

IRS stirs, sweetens pot to nab cheaters

By Kathy Kristof
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The Internal Revenue Service estimates that the difference between what Americans owe in federal taxes and what they actually pay is about \$345 billion annually.

In an effort to close this huge "tax gap," Congress and President Bush in December enacted a measure designed to give people more motivation to tattle on dishonest employers, employees, co-workers, acquaintances and former spouses.

But the enhanced incentives -- in the form of higher cash rewards to those who blow the whistle on tax cheats -- will go only to those informants who provide specific, useful information.

"Evidence and analysis is what we are looking for, rather than hearsay and speculation," said Stephen A. Whitlock, director of the IRS' new Whistleblower Office. "People who come in with hearsay, speculation and a motive tend to be less reliable. This shouldn't be about personal vindictiveness." That said, people with the goods on a tax cheat are going to be offered "significant rewards to come forward," Whitlock added.

It is worth mentioning that the IRS has had a tax-fraud hotline for years. The phone number remains (800) 829-0433 and now is answered by the Whistleblower Office.

The previous whistle-blower law authorized by the IRS was to pay an informant 1% to 15% of the tax and penalties collected as a result of the tip. Rewards were granted, but they were relatively few, as were the amounts of money recovered. In 2005, for example, 169 whistle-blowers were awarded \$7.6 million -- about 8% of the \$93.7 million that the government collected as a result of the tips.

The new law doubles the maximum reward to 30% of the total recovered, now including interest as well as tax and penalties.

The more helpful the information, the higher the reward. Those who have allegations but little evidence can get a reward of 1% to 10% of the amount recovered.

But if the IRS discovers a big tax fraud (one involving at least \$2 million in lost revenue) based on specific information provided, especially documents, the informant would get 15% to 30% of the amount collected.

"The better developed the information from the source," Whitlock said, "the better we can pursue it."

Importantly, because the old whistle-blower program was criticized by taxpayers for being arbitrary in granting awards, the new law created the Whistleblower Office and gave it sole responsibility for handling tips and rewards.

"Decisions might be made by people who were on the examination and collection side," Whitlock said. "Their focus was not necessarily on making sure that the whistle-blower was rewarded."

Whitlock believes having a dedicated office will make the program more responsive and predictable, and lead to more tips and revenue collected.

"You don't get a lot of repeat customers, but you do get a reputation" for being responsive to taxpayer tips, said Whitlock, who previously ran the Defense Department's fraud program, which has uncovered billions of dollars in fraudulent government billings. "That helps."

But the IRS still might be hamstrung by limits on what it can tell informants. Tax laws, which demand a level of privacy that other government fraud programs don't have to contend with, bar the IRS from giving third parties any information about ongoing audits and investigations.

That has meant that the agency can tell a whistle-blower only that "we have received your information and are taking appropriate action," said Whitlock, who hopes for more room to maneuver in that area.

But for now, the IRS can't tell the whistle-blower whether it is auditing the taxpayer or investigating the claim -- or even whether the tip has been tossed in the trash.

It is up to the whistle-blower to keep track, through whatever means available, of the tax cheat's fate and then nag the government for a reward.

The lack of information is compounded by the slowness of the investigation, collection and

appeal process, which means years can pass between a blowing of the whistle and the payment of a reward.

"I have run other programs with the Defense Department, and providing feedback to the whistleblower gives them some assurance that you're doing something," Whitlock said.

"When you can tell the source that we got the tip and are investigating, you can go back to them when you need more information. When you can neither confirm nor deny that you have an audit under way, it makes it impossible to go back to the source."

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