By Dan Alban

In January 2013, a federal district court judge ruled in favor of IJ and three independent tax preparers, striking down the requirement that tax preparers had to get permission from the IRS before they could work. The IRS then appealed.

This February, just a few weeks into tax season, IJ once again defeated the IRS, securing a major victory for economic liberty and meaningful limits on the power of administrative agencies. A three-judge panel of the D.C. Circuit Court of Appeals ruled unanimously that the IRS did not have the statutory authority to unilaterally impose the sweeping nationwide licensing scheme on tax preparers.

Under these new regulations, the court explained, “the IRS would be empowered for the first time to regulate hundreds of thousands of individuals in the multi-billion dollar tax-preparation industry. Yet nothing in the statute’s text or the legislative record contemplates that vast expansion of the IRS’s authority.” As a result, the court firmly rejected this regulatory overreach by one of the most feared federal agencies.

Celebrating the victory were IJ clients Sabina Loving of Chicago, Elmer Kilian of Eagle, Wis., and John Gambino of Hoboken, N.J., along with tens of thousands of other independent tax preparers who would have had to get permission from the IRS to...
IJ Clinic Client Demonstrates the Power of One Entrepreneur

By Beth Kregor

On February 27, IJ Clinic clients, students and alumni gathered in an elegant room with views of Lake Michigan and Chicago’s famous skyscrapers. It was freezing outside, but inside could not have been warmer. We gathered to celebrate the ‘graduation’ of Ken Coats, founder of IJ Clinic client Kentech Consulting, and to celebrate the perseverance of all of our clients who look to Kentech as a model of success.

IJ Clinic Assistant Director Erika Harford told the audience about Ken’s journey. Ken came to the Clinic in 2007 when he was building a business to solve a problem in his community: People, especially young adults, struggled to find employment because of misleading and unnecessary information in their records. Ken created a low-cost, web-based record-expungement service that allowed customers to correct information on their records at a lower cost than hiring an attorney. But the Illinois Attorney General accused him of practicing law without a license and shut the service down.

“That could have been the end of Ken’s story,” Erika said. “But it wasn’t. Ken re-invented Kentech as a background-screening business to provide customers with accurate information in easy-to-read, paperless reports. Kentech serves customers better and is more affordable than the rest. Kentech was named the fourth-fastest-growing security company in the country by Inc. Magazine.” Ken grew his business from the living room to a booming business with 80 employees.

With Ken’s family looking on proudly, Erika presented Ken with the IJ Clinic’s first Power of One Award to recognize the impact Ken has on his customers, employees and the entrepreneurs he inspires.

Ken, who usually has a broad smile and a joke ready, was choked up as he received his award. He told us how special it is to stop and reflect on the journey: “Without the support of the IJ Clinic, I would not be standing here today.” The Clinic did not give up on Ken when burdensome laws blocked his path but worked with him to clear the way as he blazed a new trail.

“Tank said Kentech’s graduation made him realize the IJ Clinic is providing more than legal advice. ‘I realized tonight that the IJ Clinic will fight to help me reach my dream. To me, that’s about my civil rights.’”

Kentech’s story motivates other Clinic clients with equally big dreams. One of the Clinic’s newest clients, William Tanksley of Elite Carpentry Work, was in awe of Kentech’s success and full of gratitude for the IJ Clinic. Tank said Kentech’s graduation made him realize the IJ Clinic is providing more than legal advice. “I realized tonight that the IJ Clinic will fight to help me reach my dream. To me, that’s about my civil rights.”

Entrepreneurs come to the IJ Clinic with big dreams: to chart their own courses, build up their neighborhoods and create jobs. These entrepreneurs may not use the term “economic liberty,” but that is exactly what they seek. The IJ Clinic’s mission is to provide legal support to Chicago’s inner-city entrepreneurs so that red tape, legal complexities and arbitrary regulations don’t stop them in their tracks. Ken Coats demonstrates the potential power of one entrepreneur. The IJ Clinic and its clients together demonstrate the power of many individuals who fight for the freedom to succeed.

