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6 **IN THE UNITED STATES DISTRICT COURT**
7 **FOR THE DISTRICT OF ARIZONA**
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9 United States of America,
10 Plaintiff,
11 v.
12 Stephen M Kerr,
13 Defendant.
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No. CV-19-05432-PHX-DJH
ORDER

15 Pending before the Court are cross Motions for Summary Judgment filed by
16 Plaintiff United States of America (“Plaintiff”) (Doc. 46) and Defendant Stephen Kerr
17 (“Mr. Kerr”) (Doc. 47). The parties have filed their respective Responses and Replies, and
18 the matter is now fully briefed.¹ For the following reasons, the Court will remand most but
19 not all of the penalties to the IRS and enter judgment against Mr. Kerr in the amount of
20 \$240,985.

21 **I. Background**

22 A United States person with a foreign bank account worth more than \$10,000 must
23 file a yearly Report of Foreign Bank and Financial Accounts (“FBAR”) with the Internal
24 Revenue Service (“IRS”). 31 U.S.C. § 5314; 31 C.F.R. §§ 1010.350, 1010.306(c). Willful
25 failure to file an FBAR can result in both civil and criminal penalties. 31 U.S.C. §§
26 5321(a)(5)(C), 5322(a). In 2013, Mr. Kerr was criminally convicted for willfully failing

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28 ¹ Plaintiff filed a Response in opposition to Defendant’s Motion (Doc. 48), and Defendant
filed a Response opposing Plaintiff’s Motion (Doc. 49). The Parties then filed their
respective replies (Docs. 51; 52).

1 to file FBARs in the 2007 and 2008 reporting years. *United States v. Kerr*, 2013 WL
2 4430917, at *14 (D. Ariz. Aug. 16, 2013) (denying motion for judgment of acquittal or, in
3 the alternative a new trial), *aff'd United States v. Quiel*, 595 F. App'x 692, 694 (9th Cir.
4 2014). This matter concerns the civil penalties for FBAR violations, which the IRS
5 originally assessed in 2014 (the "Original Assessment"). (Doc. 46-31).

6 The Original Assessment took into consideration bank records for five different
7 accounts (the "Five Accounts") over the 2007 and 2008 reporting years. Based on the IRS'
8 estimated value of the Five Accounts, the IRS calculated a total civil penalty of \$3.8 million
9 against Mr. Kerr. (Doc. 19 at 5–6).

10 Previously, the parties sought summary judgment from the Court to determine,
11 under the doctrine of collateral estoppel, what preclusive effect Mr. Kerr's prior criminal
12 conviction has on this case. (Doc. 17). The Court held that Mr. Kerr would be estopped
13 from challenging that he willfully failed to file FBARs with respect to all but one of the
14 Five Accounts, as four were referenced in Counts 6 and 7 of the prior criminal Indictment.
15 (Doc. 26 at 5). The one account excluded from this was a Swiss account ending in -734.
16 (*Id.* at 6). The -734 account was used to deposit 100,000 Swiss Francs with the Union
17 Bank of Switzerland AG ("UBS"), which Swiss law required before opening a capital
18 deposit account. For this reason, the parties refer to the -734 account as the "Placeholder
19 Account." (*Id.* at 2).

20 Plaintiff now seeks summary judgment on whether Mr. Kerr willfully failed to file
21 an FBAR for the Placeholder Account and a judgment against Mr. Kerr to enforce a civil
22 penalty in the amount of \$2,225,574 for willful failure to file FBARs for the Five Accounts.
23 (Doc. 46 at 6). This amount is significantly lower than the Original Assessment's penalty
24 of \$3.8 million. Plaintiff concedes that it cannot seek the \$3.8 million penalty because the
25 IRS erred in calculating this figure. (*Id.* at 6). Therefore, Plaintiff asks the Court to enter
26 judgment on a newly calculated penalty. Mr. Kerr seeks summary judgment remanding
27 the Original Assessment to the IRS for further investigation or explanation. He also seeks
28 summary judgment on the issue of whether he willfully failed to file an FBAR for the

1 Placeholder account and on the issue of whether the penalties violate the Eighth
2 Amendment's excessive fine clause.

3 **II. Legal Standard**

4 A court will grant summary judgment if the movant shows there is no genuine
5 dispute of material fact and the movant is entitled to judgment as a matter of law. Fed. R.
6 Civ. P. 56(a); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322–23 (1986). A factual dispute is
7 genuine when a reasonable jury could return a verdict for the nonmoving party. *Anderson*
8 *v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). Here, a court does not weigh evidence
9 to discern the truth of the matter; it only determines whether there is a genuine issue for
10 trial. *Jesinger v. Nevada Fed. Credit Union*, 24 F.3d 1127, 1131 (9th Cir. 1994). A fact is
11 material when identified as such by substantive law. *Anderson*, 477 U.S. at 248. Only
12 facts that might affect the outcome of a suit under the governing law can preclude an entry
13 of summary judgment. *Id.*

