by failing to 21 exercise due diligence under 26 U.S.C. § 6695 and turns to sanctions.

The Court may 22 impose sanctions (1) to coerce the defendant into compliance with the court's order, 23 and (2) to compensate the complainant for losses sustained. *Shuffler*, 720 F.2d 24 at 1147; *FTC v. Productive Mktg., Inc.*, 136 F. Supp. 2d 1096, 1112 (C.D. Cal. 2001). 25 The court may exercise its discretion to sanction for the purpose of making the 26 defendant comply and must “consider the character and magnitude of the harm 27 threatened by continued contumacy, and the probable effectiveness of any suggested 28 sanction in bringing about the result desired.” *United States v. Mine Workers of Am.*, 1 330 U.S. 258, 304 (1947).

Civil contempt “may be imposed in an ordinary civil 2 proceeding upon notice and an opportunity to be heard.” *Int'l Union, United Mine 3 Workers of Am. v. Bagwell*, 512 U.S. 821, 827 (1994). 4 The Government seeks a sanction in the amount of \$228,575 for disgorgement 5 of Velarde's ill-gotten gains. (Appl. 11.) This is the amount Velarde charged for tax 6 returns that “she prepared with improperly claimed head of household status” between 7 2021 and 2024.

(Id. at 7.) As discussed above, the Government fails to show by clear 8 and convincing evidence that Velarde improperly claimed head of household status 9 for all 2,079 tax returns. Accordingly,

the requested amount is not appropriate. 10 The Court finds, however, that a sanction in the amount of \$20,000 is 11 appropriate to compel Velarde to comply with the Limited Injunction.

This is not the 12 first time that Velarde violated due diligence requirements. In addition to this lawsuit, 13 the IRS fined Velarde \$6,000 in 2016 and \$4,080 in 2018 for failing to diligently 14 determine her customers' tax benefits. (Lee Decl. ¶¶ 6–7.) Despite these previous 15 fines, Velarde was not deterred and persisted in knowingly using fictitious social 16 security numbers for qualified persons.

The Court also notes that sanctions not 17 exceeding \$25,000 are permitted under 26 U.S.C. § 6695. Accordingly, the Court 18 imposes a sanction in the amount of \$20,000 for Velarde's failure to exercise due 19 diligence by knowingly providing incorrect social security numbers for qualifying 20 persons. 21 22 23 24 25 26 27 28 1 Vv. CONCLUSION 2 For the reasons discussed above, the Court HOLDS Velarde in civil contempt 3 | and imposes the SANCTION of \$20,000.

Velarde shall pay the sanction within sixty 4|| days of this Order. 5 6 IT IS SO ORDERED. 7 8 September 4, 2025 N. 9 os 10 Lidia 11 OTIS D. HT, b UNITED STATES DISTRICT JUDGE 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28