Beth Kregor is director of the IJ Clinic.
By Wesley Hottot

For nearly four years, Ali Bokhari fought the Metropolitan Government of Nashville and Davidson County, Tenn., for the basic right to charge his customers lower prices. You read that right: Nashville required Ali and every other sedan operator in the city to charge at least $45. Ali’s business, Metro Livery, provides luxury transportation at affordable prices. For example, a trip from downtown Nashville to the airport cost just $25 before 2010, when the minimum price went into effect.

Why would a government enact a minimum price? Simple. Ali’s competition—Nashville’s expensive limousine companies—wanted the minimum and they had the political influence to get it.

In fact, when the Institute for Justice joined forces with Ali and sued the city in federal court, we proved to a jury that the expensive limousine companies had written every word of the $45 minimum-fare law and that the government just rubber stamped the irrational policy. The jury nevertheless ruled for the government in January 2013 and Ali lost his case in court.

But the great thing about IJ and our clients is that we don’t accept defeat—we just see cases that aren’t victorious yet.

Ali never stopped fighting, and this January he won when Nashville’s Metro Council voted to reduce the $45 minimum fare to $9. In the transportation business, a $9 minimum price is effectively no minimum price.

The Council’s vote represents much more than a personal victory, however. Lower transportation prices help Nashville’s consumers, other transportation businesses and Nashville’s broader economy. Transportation businesses put people to work and take people to work.

In January and February, Ali’s business boomed beyond his wildest dreams. The pent-up demand for affordable luxury transportation meant that Ali had the best kind of problem: too much demand. He purchased five new vehicles in five weeks. He put drivers he had laid off because of the old law back on the road. And his grin stretched from ear to ear.

Nashville’s Metro Council ultimately did the right thing, but the minimum-fare law should never have been on the books. It is not the government’s place to run small businesses like Metro Livery off the road—and harm consumers too—just to help out their competitors. The fact that Nashville can repeal this law so easily only proves the point: The regulations never had anything to do with public safety but everything to do with economic protectionism.

Nashville spent three years fighting tooth and nail (and spending taxpayer money) to defend the $45 minimum fare but, happily, the public interest finally won out.

Nashville’s repeal of the minimum fare should send a message to every other trade association that seeks to use the power of government to limit competition and drive up prices. You might succeed for a time, but justice will find you in the end.

And this fight still isn’t over. IJ is currently challenging the constitutionality of similar minimum-fare laws in Portland, Ore., and Tampa, Fla. Just like Ali, we will not stop until these laws are off the books.

Wesley Hottot is an IJ attorney.
By Diana Simpson

An Arizona licensing board wants to put hard-working entrepreneurs in jail for no reason other than to protect industry insiders from honest competition.

Celeste Kelly is the quintessential American entrepreneur. She spent years building her successful business massaging horses for a wide range of clients. For Celeste, massage provided a new avenue to work with the horses she loves while offering a sought-after service. She spent hundreds of hours learning animal massage techniques and has been privately certified by animal massage schools.

But the Arizona State Veterinary Medical Examining Board is demanding that Celeste and others like her become licensed veterinarians. This is because the Board decided that animal massage is the practice of veterinary medicine. Arizona defines the practice of veterinary medicine so broadly that it encompasses nearly everything done to an animal for a fee, regardless of the necessary skill or risk of the service.

But the Arizona State Veterinary Medical Examining Board is demanding that Celeste and others like her become licensed veterinarians. This is because the Board decided that animal massage is the practice of veterinary medicine. Arizona defines the practice of veterinary medicine so broadly that it encompasses nearly everything done to an animal for a fee, regardless of the necessary skill or risk of the service.

Dog groomers beware: You may be next.

According to the Board, if Celeste wishes to massage animals, she faces two options: become a licensed veterinarian or massage animals for free. This means Celeste would have to spend hundreds of thousands of dollars to attend four years of veterinary school. Even worse, there are no veterinary schools in Arizona and most schools do not require would-be veterinarians to learn massage. Practicing animal massage without a veterinary license is subject to up to six months in jail and fines of $3,500 per violation. A massage therapist doesn’t need a medical degree to massage humans, so it makes no sense to require an animal massage therapist to have a veterinary degree to massage animals.

Arizona's outrageous licensing scheme puts individuals with experience and skill out of work while forcing animal owners to pay more for extra care they don't want. Because veterinarians are not required to learn how to massage animals in school, they must specifically seek out massage training to learn proper massage techniques. Few do, and few, if any, veterinarians offer massage services in Arizona. Animal owners are left with fewer choices for their pets' care and more expensive veterinary bills.