14 The moving party bears the initial burden of identifying portions of the record,
15 including pleadings, depositions, answers to interrogatories, admissions, and affidavits,
16 that show there is no genuine factual dispute. *Celotex*, 477 U.S. at 323. Once shown, the
17 burden shifts to the non-moving party, which must sufficiently establish the existence of a
18 genuine dispute as to any material fact. *See Matsushita Elec. Indus. Co. v. Zenith Radio*
19 *Corp.*, 475 U.S. 574, 585–86 (1986). The evidence of the non-movant is “to be believed,
20 and all justifiable inferences are to be drawn in his favor.” *Anderson*, 477 U.S. at 255. But
21 if the non-movant identifies “evidence [that] is merely colorable or is not significantly
22 probative, summary judgment may be granted.” *Id.* at 249–50 (citations omitted). “A
23 conclusory, self-serving affidavit, lacking detailed facts and any supporting evidence, is
24 insufficient to create a genuine issue of material fact.” *F.T.C. v. Publ’g Clearing House,*
25 *Inc.*, 104 F.3d 1168, 1171 (9th Cir. 1997), as amended (Apr. 11, 1997).

26 **III. Analysis**

27 The Court begins by discussing if there is a genuine dispute of fact as to whether
28 Mr. Kerr willfully failed to file an FBAR for the Placeholder Account.

1 **a. Willful Failure to File an FBAR for the Placeholder Account**

2 To show a willful failure to file an FBAR, Plaintiff must show (1) Mr. Kerr is a
3 United States person, such as a citizen; (2) that Mr. Kerr had “a financial interest in, or
4 signature or other authority over” the account; (3) that the account’s balance exceeded
5 \$10,000 during the reporting period; and (4) that the failure to file the FBAR was willful.
6 31 U.S.C § 5314 (authorizing the Secretary of the Treasury to prescribe rules requiring the
7 disclosures of certain foreign bank accounts); 31 C.F.R. §§ 1010.306, 1010.350; *United*
8 *States v. Pomerantz*, 2017 WL 2483213, at *5 (W.D. Wash. June 8, 2017). Mr. Kerr
9 admitted in his Answer that he is a United States person and that he willfully failed to file
10 an FBAR in 2007 and 2008. (Doc. 9 at ¶¶ 13, 42). There is also no dispute that the
11 Placeholder Account’s value exceeded \$10,000. The only element that Mr. Kerr disputes
12 is whether he had an interest or other authority over the Placeholder Account. (Doc. 49
13 at 13).

14 **i. Interest or Other Authority**

15 There are several ways by which one may have an interest or other authority over
16 an account. If the account’s owner of record or title holder is named as an agent, the
17 principal has an interest. 31 C.F.R. § 1010.350(e)(2)(i). In addition, a person may have
18 “other authority” over an account if that person has the authority “(alone or in conjunction
19 with another) to control the disposition of money, funds or other assets held in a financial
20 account by direct communication (whether in writing or otherwise) to the person with
21 whom the financial account is maintained.” 31 C.F.R. § 1010.350(f)(1).

22 Here, the Placeholder Account was held by Red Rock Investment, AG (“Red Rock”)
23 (Docs. 46-29 at 3). The parties agree that Red Rock was a Swiss corporation that Mr.
24 Kerr’s lawyer created on his behalf to help facilitate European investment in Mr. Kerr’s
25 American businesses. (Docs. 46 at 7; 46-6 at 37; 47 at 3). Plaintiff argues Mr. Kerr exerted
26 control over Red Rock, such that a duty to file an FBAR would arise under §§ 1010.350(e)
27 or (f). This control, Plaintiff argues, was conclusively established in the prior criminal
28 conviction, where Mr. Kerr was found to have the requisite interest or other authority over

1 another UBS account held in Red Rock's name. (Doc. 46 at 15). Therefore, Plaintiff
2 argues, Mr. Kerr is precluded from challenging that he had an interest or other authority
3 over the Placeholder Account under §§ 1010.350(e) or (f). (*Id.*)

4 Mr. Kerr, in response, argues that the Court's prior Order held he would not be
5 precluded from challenging this finding. (Doc. 49 at 13–18). But Mr. Kerr misinterprets
6 the Court's prior Order, which held the jury in the prior criminal matter did not necessarily
7 decide "that Mr. Kerr *willfully* failed to file an FBAR" for the Placeholder Account.
8 (Doc. 26 at 6). The Court has not, until now, discussed whether Mr. Kerr was precluded
9 from challenging his interest or authority over accounts held by Red Rock.

10 **ii. Collateral Estoppel**

11 To apply the doctrine of collateral estoppel on an issue from a criminal trial: "(1)
12 the prior conviction must have been for a serious offense so that the defendant was
13 motivated to fully litigate the charges; (2) there must have been a full and fair trial to
14 prevent convictions of doubtful validity from being used; (3) the issue on which the prior
15 conviction is offered must of necessity have been decided at the criminal trial; and (4) the
16 party against whom the collateral estoppel is asserted was a party or in privity with a party
17 to the prior trial." *United States v. Real Prop. Located at Section 18*, 976 F.2d 515, 518
18 (9th Cir. 1992) (citing *Ayers v. City of Richmond*, 895 F.2d 1267, 1271 (9th Cir. 1990)).
19 Of note, the third requirement's purpose is to ensure the prior case's factfinder carefully
20 reviewed the issue at stake. *United States v. Weems*, 49 F.3d 528, 532 (9th Cir. 1995).

