

Management and Budget Director Russell Vought: “We want the bureaucrats’ (referring to federal employees) ‘to be traumatically affected.’ . . . ‘When they wake up in the morning, we want them to not want to go to work because they are increasingly viewed as the villains.’”

The plaintiffs also note several of President Trump’s statements, including an October 2 comment on Truth Social discussing his meeting with Vought “to determine which of the many Democrat Agencies” should be cut and whether “those cuts will be temporary or permanent.”

Harm to Workers

The layoffs have caused federal workers to suffer serious emotional stress, including lack of sleep, anxiety, and other harmful physical manifestations, the plaintiffs claim.

The plaintiffs also argue that the layoffs are contravening standard practices that would otherwise allow for workers to transition to new employment and obtain information on continued benefits. They refer to one agency whose human resources staff was laid off after issuing RIF notices to other employees, “leaving it with no one left to inform employees about health insurance continuation, severance, retirement options, unemployment, or other civil service options.”

“Ordinarily, employees and the Plaintiff unions that represent them work with human resources staff during a RIF notice period to prepare for the employees’ separations, which is a complex endeavor,” the plaintiffs write, adding that none of this can be done during the shutdown.

The plaintiffs in *American Federation of Government Employees v. United States*, No. 3:25-cv-08302 (N.D. Cal. 2025), were represented by attorneys with Altshuler Berzon LLP; the Democracy Forward Foundation; the Democracy Defenders Fund; the American Federation of Government Employees; the American Federation of State, County, and Municipal Employees; the National Federation of Federal Employees; the Service Employees International Union; and the National Association of Government Employees Inc. ■

Taxpayer Data Misconduct Claims Arise Amid More ERC Controversy

by Trevor Sikes

A tax services company has sued its former contractual partner over actions that may have led to the improper use of taxpayer data with a separate employee retention credit preparer.

Tax Guardian LLC alleged in its September 12 complaint two counts of tortious interference against TaxStatus Inc. stemming from allegations that TaxStatus kept the data of almost 22,000 taxpayers after the expiration of their contract.

TaxStatus allegedly continued to use that tax data for its own business purposes in a deal with another tax preparer and former client of Tax Guardian. Sharing that data could be a violation of the IRC, tax professionals say.

The complaint in *Tax Guardian LLC v. TaxStatus Inc.* was filed in the District Court of Oklahoma County for the state of Oklahoma. However, the suit was removed to the federal court of U.S. District Court for the Western District of Oklahoma on October 15.

Tax Guardian entered its contract with TaxStatus in August 2023, allowing it to access TaxStatus’s platform and download IRS information with taxpayer consent. Throughout the course of the contract, TaxStatus obtained the data of approximately 22,000 taxpayers with consent, the complaint claims.

TaxStatus told Tax Guardian in May — without providing a reason — that it was going to terminate their contract.

During the contract period, TaxStatus “unilaterally decided to enter into a contract” with Innovation Refunds LLC for return preparation services, the complaint alleged, adding that TaxStatus “knew or should have known about Tax Guardian’s business relationship with Innovation Refunds.”

The complaint further alleges that, in its business relationship with Innovation Refunds, TaxStatus is continuing to improperly process data of the 22,000 taxpayers that it received from Tax Guardian.

This is direct contravention to the contract shared with TaxStatus, the Tax Guardian complaint alleges, pointing to a provision in the contract stating, “TaxStatus shall return or delete

Client Data in its possession, custody, or control, upon termination of the Agreement.”

“Through clear and convincing evidence that can be verified through written instruments and materials obtained through discovery, TaxStatus willfully, intentionally, and with malice interfered with Tax Guardian’s contractual relationship with Innovation Refunds,” the complaint claims.

Possible Privacy Violations

Tax Guardian describes itself in the complaint as a return preparation company that engages in the filing and attainment of ERC refunds, but its website describes the firm as a “proprietary, patented software which issues an authorization form on your behalf to gain secure, confidential access to your IRS master file via its associated transcripts.”

TaxStatus is a tax reporting software provider that says its services help to “streamline contact with the IRS, allowing businesses and individuals to see official records in hours instead of weeks.”

“The complaint suggests that IRS tax data for 22,000 taxpayers were shared with an unauthorized counterparty, which, if true, could violate the IRS’s confidentiality and disclosure rules,” Kenneth Dettman of TaxNow and Sagemont Advisors told *Tax Notes*.

Peter Haukebo of Frost Law also saw the possibility of a section 7213 or 7431 violation.

Haukebo said if someone who was “authorized by a taxpayer to receive tax return information as part of TaxStatus’s provision of services to Tax Guardian [and] later shared that information with Innovation Refunds, they would likely be in violation of section 6103 unless they obtained the express permission of that taxpayer to do so.”

However, it’s not clear from the complaint whether that happened, Haukebo said.

ERC Controversy

Innovation Refunds is a tax return and claim preparer that has focused on ERC filings.

ERCs under section 3134 were offered as part of the IRS’s COVID-19 pandemic-relief program and have been subject to scrutiny because of the potential for abuse and fraud.

Haukebo called the *Tax Guardian* complaint more fallout from ERCs. “We’re going to continue to see agreements and relationships that were thrown together haphazardly fall apart,” he added.

The plaintiff in *Tax Guardian LLC v. TaxStatus Inc.*, No. 5:25-cv-01214 (W.D. Okla. 2025), is represented by Michael W. Brewer and William W. Whitehurst of Hiltgen & Brewer PC. The defendant is represented by Gregory W. Curry of Holland & Knight LLP. ■