Fortunately, both the Arizona and U.S. Constitutions protect the right to earn an honest living. On March 5, 2014, Celeste and two other animal massage therapists teamed up with IJ to file a lawsuit challenging the constitutionality of this senseless licensing scheme. Their case is about more than massaging animals: By taking on the Board, these entrepreneurs are fighting back against irrational licensing requirements and state licensing boards that go to extreme lengths to protect the financial interests of industry insiders.

A victory here would provide what the Arizona and U.S. Constitutions guarantee: the right to earn an honest living free from unreasonable government interference.

Diana Simpson is an IJ attorney.
IRS continued from page 1

continue preparing tax returns for paying clients. The costs of the new licensing regulations would have either forced them out of business altogether or compelled them to substantially increase their prices, making them less competitive with large tax-preparation firms.

Taxpayers also have good reason to celebrate the ruling: The new licensing scheme was expected to dramatically reduce competition in the industry and raise prices for tax-preparation services. Fortunately, under this ruling, taxpayers—not the IRS—will continue to get to decide who prepares their taxes.

Unsurprisingly, large tax-preparation firms such as H&R Block and Jackson-Hewitt lobbied for the costly new rules, which were also supported by industry insiders such as the American Institute of CPAs and tax software producers such as Intuit (makers of TurboTax). All stood to benefit from the burdensome regulations, which The Economist noted, “threaten to crush . . . small, local” tax preparers and are “likely to push mom and pop into another line of work.”

Determined to shut down this protectionist power grab, IJ filed suit on behalf of Sabina, Elmer and John in March 2012, explaining that Congress never gave the IRS the authority to license tax preparers and the IRS cannot give itself that power. In response, the agency made the shocking claim that it was authorized to license tax preparers under an obscure 1884 statute governing the representatives of Civil War soldiers seeking compensation for dead horses. That law predated not only the modern income tax, but the IRS itself.

The D.C. Circuit rejected the IRS’s arguments, finding six different reasons why the agency’s interpretation of the 1884 statute was both “foreclosed” by the text of the statute and “unreasonable in light of the statute’s text, history, structure, and context.” As a result, the court concluded that “[t]he IRS may not unilaterally expand its authority through such an expansive, atexual, and ahistorical reading” of the statute.

IJ’s victory establishes important precedent against regulatory overreach by administrative agencies, which often threatens the economic liberty of entrepreneurs.

As this issue of

Liberty & Law went to print, the IRS could still request a rehearing or petition the U.S. Supreme Court for review. If it does, we’ll be there to once again stop this power grab.

Dan Alban is an IJ attorney.

Elmer Kilian, left, and Sabina Loving, above, are tax-preparation entrepreneurs who just want to work without government red tape.

“IJ’s victory establishes important precedent against regulatory overreach by administrative agencies, which often threatens the economic liberty of entrepreneurs.”
Just three months after IJ challenged Oregon’s ban on the advertising of raw—or unpasteurized—milk, our National Food Freedom Initiative got its first taste of victory. On February 13, the Oregon Department of Agriculture agreed to stop enforcing the state’s ban on the advertisement of raw milk and to ask the state legislature to formally repeal it. IJ had challenged the ban on behalf of Christine Anderson, owner of Cast Iron Farm in McMinnville, Ore., as part of our initial wave of food freedom cases. The victory was the first of what will be many in an ongoing campaign to protect the right of all Americans to produce, procure and consume the foods of their choice.

In Oregon, it is perfectly legal for farmers like Christine to sell raw milk on the farm. But until our victory, they were flatly prohibited from advertising it. That meant no roadside signs in front of the farm and no flyers at the local farmers’ market or food co-op. In fact, the state even ordered Christine to take down prices she had posted for milk on the Cast Iron Farm website.

Part of a seven-generation farm family, Christine knows a thing or two about farming—and about the U.S. Constitution. She knows that you can’t run a successful farm—or any small business—if you can’t talk about it, and she knows that the First Amendment protects the right of farmers and other entrepreneurs to talk about the products and services they offer. So, with IJ’s help, she decided to fight back.