21 As discussed in the Court's prior Order, the parties do not dispute the first, second,
22 and fourth elements of the collateral estoppel test. (Doc. 26 at 3) (citing Docs. 19 at 14,
23 20; 20 at 3)). The question, then, is whether the jury at Mr. Kerr's criminal trial necessarily
24 decided that Mr. Kerr had an interest or other authority over Red Rock's foreign accounts.

25 There is no genuine dispute that the criminal Indictment alleged Mr. Kerr failed to
26 file an FBAR for a UBS account held by Red Rock. (Doc. 46-8 at 4). This specific
27 allegation was not for the Placeholder Account, but rather for an account ending in -962,
28 one of the Five Accounts. (*Id.*) In order to find Mr. Kerr guilty, the jury was instructed

1 that Mr. Kerr was to have had “a financial interest in or signature or other authority over”
2 the -962 account.² (Doc. 20-2 at 15). The jury found him guilty. (Doc. 46-9 at 3).
3 Therefore, the jury necessarily found that Mr. Kerr had an interest in or other authority
4 over Red Rock sufficient to establish FBAR liability for all accounts held in Red Rock’s
5 name. The Court finds there is no genuine dispute that Mr. Kerr had sufficient authority
6 over the Placeholder Account such that that there is no genuine dispute of fact that Mr.
7 Kerr willfully failed to file an FBAR for the Placeholder Account.

8 **iii. Conclusion**

9 Having found no genuine dispute that Mr. Kerr Willfully failed to file an FBAR for
10 the Placeholder Account and having previously found that Mr. Kerr was precluded from
11 challenging whether he willfully failed to file FBARs for rest of the Five Accounts
12 (Doc. 26 at 5), the Court finds that Mr. Kerr is liable under 31 U.S.C. § 5321(a)(5) for
13 willfully failing to file FBARs for the Five Accounts: the Placeholder Account ending
14 in -734 and the accounts ending in -962, -796, -593, and -531.

15 **b. Whether the IRS Conducted the Assessment Properly**

16 Having established Mr. Kerr’s liability, the next question is what penalty is
17 appropriate. The civil penalty for willfully failing to file an FBAR is based on the value
18 of each account on the day of the FBAR filing deadline. If, on the deadlines, the account
19 balance exceeds \$200,000, then the maximum penalty the IRS may assess is half of the
20 account’s total balance. 31 U.S.C. § 5321(a)(5)(C)(i) (stating that the penalty is based on
21 “the balance in the account at the time of the violation”). If the balance is less than
22 \$200,000, then the maximum penalty the IRS may impose is \$100,000. *Id.*

23 The IRS’ Original Assessment covered accounts during the 2007 and 2008 reporting
24 years. The FBAR filing deadline for the 2007 reporting year was June 30, 2008, and the
25 2008 reporting year’s deadline was June 30, 2009. Plaintiff concedes that, based upon the
26 available evidence in the administrative record, the IRS improperly calculated a large

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28 ² The only difference between a civil and criminal claim that a person willfully failed to
file an FBAR is the standard for willfulness. *See United States v. Horowitz*, 978 F.3d 80,
86 (4th Cir. 2020). The element of control over the account is, therefore, the same.

1 portion of the Original Assessment's penalties because they were not based off of the
2 account balances as of the June 30 deadlines. (Doc. 46 at 6, 19).

3 After reassessing, Plaintiff now seeks a judgment in a reduced amount of \$2,225,574
4 ("Plaintiff's Corrected Assessment"). (*Id.*) Mr. Kerr agrees that the IRS miscalculated the
5 penalties and provides his own corrected figures ("Defendant's Corrected Assessment").
6 (Doc. 47 at 23). The parties' Corrected Assessments are as follows:

Account	Reporting Year	Plaintiff's Corrected Assessment	Defendant's Corrected Assessment	Original Assessment
-962	2007	\$378,117.00	\$277,285.00	\$378,117.00
	2008	\$100,000.00	\$100,000.00	\$100,000.00
-796	2007	\$467,200.00	\$487,694.00	\$718,085.00
	2008	\$100,000.00	\$100,000.00	\$100,000.00
-593	2007	\$555,450.00	\$506,150.00	\$1,523,303.00
	2008	\$100,000.00	\$485,597.00	\$485,597.00
-531	2007	\$438,593.00	\$250,761.00	\$250,761.00
	2008	\$45,229.00	\$45,229.00	\$204,122.00
-734	2007	\$40,985.00	\$40,985.00	\$40,985.00
Total		\$2,225,574.00	\$2,293,701.00	\$3,800,970.00

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15 (Docs. 46 at 18–19; 47 at 23).³

16 The Court notes that there is no dispute that the IRS correctly calculated the
17 penalties for the Placeholder Account (-734) in the 2007 reporting year, and the -962 and
18 -796 accounts for the 2008 reporting year. (Docs. 46 at 18; 47 at 23). The penalty for the
19 Placeholder account is \$40,985. The penalty for the -962 account for 2008 is \$100,000.
20 And the penalty for the -796 account for 2008 is \$100,000. There is, therefore, no genuine
21 dispute that the IRS correctly assessed \$240,985 in penalties in the Original Assessment.
22 The Court will enter judgment in the IRS' favor in this amount.

