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PRECEDENTIAL VALUE	unpublished district-court order; precedential status unknown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)