On November 19, 2013, we inaugurated our National Food Freedom Initiative with Christine’s case, along with two others: a challenge to a ban on front-yard vegetable gardens in Miami Shores, Fla., and a challenge to severe restrictions on “cottage food” producers in Minnesota. But while officials in Miami Shores and Minnesota dug in their heels, determined to defend the indefensible and unconstitutional, the Oregon Department of Agriculture quickly recognized the raw milk advertising ban for what it was and backed down. On February 13, it entered into a settlement with Christine that resulted in a directive from the head of the Department ordering staff not to enforce the ban and a request that the legislature formally repeal it.

Because of Christine, Oregon’s farmers are now free to talk about their products. Although it is unfortunate that it took a lawsuit for that to happen, Oregon officials should be applauded for recognizing and respecting the rights of the hardworking women and men who feed the people of the state.

Free speech, like property rights and economic liberty, is essential to food freedom. If all of these rights are not protected, then government can control what we put on our plates, in our glasses, and, ultimately, in our bodies. Thankfully there are small-scale food entrepreneurs like Christine who know this and are courageous enough to fight back. We look forward to many more victories on their behalf.

“The victory was the first of what will be many in an ongoing campaign to protect the right of all Americans to produce, procure and consume the foods of their choice.”
By Jeff Rowes

In law, as in life, you must be ready to go the distance. And that is just what IJ and the kids of the Community Youth Athletic Center (CYAC) did in taking on property-rights abuse in National City, Calif. Our long fight is now over and we won!

Longtime readers of Liberty & Law may remember that IJ stepped into the ring with National City in May 2007 to protect the CYAC—a boxing and mentoring center for disadvantaged youth—from eminent domain for private development. The CYAC started in 1991 with a punching bag in Carlos Barragan, Jr.’s backyard that provided a refuge from gangs and drugs. With the help of generous donations, CYAC President Clemente Casillas—whose own life had been turned around by youth boxing—and the CYAC board purchased and rehabilitated an abandoned gun store in 2001.

Then, in 2005, National City promised the CYAC’s land to a private developer seeking to build luxury condominiums during California’s housing bubble. National City justified this as “blight clearance.” Like hundreds of cities across California, National City kept vast swaths of land (nearly two-thirds of the city) under serial blight designations for decades so that the municipal redevelopment agency could use blight laws to throw people off their property while wheeling and dealing with developers. The abuse of property rights had become so shameless by 2007 that the developer put up a “Coming Soon” sign right next to the CYAC depicting the condo development, as though the destruction of the little gym were inevitable. That’s when IJ evened the odds. Over six-and-a-half years, a knock-down, drag-out battle ensued with hundreds of pages of briefing, countless hearings, a weeklong trial, multiple appeals and two petitions to the California Supreme Court. In the end, when the bell finally rang, we were the last man standing.

We struck down a bogus blight designation covering nearly 700 properties, thereby protecting the gym and its neighbors from eminent-domain abuse. The precedent we created was the first interpretation of the 2006 property rights amendments that were part of a nationwide reform movement that IJ spearheaded in the wake of the disastrous Kelo v. City of New London decision. We also secured a ruling that documents produced by a private government contractor in the performance of a government function are public records subject to disclosure under freedom-of-information laws. That aspect of the case will ensure greater transparency in California and influence the interpretation of similar laws across the country.

Defending liberty rarely involves a spectacular one-punch knockout. We must usually endure years of grinding combat with opponents far above our weight class. But with skill, daring and an absolute refusal to yield, we can beat anyone. We have the scars to prove it.◆

IJ and the CYAC: Undisputed Champions for Property Rights

CYAC President Clemente Casillas, top, is now free to train and inspire National City, Calif., youth at the boxing gym and mentoring center without the government threatening eminent domain.

IJ senior attorney Jeff Rowes and litigation director Dana Berliner, above, in 2007 at the launch of the case. Below, families rally in support of the CYAC gym.

Jeff Rowes is an IJ senior attorney.
The Fight to Save Lives Goes On

Following Its Loss, Government Tries Again to Ban Compensating Marrow Donors

By Jeff Rowes

The government rarely takes defeat well, especially in high-profile cases, and it sometimes tries to nullify an victory with new regulations. That is what is happening now in the bone marrow case.