23 As to the remaining accounts, the immediate question before the Court is whether it
24 may enter judgment against Mr. Kerr for the penalties proposed in Plaintiff's Corrected
25 Assessment, or whether it should remand the calculation of the penalties to the IRS.

26 **i. Standard of Review**

27 Whether the Court should remand the calculation of penalties to the IRS is a

28 ³ The -734 account is the Placeholder Account, which was only assessed for the 2007 reporting year.

1 question that falls under the Administrative Procedures Act (“APA”). 5 U.S.C. § 702
2 (establishing presumption of judicial review for agency actions). “The APA sets forth the
3 procedures by which federal agencies are accountable to the public and their actions subject
4 to review by the courts.” *Franklin v. Massachusetts*, 505 U.S. 788, 796 (1992).

5 Federal agencies must engage in reasoned decision-making. *Allentown Mack Sales*
6 *& Serv., Inc. v. N.L.R.B.*, 522 U.S. 359, 374 (1998). If an agency’s action is “arbitrary,
7 capricious, an abuse of discretion, or otherwise not in accordance with law” then the
8 reviewing court may set it aside. 5 U.S.C. § 706(2)(A). Judicial review of the action is
9 generally limited to only those materials that were in the record before the agency. *Proietti*
10 *v. Levi*, 530 F.2d 836, 838 (9th Cir. 1976). In addition, courts do not substitute their
11 judgment for the that of the agency and “assess only whether the decision was ‘based on a
12 consideration of the relevant factors and whether there has been a clear error of judgment.’”
13 *Dep’t of Homeland Sec. v. Regents of the Univ. of California*, 140 S. Ct. 1891, 1905, (2020)
14 (“*Regents*”) (quoting *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 416
15 (1971)). It is well established that “a court may uphold agency action only on the grounds
16 that the agency invoked when it took the action.” *Michigan v. E.P.A.*, 576 U.S. 743, 758
17 (2015).

18 If the court finds that the record does not support the agency’s action, or if the
19 agency has not considered all relevant factors, “or if the reviewing court simply cannot
20 evaluate the challenged agency action on the basis of the record before it, the proper course,
21 except in rare circumstances, is to remand to the agency for additional investigation or
22 explanation.” *Fla. Power & Light Co. v. Lorion*, 470 U.S. 729, 744 (1985); *see also*
23 5 U.S.C. § 706. Courts will not remand an action when to do so “would be an idle and
24 useless formality.” *N.L.R.B. v. Wyman-Gordon Co.*, 394 U.S. 759, 766 n.6 (1969).
25 Remand could be a useless formality when, for example, the administrative record is fully
26 developed or if no further agency expertise would be required for a determination. *Ruiz-*
27 *Vidal v. Gonzales*, 473 F.3d 1072, 1080 (9th Cir. 2007) *abrogated on other grounds by*
28 *Kwong v. Holder*, 671 F.3d 872 (9th Cir. 2011); *Varney v. Sec’y of Health & Hum. Servs.*,

1 859 F.2d 1396, 1401 (9th Cir. 1988).

2 **ii. The Useless Formality Doctrine**

3 Plaintiff argues that because it has presented a Corrected Assessment here, it is
4 unnecessary for the Court to remand this matter to the IRS. As Plaintiff says, “the
5 administrative record provides for only one outcome” and so “remand would be a useless
6 and inappropriate formality and should not be ordered.” (Doc. 52 at 7).

7 For support, Plaintiff cites three Ninth Circuit cases. First, Plaintiff cites *Varney v.*
8 *Sec’y of Health & Hum. Servs.*, a Social Security appeal case in which the Ninth Circuit
9 adopted the rule that when an administrative law judge fails to articulate why he or she
10 discredits a claimant’s symptom testimony, the testimony is accepted as true. 859 F.2d
11 1396, 1401 (9th Cir. 1988). As applied to the particular facts before it, the court found
12 there were no other issues that needed to be resolved at the administrative level, and it was
13 “clear from the administrative record that the ALJ would be required to award benefits if
14 the claimant’s excess pain testimony were credited . . .” *Id.* at 1401. Therefore, the Court
15 remanded the case for the award of benefits.

16 Second, Plaintiff cites *Sierra Club v. EPA*, where the plaintiff challenged the
17 Environmental Protection Agency’s (“EPA”) finding that substandard air quality in
18 California’s Imperial Valley was due to emissions blown north from Mexico. 346 F.3d
19 955, 960 (9th Cir. 2003). The Ninth Circuit vacated the EPA’s finding because it ran
20 counter to data showing substandard air quality on days when then wind came from the
21 west. *Id.* at 962. Instead of remanding for further administrative purposes, the court found
22 “the record here has been fully developed, and the conclusions that must follow from it are
23 clear” and so the court instructed the EPA to find that the Imperial Valley was a “serious”
24 nonattainment area, which would require the area to adopt stricter pollution controls. *Id.*
25 at 963.

26 Third, Plaintiff cites *Ruiz-Vidal v. Gonzales*, in which the Department of Homeland
27 Security had ordered the removal of plaintiff, a Mexican national, after finding that he had
28 been convicted of violating a California law for possession of a controlled substance. 473

1 F.3d at 1075. The removal was predicated on the assumption that the plaintiff had violated
2 the federal Controlled Substances Act, but, the Ninth Circuit noted, the California law
3 punishes individuals for possessing substances that are not listed under the federal
4 Controlled Substances Act. *Id.* at 1076. Because the administrative record did not say
5 what substance the plaintiff had been convicted of possessing, the Ninth Circuit found the
6 agency had failed to prove plaintiff was convicted of possessing a controlled substance as
7 defined in the federal Controlled Substances Act. *Id.* at 1080. And because the record
8 “either supports the finding of removability or it does not” the court found it was not
9 necessary to remand the case as the record did not support the removability finding. *Id.*

10 These cases stand for the proposition that when a Court finds the record does not
11 support agency action and when remand would yield only one outcome, the Court can enter
12 judgment to achieve that outcome. But this rule does not apply to the current matter for
13 two reasons. The first is that if the Court were to remand the penalty calculation to the
14 IRS, there is more than one possible outcome. By statute, the IRS has the discretion to
15 impose a range of FBAR penalties. *See* 31 U.S.C. § 5321(a)(5)(C)(i) (describing how to
16 calculate the “maximum” penalties). It is not certain how the IRS would exercise this
17 discretion on remand. Consider *United States v. Schwarzbaum*, a case which Plaintiff cites,
18 where the district court found that the IRS miscalculated an FBAR assessment and entered
19 judgment for what it calculated to be the correct assessment. *United States v.*
20 *Schwarzbaum*, 2020 WL 2526500, at *4 (S.D. Fla. May 18, 2020). On appeal, the Eleventh
21 Circuit reversed the district court’s entry of judgment and remanded the matter to the IRS
22 noting that in assessing FBAR penalties, the IRS has the discretion to mitigate the ultimate
23 assessment. *United States v. Schwarzbaum*, 24 F.4th 1355, 1366 (11th Cir. 2022). The
24 court held that “the fact that the IRS *may* reach a different result when it recalculates
25 Schwarzbaum’s penalties in accordance with the FBAR civil penalty statute and
26 regulations is enough to justify remand.” *Id.*

27 The Court may even assume, without deciding, that Plaintiff’s calculations within
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1 the Corrected Assessment are mostly in order this time,⁴ but without an underlying decision
2 at the agency level, the Court would necessarily be using its own judgment in imposing
3 FBAR penalties. This the Court cannot do. It is the IRS that should formally exercise its
4 judgment and discretion in the first instance. *See Regents*, 140 S. Ct. at 1905 (stating a
5 court may not substitute its judgment for that of the agency).

6 The second difference between this matter and the Ninth Circuit cases discussed
7 above is that in all three cases, the agencies stood by and defended their original action.
8 Here, Plaintiff has abandoned the Original Assessment, and it asks that the Court, instead,
9 review and approve the Corrected Assessment it provided at the summary judgment stage.
10 Indeed, with this posture, the Court finds that principles of agency accountability require
11 it to remand part of the Original Assessment to the IRS. .

12 The Supreme Court has stated several times that one of the APA's main purposes is
13 to foster agency accountability. *Franklin*, 505 U.S. at 796; *Bowen v. Am. Hosp. Ass'n*, 476
14 U.S. 610, 643 (1986) (stating that "the principle of agency accountability" requires that
15 courts may only uphold agency action for the reasons originally given). Recently, in
16 *Regents*, the Court stated a "basic" rule that an agency "must defend its actions based on
17 the reasons it gave when it acted." 140 S. Ct. at 1909. That case concerned the Department
18 of Homeland Security's ("DHS") decision to rescind the Deferred Action for Childhood
19 Arrivals program. The decision was challenged and, before the Court, DHS attempted to
20 argue why its actions had been proper based on arguments that had not been given when
21 DHS made its original decision. *Id.*

22 The Court found that DHS' "*post hoc* rationalizations" were not properly before the
23 Court and that a new decision incorporating these reasons would be necessary before
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25 ⁴ For reasons discussed below, the Court will remand the IRS' Original Assessment with
26 respect to the -962 Account for the 2007 Reporting year for further investigation or
27 explanation.

27 In addition, a review of Mr. Kerr's calculations suggests they would not withstand scrutiny.
28 For example, Mr. Kerr cites to bank records for the proposition that the -593 account's
balance on June 30, 2008, was \$1,012,300. (Doc. 47-11 at 31). However, the figure noted
states the "Final Value" from a period of June 30, 2008, to September 30, 2008. The
"Starting Value" and, presumably, the value on June 30, 2008, was \$1,110,900.