As Liberty & Law readers will recall, IJ defeated the Department of Justice two years ago when the 9th U.S. Circuit Court of Appeals held that the National Organ Transplant Act (NOTA) does not make it a crime to compensate most bone-marrow donors. This ruling—and the decision of the U.S. Solicitor General not to seek review in the U.S. Supreme Court—made it possible for us to carry out the objective of the case: set up a pilot program to determine whether strategic compensation could save lives by producing more and better donors. The premise here is that, like everything else in the world, paying for something helps you get more of it.

And marrow-donor compensation is no longer just a dream. The world’s leading experts in the use of incentives to increase blood donations—an international team of economists from Johns Hopkins, the University of Toronto and the University of Sydney—joined IJ to design a research program to determine exactly how incentives can be designed to maximize donations, and they were eager to implement it.

That is when the federal government announced a plan to undo IJ’s victory. Exploiting a quirk in NOTA, the Department of Health and Human Services (HHS) has proposed creating a federal regulation to ban compensating any marrow donors. HHS is doing this even though the federal court of appeals made it clear that the U.S. Congress never intended to do this.

The period of public comment in the fall generated an onslaught of criticism directed at HHS with the responses running about 99-1 in our favor. The comments ranged from the straightforward support of laypeople, arguing for the freedom of patients and donors to make decisions for themselves, to a letter from a group of esteemed economists that included Nobel Laureates.

IJ made it clear in our comment that we will defeat HHS in court, just as we defeated the DOJ, if the agency goes forward with this rule. In particular, we pointed out that HHS does not have the power to create regulations that conflict with the intent of Congress. That is the basic lesson of IJ’s major victory over the IRS that is also reported in this issue. In addition, HHS’s proposed rule will create an equal-protection problem because the law will treat compensated blood donors and compensated marrow donors differently (making the latter felons) even though blood and marrow donation fundamentally involve the same thing—donating renewable blood cells.

Our goal with this case was to save lives and advance liberty. If HHS unwisely tries to stop us, the story will be the same as with the Department of Justice: the good guys win in the end.

“Our goal with this case is to save lives and advance liberty. If HHS unwisely tries to stop us, the story will be the same as with the Department of Justice: The good guys win in the end.”

Jeff Rowes is an IJ senior attorney.
School Choice Research and Litigation: A Winning Combination

By Lisa Knepper

When IJ Senior Attorney Bert Gall stepped up to the podium to defend Alabama’s two new school choice programs from legal attack by teachers’ unions, he was armed not only with solid legal arguments, but also with sound research to back them up. The day before the February hearing in front of a state trial judge, IJ released its latest strategic research report, Opening the Schoolhouse Doors: Tax Credits and Educational Access in Alabama, by Director of Strategic Research Dick Carpenter and Research Analyst Angela Erickson. The report puts the lie to the unions’ main argument and shows the broad damage a ruling against school choice would cause.

The unions claim, as they always do, that Alabama’s new tax credit programs violate the state constitution’s prohibition on funding religious institutions. This claim directly contradicts an Alabama Supreme Court ruling from the 1970s that upheld state-funded scholarships for students attending the college or university of their choice—including private and religious schools. The court reasoned, as IJ argues in defense of the tax credits, that the scholarships benefit students, not the schools they happen to choose.

Since then, IJ’s report finds, Alabama has operated seven similar programs that give students a free choice of public, private or religious schools, spending at least $296 million on awards to students and schools. One of those programs even benefitted public school teachers. For nearly two decades, the Technology Scholarship Program offered state support to teachers seeking graduate-level technology training at the school of their choice, including religious schools. A ruling against the tax credits would jeopardize at least six similar aid programs serving more than 15,000 students, as well as educational opportunities for Alabama children stuck in failing public schools.

Opening the Schoolhouse Doors is the ninth in a series of IJ studies that undercut teachers’ unions’ claims that school choice programs violate state constitutions. These reports have brought a unique dimension to IJ’s work, backing up our constitutional arguments before legislatures and courts with real-world data and showing that sound research and solid legal arguments can be a winning combination.

Lisa Knepper is an IJ director of strategic research.

“A ruling against the tax credits would jeopardize at least six similar aid programs serving more than 15,000 students, as well as educational opportunities for Alabama children stuck in failing public schools.”