1 review. *Id.* Just as Plaintiff argues here, DHS argued that it would be a useless formality
2 to remand the case just to establish new legal arguments. *Id.* But, citing the policy of
3 agency accountability, the *Regents* Court found remand was proper. *Id.* It reiterated that
4 “the Government should turn square corners in dealing with the people.” *Id.* (quoting *St.*
5 *Regis Paper Co. v. United States*, 368 U.S. 208, 229 (1961) (Black, J., dissenting)). The
6 Court also found that permitting agencies “to invoke belated justifications . . . can upset
7 ‘the orderly functioning of the process of review,’ forcing both litigants and courts to chase
8 a moving target.” *Id.* (citation omitted). Instead, parties should have confidence in an
9 agency’s original analysis. *Id.*

10 If remand is not a useless formality when the government raises new legal
11 arguments on appeal, then remand is certainly not a useless formality here, where Plaintiff
12 presents a new penalty for the Court to consider. Plaintiff must defend the IRS’ original
13 action and not make a moving target out of the penalties. *See id.* Therefore, for this reason
14 and because there is more than one possible outcome on remand, the Court remands those
15 parts of the Original Assessment that Plaintiff concedes were made in error. These include
16 the penalties assessed on the -593 and -531 accounts for the 2007 and 2008 reporting years,
17 as well as the penalty assessed on the -796 account for the 2007 reporting year.

18 **iii. The -962 Account for the 2007 Reporting Year**

19 The only remaining penalty to discuss is the penalty assessed on the -962 account
20 during the 2007 reporting year, which the parties dispute. Plaintiff argues that the IRS
21 correctly assessed a penalty of \$378,117 when it used a December 31, 2007, balance to
22 estimate the account’s June 30, 2008, balance. Unlike the -593, -531, and -796 accounts,
23 Plaintiff argues there really is no evidence in the record showing what the exact June 30
24 balance was. (Doc. 52 at 10). Therefore, under the Internal Revenue Manual (“IRM”),
25 Plaintiff argues it is proper for the IRS to calculate the penalty using earlier bank statements
26 to create an estimate of the June 30 balance. (*Id.* at 11) (citing IRM § 4.26.16.5.5.3 (06-
27 24-2021)).⁵

28 ⁵ Plaintiff does not explicitly say which version of the IRM it cites, but the Court infers it
is referring to the June 25, 2021, edition because of the website that Plaintiff includes in its

1 Mr. Kerr argues the record before the IRS demonstrated that the -962 account held
2 several stocks. (Doc. 47-10 at 31–81). He also argues that under the IRM, the IRS should
3 have considered the stocks’ value when estimating the June 30 balance. (Doc. 49 at 9)
4 (citing IRM § 4.26.16.3.6 (07-01-2008)). By failing to follow the IRM in considering the
5 stock’s changed value, Mr. Kerr argues the IRS acted arbitrarily and capriciously. (Doc.
6 47 at 14).

7 A review of the IRM shows the IRS did not follow its direction when calculating
8 the June 30 value of the -962 account. IRM § 4.26.16.5.5.3, which Plaintiff cites to justify
9 the IRS’ decision, states that an examiner “should” use the account balance on another date
10 to estimate the account violation date balance.⁶ But that is not all. It goes on to say the
11 examiner should also consider “any changes made to that account balance to arrive at the
12 estimated violation date balance” IRM § 4.26.16.5.5.3(8)(c) (06-24-2021) (emphasis
13 added). Likewise, IRM § 4.26.16.3.6, which was in effect during the Original Assessment,
14 states that the IRS should consider the fair market value of stock when assessing an
15 account’s value. *See Kimble v. United States*, 141 Fed. Cl. 373, 393 (2018), *aff’d*, 991 F.3d
16 1238 (Fed. Cir. 2021) (quoting IRM § 4.26.16.3.6 (07-01-2008)). Therefore, even though
17 multiple IRM provisions directed the IRS to consider known changes to the stocks’ value,
18 the IRS did not.

19 The Court notes that this omission can be determined without resorting to
20 information outside the record. *See Proietti*, 530 F.2d at 838 (stating that courts limit
21 review of agency action to only that which was contained in the record). Plaintiff spends
22 much of its briefing discussing why the court should not consider the stocks’ value because
23 it is outside the record. (Doc. 48 at 14). But the Court is not considering the stocks’ *value*.
24 It is considering the stock’s *existence*, which Plaintiff does not dispute is established in the

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26 citation. (See Doc. 52 at 10).

27 ⁶ Mr. Kerr argues this specific IRM section is not relevant because it was established after
28 the Original Assessment. (Doc. 51 at 6). Plaintiff disagrees and argues this provision was
in place during the Original Assessment. (Doc. 52 at 11). The Court need not delve into
whether the section is anachronistic because, even if not, it does not support Plaintiff’s
argument.

1 administrative record.

2 Plaintiff also spends some time arguing that Mr. Kerr cannot now argue that the
3 IRS's "factfinding procedures" were inadequate because he was able to present his own
4 evidence and appeal the proposed penalty to the IRS. (Doc. 48 at 10). Plaintiff cites *United*
5 *States v. Gonzales & Gonzales Bonds & Insurance Agency, Inc.* for the proposition that
6 factfinding procedures are adequate and cannot be questioned when a party can present its
7 own argument and evidence to the agency. (*Id.* at 10) (citing 728 F. Supp. 2d 1077, 1085
8 (N.D. Cal. 2010)). But the nature of Mr. Kerr's argument is not that the IRS' procedures
9 themselves were inadequate. His argument is that the IRS failed to follow their own
10 procedures as directed by the IRM.

11 To this, Plaintiff argues it does not matter whether the IRS followed the IRM
12 because the IRM is merely a set of guidelines that do not have the force of law.
13 (Doc. 52 at 8). Indeed, it is well established that the IRM is not a codified regulation and
14 does not impose mandatory requirements on the IRS. *See Urb. v. Comm'r*, 964 F.2d 888,
15 889 (9th Cir. 1992); *Marks v. Comm'r*, 947 F.2d 983, 986 (D.C. Cir. 1991). And yet, when
16 Plaintiff argues why the IRS' calculation of the penalty based on the December account
17 balance alone was not an abuse of discretion, it cites to the IRM for support. (Doc. 52 at
18 11) (citing IRM § 4.26.16.5.5.3 (06-24-2021)).⁷ Therefore, the only justification Plaintiff
19 offers for the IRS' action is based on the IRM. Why the IRS decided to follow some parts
20 of the IRM, but not others, is not explained in the record. Without an explanation, the
21 Court finds that the means by which the IRS calculated the penalty for the -962 Account
22 for the 2007 reporting year were arbitrary. Therefore, the Court will remand this
23 assessment for further investigation or explanation. *Fla. Power & Light Co.*, 470 U.S. at
24 744.

25 _____
26 ⁷ Plaintiff also argues that estimating a June 30 balance with an earlier statement is
27 appropriate because it was done in *United States v. Bussell*, 2015 WL 9957826 (C.D. Cal.
28 Dec. 8, 2015). Although it may have been done this way, whether it was appropriate to do
so was not an issue raised or considered. Therefore, *Bussell* does not support the
proposition that the IRS does not abuse its discretion when it estimates an account balance
with an earlier statement.

1 **c. Whether the Assessment Violates the Eighth Amendment**

2 Although the Court will only enter judgment on three of the penalties made in the
3 Original Assessment, it will consider Mr. Kerr’s argument that the FBAR penalties violate
4 his rights under the Eighth Amendment.⁸ The Eighth Amendment provides that no
5 “excessive fines” shall be imposed. U.S. Const. amend. VIII. A punitive forfeiture
6 violation is excessive “if it is grossly disproportional to the gravity of a defendant’s
7 offense.” *United States v. Bajakajian*, 524 U.S. 321, 334 (1998). Although no court has
8 expressly held that civil FBAR penalties constitute a fine under the Eighth Amendment,
9 the Court will assume, without deciding, that they are. *See United States v. Bussell*, 699 F.
10 App’x 695, 696 (9th Cir. 2017) (evaluating whether FBAR penalties are “grossly
11 disproportional” to the gravity of the defense under the Eighth Amendment).

12 Mr. Kerr bears the burden of showing that the civil penalties are grossly
13 disproportional. *See United States v. \$132,245.00 in U.S. Currency*, 764 F.3d 1055, 1058
14 (9th Cir. 2014). Courts show substantial deference to legislative bodies when reviewing
15 statutorily established penalties. *Bajakajian*, 524 U.S. at 334; *Solem v. Helm*, 463 U.S.
16 277, 290 (1983). In *Bajakajian*, the Court considered several factors in determining
17 whether a fine was excessive including the nature of the conduct, the resulting harm, and
18 whether other penalties may be imposed. 524 U.S. at 336–38; *see also United States v.*
19 *Bussell*, 2015 WL 9957826, at *7 (C.D. Cal. Dec. 8, 2015). The Ninth Circuit has noted
20 that these *Bajakajain* factors are not “rigid” and so courts are not limited to these
21 considerations. *United States v. Mackby*, 339 F.3d 1013, 1016 (9th Cir. 2003).

22 Under these factors, Mr. Kerr argues that the penalty is grossly excessive because
23 (1) the only crime he committed was willfully failing to report the accounts, (2) this failure
24 was unconnected to other criminal activity, (3) that other criminal penalties already exist
25 for this conduct, and (4) that “the government suffered no injury as it stipulated that [Mr.]
26 Kerr did not underreport his tax liabilities.” (Doc. 47 at 25).

27 _____
28 ⁸ Because the maximum amount assessed for each of the three penalties is \$100,000, the
Court need not address Mr. Kerr’s argument that the other penalties are invalid because
they exceed \$100,000. (*See* Doc. 47 at 24).