Download the strategic research report, Opening the Schoolhouse Doors: Tax Credits and Educational Access in Alabama and other strategic research reports at ij.org/publications.
Can a Lawsuit About
EYEBROW THREADING
Change the Course of Law
IN THE LONE STAR STATE?

By Wesley Hottot

Readers of Liberty & Law may need no introduction to “eyebrow threading,” but the Texas Department of Licensing and Regulation sure did. The Department requires a license for threading, but it does not care if licensees learn anything about it.

Threading is a South Asian hair-removal technique that uses a single strand of cotton thread and nothing else. It is really neat to see: The threader starts with about 24 inches of common sewing thread, forms a lasso with her hands and, without touching the client, works the lasso with precision, quickly plucking unwanted hairs.

People with sensitive skin love threading because it is all-natural and gentler than waxing. Plus, it costs just a fraction of the price of other hair-removal methods.

Eyebrow threading was a booming industry in Texas. Then the Department ordered the state’s threaders to spend thousands of dollars and 750 hours in conventional beauty schools learning conventional cosmetology techniques—like waxing and microdermabrasion—that threaders do not use.

Worse, the state’s beauty schools are not required to spend even one minute on eyebrow threading, and the Department does not require anyone to show they can perform threading before they can get a license.

Nevertheless, in 2009, the Department attempted a crackdown. It ordered eyebrow threaders to stop working, hit them with $2,000 in fines, and threatened to shut down their businesses. IJ swiftly sued on behalf of three Texas threaders and two salon owners.

On February 27, the Supreme Court of Texas heard oral arguments in the threaders’ case—Ashish Patel v. Texas Department of Licensing & Regulation. It was my pleasure and privilege to argue on their behalf.

From the very beginning, our simple and compelling theme has been that the government cannot constitutionally license an occupation that it does not teach and does not test. That’s a rule IJ established in two successful hair-braiding challenges years before. Standing at the podium, it was encouraging to hear the justices using the same theme in their questioning. The justices were clearly troubled by the idea that someone’s right to do a job can depend on their first learning someone else’s job.

There is a broader principle at stake, as well: judicial engagement. In recent years, IJ has worked to change the terms of the debate about “judicial activism” and refocus judges and the broader public on the duty of courts to engage with the facts of the cases before them.

As part of that broader project, we asked the Court to decide which of three available tests governs economic liberty cases in Texas: An independent state test that looks for a “real and substantial” connection to the public good, the real version of the federal “rational basis” test that takes evidence seriously, or a caricature of the “rational basis” test advanced by the state’s attorney, under which facts do not matter.

You can listen for yourself, but from the podium, the prospects sounded good for the threaders and IJ. A favorable decision in this case will establish greater economic liberty protections for all Texas entrepreneurs subject to licensing laws.

An opinion is expected later this year.

Wesley Hottot is an IJ attorney.
“The program represents ‘a way out for families who have become unhappy with the public schools and a way for them to access a school they believe will better fit the needs of their children,’ said Richard Komer of the Arlington, Va.-based Institute for Justice.”

“‘We believe the taxpayer, not the IRS, should be the one who decides who prepares their taxes,’ [IJ Attorney Dan] Alban said. ‘We’re opposed to any requirement that you obtain a license from the government in order to prepare taxes.’”

“In a case that should send a shudder down the spines of government bureaucrats everywhere, the Texas Supreme Court today is scheduled to hear arguments in [the eyebrow threading case] that asks the delicate question: Does a law actually have to make sense to be legal?”

“Nowhere is overregulation more evident than in small-business regulation. ‘Florida’s Dirty Dozen,’ released today by the Institute for Justice, highlights 12 laws in Florida that are burdensome and unfriendly to small businesses. A few of the laws are even unabashedly designed to prevent economic growth.”

“‘This isn’t just a college town issue,’ said Sanders, with the Minnesota chapter of the Institute for Justice. ‘This is an issue of whether you can take a perfectly safe home and rent it out to perfectly safe tenants, of whether you can be denied that right because your neighbor’s already done it.’”
“Fortunately, the Institute for Justice, a public-interest law firm, learned about my case and took it free of charge.”

— Russ Caswell, Washington Times

The Michigan Education Association president sued the Mackinac Center after we quoted him in a donor letter.

IJ defended our free speech rights in court.

This year marks the 10th anniversary of our shared victory.

We are IJ.