1 The stipulation that Mr. Kerr references is a stipulated decision issued by the United
2 States Tax Court stating that “there are no deficiencies in income tax due from, nor
3 overpayment due to” Mr. Kerr for the taxable years 2007 and 2008. (Doc. 47-15 at 1).
4 Plaintiff avers that when it entered into this stipulation it “only agreed to concede the
5 income tax deficiencies because of a procedural argument [Mr.] Kerr raised concerning the
6 Federal Rules of Evidence.” (Doc. 48 at 20–21). The stipulation, Plaintiff argues, does not
7 actually establish that Mr. Kerr accurately reported his tax liabilities because it has no
8 preclusive effect. (*Id.* at 20) (citing *Arizona v. California*, 530 U.S. 392, 415 (2000) (noting
9 that stipulated Tax Court judgments have no preclusive effect unless the court actually
10 reached an adjudication of the merits)); *see also United States v. Int’l Bldg. Co.*, 345 U.S.
11 502, 506 (1953) (“[U]nless we can say that [the stipulated Tax Court judgments] were an
12 adjudication of the merits, the doctrine of estoppel by judgment would serve an unjust
13 cause: it would become a device by which a decision not shown to be on the merits would
14 forever foreclose inquiry into the merits.”).

15 Mr. Kerr does not dispute that the stipulation cannot be used here to demonstrate
16 that Mr. Kerr underreported his tax liabilities. Instead, he argues that Plaintiff “offers zero
17 evidence to refute Kerr’s assertion that the government suffered no tax loss.” (Doc. 51 at
18 10–11). However, it is Mr. Kerr, not Plaintiff who bears the burden of showing the FBAR
19 penalties are grossly excessive, and so it is Mr. Kerr who carries the burden of showing
20 that the government has not suffered a tax loss. *See \$132,245.00 in U.S. Currency*, 764
21 F.3d at 1058. Therefore, the Court finds that Mr. Kerr has not demonstrated that Plaintiff
22 did not suffer a tax loss. *See Int’l Bldg. Co.* 345 U.S. at 506 (“A judgment entered with the
23 consent of the parties may involve a determination of questions of fact and law by the court.
24 But unless a showing is made that that was the case, the judgment has no greater dignity,
25 so far as collateral estoppel is concerned, than any judgment entered only as a compromise
26 of the parties.”).

27 In total, given the presumption that a statutory penalty is not excessive, and given
28 that Mr. Kerr has not shown that Plaintiff did not suffer any loss in tax revenue as a result

1 of his actions, the Court finds that Mr. Kerr fails to demonstrate that the FBAR penalties
2 are grossly disproportional to his conduct. *See United States v. Bussell*, 699 F. App'x 695,
3 696 (9th Cir. 2017) (holding that an FBAR assessment was not grossly disproportionate
4 because defendant “defrauded the government and reduced public revenues”).

5 **IV. Conclusion**

6 In sum, the Court finds there is no genuine dispute of material fact that Mr. Kerr
7 willfully failed to file an FBAR for the Placeholder Account. The Court remands the
8 majority of the penalties assessed by the IRS for further investigation or explanation, with
9 the exception of the penalties assessed for the Placeholder Account (-734) in the 2007
10 reporting year, and the -962 and -796 accounts for the 2008 reporting year. In accordance
11 with the Original Assessment, the Court will enter judgment against Mr. Kerr for willfully
12 failing to file FBARs for these accounts in the amount of \$240,985. This judgment, the
13 Court finds, is not unconstitutionally excessive.

14 Accordingly,

15 **IT IS HEREBY ORDERED** that Plaintiff’s Motion for Summary Judgment
16 (Doc. 46) is **granted** in part and **denied** in part.

17 **IT IS FURTHER ORDERED** that Defendant’s Motion for Summary Judgment
18 (Doc. 47) is **granted** in part and **denied** in part.

19 **IT IS FURTHER ORDERED** the Clerk of Court shall take all necessary steps to
20 remand to the IRS for further investigation or explanation the following assessments of the
21 following penalty assessments;

- 22 - The -962 account for the 2007 reporting year,
- 23 - The -796 account for the 2007 reporting year,
- 24 - The -593 account for the 2007 and 2008 reporting years, and
- 25 - The -531 account for the 2007 and 2008 reporting years.

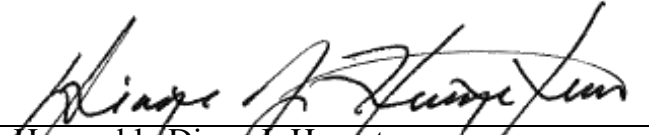
26 **IT IS FINALLY ORDERED** that the Clerk of Court shall enter judgment against
27 Defendant in the total amount of \$240,985 for willfully failing to file FBARS for the
28 following:

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- \$100,000 for the -962 account for the 2008 reporting year,
- \$100,000 for the -796 account for the 2008 reporting year, and
- \$40,985 for the -734 account for the 2007 reporting year.

IT IS FINALLY ORDERED that there being nothing further, the Clerk of Court shall terminate this matter.

Dated this 28th day of March, 2022.



Honorable Diane J. Humetewa
United States District Judge